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)

2019 ANNUAL REPORT

TWENTY AMAZING YEARS

PASSING THROUGH CYCLES
GET TO NEW HEIGHTS

CONTENTS

ABOUT ANTONOIL

Anton Oilfield Services Group (Hong Kong Stock Exchange Stock Code: 3337) ("Antonoil" or the "Company" and, together with its subsidiaries, the "Group") is a leading independent integrated oilfield engineering and technical services provider. The Group provides clients with a full range of products and services for oil and gas development, with business throughout the world's major oil and gas production areas. The Group is an innovative company combined with the geological engineering and features production increase, cost reduction and integration. The Group is committed to the development of global oil and gas development in emerging markets. Its business covers more than 30 countries and regions, including China, the Middle East, Africa, central Asia, southeast Asia and Latin America, forming a rapidly responsive global service support system. The Group provides a full range of products and services in the oil and gas development process to meet the diverse needs of clients and help them maximize the value of oil and gas assets. The Group's comprehensive products and services include: products and services for the whole process of oil and gas development, a full range of professional resource services for oil and gas development, and integrated services in various forms. The Group's corporate culture is rooted in the traditional oriental culture. The Group's core values are Client-driven, Hard-working, Learning and innovation. The Group's mission is to help others succeed, share the fruits of success with employees internally and achieve win-win development with partners externally. The Group's vision is to be a model for the harmony between man and environment and high-efficiency development. In every construction work scene, the Group is committed to achieving the standard of "operation first" and creating value for clients to the maximum extent. In the process of development, the Group is committed to promote social progress and achieve harmonious development with the society.

BUSINESS

The Group provides a full range of services to help customers complete oil and gas field development and enhance production and reduce costs against various technical problems during the drilling, completion and production stages of field development.

The profit centers of the Group are based on the business clusters and the Group reports its results based on three clusters including drilling technology cluster, well completion cluster, and oil production cluster. Each business cluster is detailed as follows:

DRILLING TECHNOLOGY CLUSTER

Drilling technology cluster provides engineering technical services and products from drilling design, project organization and whole processes during the drilling stage to solve problems encountered in directional drilling, drilling assessment, drilling acceleration, enhanced reservoir contact and integrated drilling, the Group is a leading drilling technical service provider in China.

Integrated Services Management

The Group implements project organization and economic assessment through reservoir geological assessment and integrated geological and engineering design. Provides integrated oil and gas field development engineering and technical management services, from design, organize resources to the project implementation, provide geological, reservoir, engineering, and integration of one-stop turnkey service.

Integrated Drilling Services

The Group integrates new technologies for drilling, well completion and special tools; provides comprehensive technical services from design to matching tools, production technique and related equipment; integrates individual competitive drilling technologies and provides integrated drilling and well completion technical solutions.

Directional Drilling

The Group engineers operate the drilling tool set to drill wellbores along the pre-set path to enhance the oil and gas recovery rate by reaching the best position in the reserves, the Group is a leading directional drilling service provider in China and its services include directional drilling technology, sidetracking drilling technology and steerable drilling technology.

Drilling and Completion Fluid Service

The Group provides drilling fluid system comprising oil-based muds and high-performance water-based muds, intended to address down-hole complications, shorten the drilling cycle and increase drilling speed. The Group has a team of senior drilling fluid technical experts, oil-based mud station, R&D center and the mud materials plant with first class equipment, providing customers with integrated services including drilling fluid on-site services, drilling fluid technology R&D, technical research and design, and sales services.

Drilling Tool Rental and Technical Service

The Group provides drilling tool rental, rehabilitation and anti-abrasion service, tubular processing and manufacturing and storage solutions.

Land Drilling Service

The Group operates rigs to complete drilling jobs, including the delivery of service with self-owned rigs and third party owned rigs under management.

Oilfield Waste Management

The Group applies advanced technology and combines domestic and international resources to offer waste and pollutants management service throughout oil and gas exploration and development such as oil-based drilling fluid and drill cutting treatment and fracture fluid treatment.

Oil and Gas Production Facilities Inspection and Assessment Technology

The Group enjoys China National Accreditation Service (CNAS) lab status for instruments and Chinese and US Non- destructive Testing (NDT) qualifications; adopts international standards to conduct site testing service for oil production equipment, devices and instruments for customers across petrochemical, pharmaceutical, machinery manufacturing and electronics. It also concludes tubular helium testing services which use the mixed gas of helium and nitrogen to test tubing threaded connector against helium leak in the natural gas wells, thus solving the problem of helium connector leak. It is important to guarantee production safety of high pressure wells, sulfur-rich wells and key natural gas wells.

WELL COMPLETION CLUSTER

The Group provides integrated well completion and stimulation services from integrated solutions for well cementing and completion, production well completion, equipment, tools and materials. The Group is a leading well completion technical service and tool provider in China, which provides technical services and products to solve various technical problems experienced by oil companies during well completion stage. It designs well completion solutions and techniques comprised of various well completion tools for different formations and reservoirs, thus completing the preparation works as necessary for wellbore completion and oil production. Its services include well completion integration, screen well completion, gravel packing completion and oil production tools.

Integrated Completion Services

The Group provides well completion engineering design and implementation service for low-permeability naturally fractured reservoirs and shale gas reservoirs; provides integrated services ranging from reservoir geological analysis consulting to well completion engineering design, well completion tools and liquid material; provides monitoring service for stimulation measures.

Completion Tools

The Group provides a host of well cementing and completion tools and production well completion tool services; addresses various kinds of technical complications in open-hole well completion and casing well completion. It also has capacity of production proprietary tools.

Sand Screen and Water Control services

The Group provides the most diverse range of sand control completion tools and integrated design for sand control well completion, sand-screen and water control; provides sand control well completion stimulation service with high-pressure gravel packing as the core offering; provides supporting services for AICD water control. The screen well completion tools of the Group include composite screens, punched slotted screens, sand screens, pack screens, wire wrapped screens, slotted screens and innovative water control screens.

Fracturing/Acidizing Technique and Chemical materials

The Group focus on acidizing and fracturing stimulation technologies development, provides integrated solutions from stimulation technology evaluation, design, down-hole chemicals and equipment engineering to enable integrated stimulation; provides R&D, manufacturing, marketing and technical services for down-hole chemicals for acidizing, fracturing, killing, and oil production (inflow and profile control) operations.

Fracturing and Pumping

The Group harnesses the hydraulic horsepower (HHP) of the pressure pumping equipment and other related operational capabilities to help clients implement pressure pumping design and solutions of varying scales, with the benefit of expanding the permeability of oil and gas reservoirs and improving production capacity. Pressure pumping has become the necessary measure to developing unconventional oil and gas reservoirs.

Coiled Tubing Services

The Group combines equipment and tools to form different processes and technologies with broad applications, including stimulation in low-permeability wells, special operations in ultra-complicated wells and regular operations in conventional wells including horizontal well cable testing and workover services such as sidetrack drilling, milling and fishing services.

OIL PRODUCTION CLUSTER

The Group provides engineering services and products for oil companies during well completion and production; enables economic recovery based on reservoir geological conditions through production operation management and ground process services.

Production Operation Management

The Group provides integrated oilfield management services to customers and also provides production operation management services for oilfield ground stations, including power engineering construction, operation, inspection and maintenance, artificial life technology design, management, optimization operation support, water injection, profile control, ground equipment maintenance and rehabilitation services etc.

Workover Services

The Group provides conventional and major workover for oil and gas wells, sidetrack, fishing, oil testing and well completion integrated operation and routine maintenance operation services.

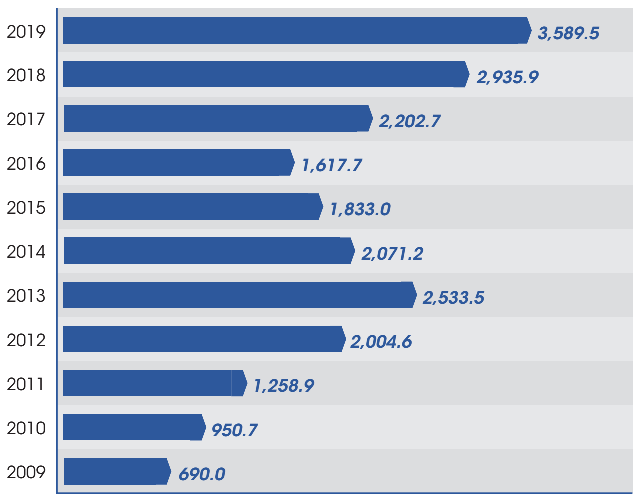
Tubing/Casing Repair and Anti-corrosion Service

The Group provides featured tubing and casing technical services with Premium Thread Design as the core offering; a reputable supplier of specialized tubes and casings for Chinese and overseas customers.

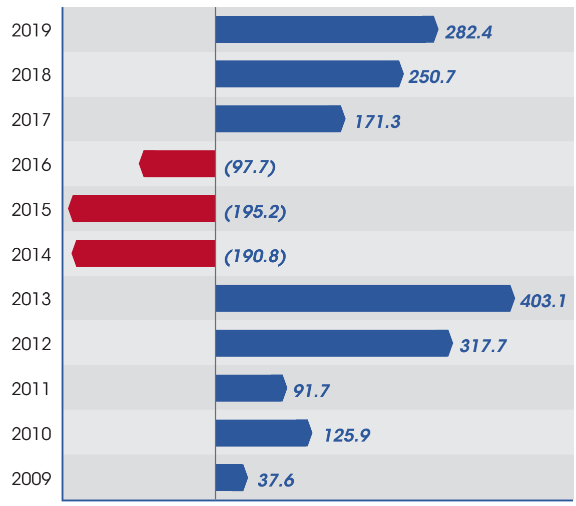
FINANCIAL SUMMARY

CONDENSED CONSOLIDATED INCOME STATEMENTS

	For the year ended 31 December				
RMB ('000)	2015	2016	2017	2018	**2019**
Revenue	1,833,006	1,617,675	2,202,702	2,935,888	**3,589,497**
Other gains/(losses), net	20,689	68,967	9,674	11,932	**176**
Operating costs	(1,761,221)	(1,543,446)	(1,738,682)	(2,303,557)	**(2,870,091)**
Operating profit	92,474	143,196	473,694	644,263	**719,582**
Finance costs, net	(254,770)	(173,379)	(267,872)	(297,454)	**(295,133)**
Profit/(Loss) before income tax	(163,338)	(30,591)	204,921	347,164	**425,211**
Profit/(Loss) for the year	(195,248)	(97,672)	171,274	250,721	**282,420**
Attributable to: Equity holders of the Company	(194,731)	(160,450)	54,495	222,423	**268,583**
Non-controlling interests	(517)	62,778	116,779	28,298	**13,837**
Dividends	–	–	–	30,107	**-**
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in RMB per share) Basic	(0.0878)	(0.0720)	0.0206	0.0792	**0.0894**
Diluted	(0.0878)	(0.0720)	0.0205	0.0783	**0.0889**



REVENUE (RMB million)



PROFIT/(LOSS) FOR THE YEAR (RMB million)

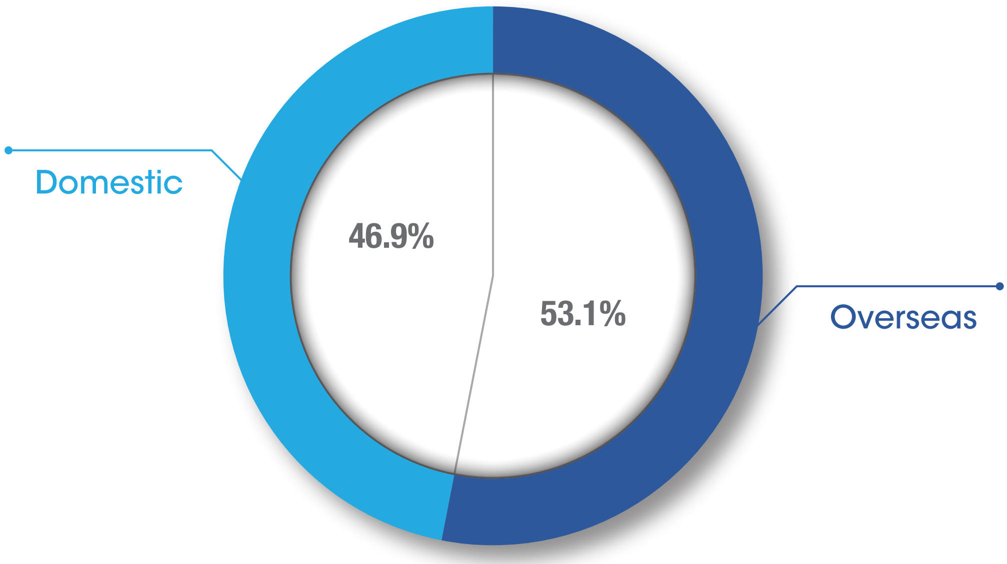
CONDENSED CONSOLIDATED FINANCIAL POSITION

	As at 31 December				
RMB (' 000)	2015	2016	2017	2018	**2019**
Assets					
Non-current assets	3,063,576	3,004,012	3,367,768	3,002,465	**3,025,898**
Current assets	3,119,584	3,657,269	4,379,707	4,244,136	**6,480,914**
Total Assets	6,183,160	6,661,281	7,747,475	7,246,601	**9,506,812**
Total Equity	1,959,612	1,976,897	2,946,992	2,694,562	**2,957,663**
Liabilities					
Non-current liabilities	1,589,010	2,504,217	1,932,702	2,305,184	**2,310,327**
Current liabilities	2,634,538	2,180,167	2,867,781	2,246,855	**4,238,822**
Total liabilities	4,223,548	4,684,384	4,800,483	4,552,039	**6,549,149**
Total equity and liabilities	6,183,160	6,661,281	7,747,475	7,246,601	**9,506,812**
Net current assets	485,046	1,477,102	1,511,926	1,997,281	**2,242,092**
Total assets less current liabilities	3,548,622	4,481,114	4,879,694	4,999,746	**5,267,990**

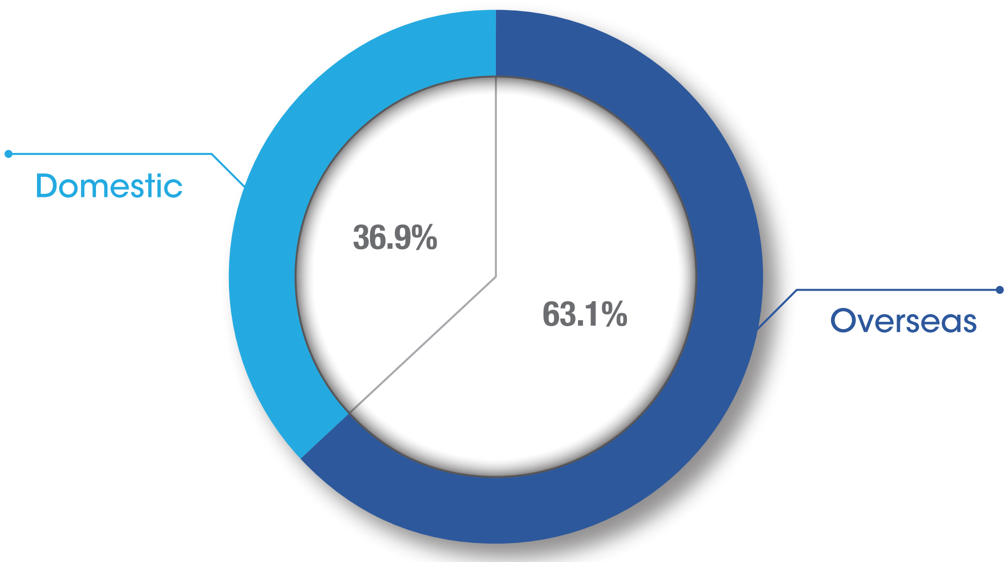
FINANCIAL HIGHLIGHT

REVENUE BREAKDOWN BY REGION

2019

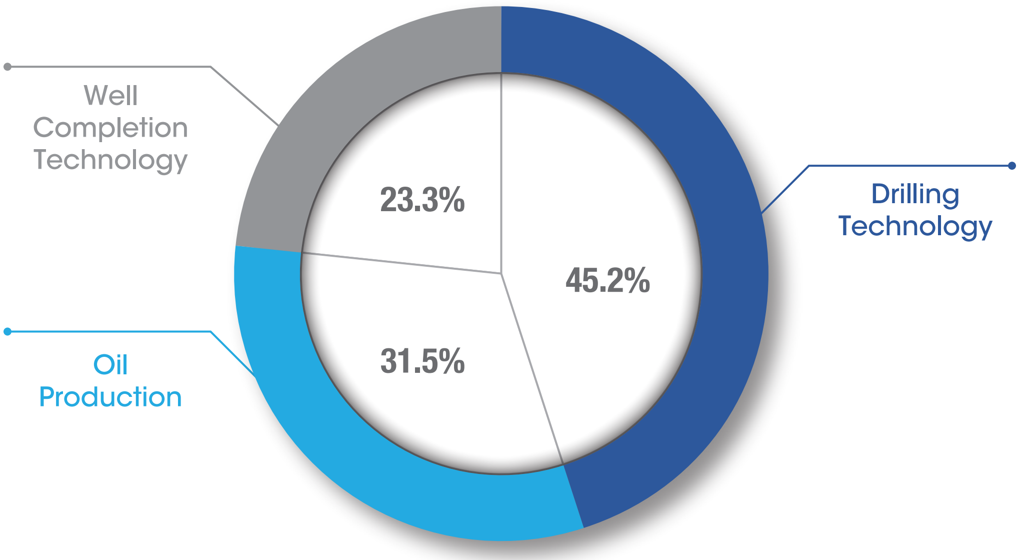


2018

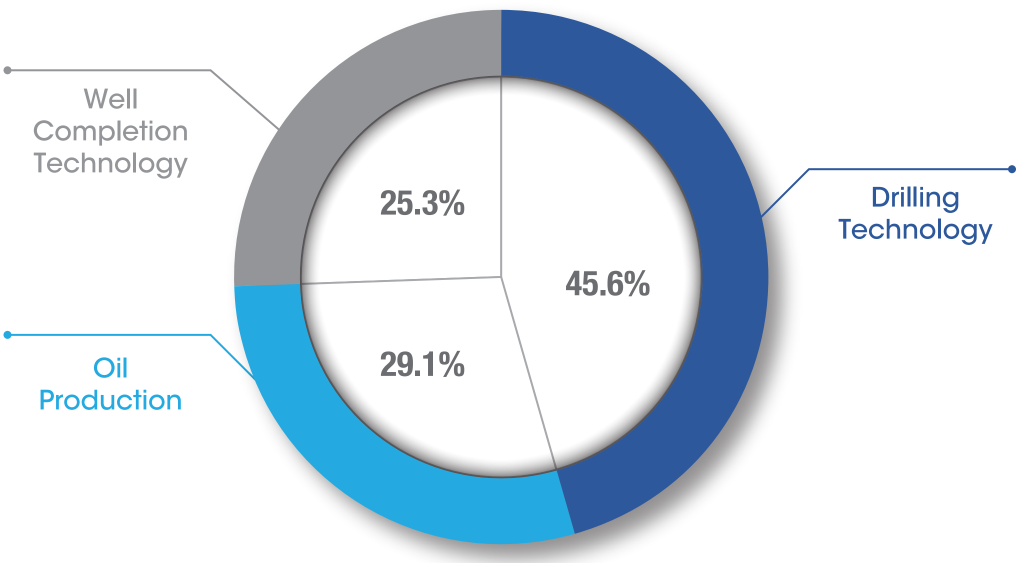


REVENUE BREAKDOWN BY BUSINESS CLUSTERS

2019



2018



CHAIRMAN'S STATEMENT

LUO Lin
Chairman

Dear Shareholders,

In 2019, the Group's business continued to maintain rapid growth, recording RMB3,589.5 million of revenue, an increase of approximately 22.3% over 2018; net profit attributable to shareholders reached RMB268.6 million, an increase of approximately 20.8% over the same period last year; free cash flow was about RMB239.0 million, an increase of 4.5 times over the same period last year and also the highest level in the history of the Group.

During the year, the Group's market structure was further optimized, and its core markets continued to grow at a high rate. Among them the domestic market, where the Group achieved rapid growth of 55.3% in revenue thanks to its technological and market advantages, especially in the Xinjiang natural gas market with high-end technology demand. In the Iraq market, the Group firmly captured key markets combining its oilfield management services. In other emerging markets, the Group successfully replicated the Iraqi oilfield management business model, won the bid for Chad oilfield management project, and comprehensively managed the overall operation of the oilfield. The business quality of the Group has also been further improved. We continued to comprehensively promote the "asset-light" strategy with "cash flow" and "return on equity" as its core, and we integrated resources to expand markets and improved business returns leveraging on our technological advantages and market influence. During the year, in addition to the rapid development of the Group's two major business segments, the oilfield technical services and oilfield management services, two high-quality individual services of the Group, namely, the inspection technology services and asset-leasing business also showed a bright development. In terms of financial management, the Group actively managed its outstanding debt, and initiated the refinancing of US dollar notes due in December 2020 one year ahead of schedule, completed the issuance of new three-year notes of US$300 million with a coupon rate of 7.5% at the end of 2019. It not only eliminated the potential liquidity risk by the maturity of 2020 notes but also greatly reduced the coupon rate of the new notes, allowing the Group to be more proactive in responding to industry changes with lower financial costs and sufficient liquidity. In terms of corporate governance, the Group endeavors to create a new governance model of employee shareholding. As part of the employee shareholding plan, the Group launched a restricted share award scheme at the end of the year. The Group will repurchase shares at the secondary market and reward its employees to encourage them contribute actively and grow together with the company in the long run, and achieve the ultimate goal of win-win for employees, companies, and investors.

OUTLOOK

At the beginning of 2020, the outbreak of novel coronavirus pneumonia posed a huge challenge to global economic growth. At the same time, global oil prices plummeted in March, and major oil-producing countries could not reach a consensus on production targets, resulting in dramatic swings in oil price. The global oil and gas industry is bound to experience huge uncertainties in 2020. In this regard, the Group will face market challenges with a positive attitude, promote the Group's own continuous reforms, and actively seek out development opportunities during the low tide to traverse the industry cycle.

In terms of markets, the Group will continue to adhere to its "globalized" development. In 2020, in the domestic market, natural gas development remains the focus of oil companies and is less affected by the low oil price. In China, about 80% of the Group's business is in natural gas, and the Group will continue to leverage its technological advantages and further penetrate this market. Overseas, we will continue to maintain the stable development of asset-light high quality businesses. The Group's oilfield management business comes from customers' operational expenditures and could remain stable in a low oil price environment. At the same time, maintaining a stable production level is a national strategy in emerging markets. The Group will actively replicate the oilfield management model and strive for projects from the operational and maintenance expenditure of oil companies.

In terms of business, we will continue to implement "all-round" services, which are reflected in our two major business segments – oilfield management services and engineering technical services, combined with our two premium individual services, namely, inspection services and asset-leasing services. Under these businesses, we will provide customers with full-process, fully-equipped and integrated services to meet customers' various service needs.

In terms of business strategy, we will continue the implementation of "platform" operations, and adhere to the core goal of healthy cash flow, focusing on RoE. Under this model, the Group actively promotes: "Operating on cash", that is, paying attention to long-term free cash flow, prioritizing cash flow, controlling debt level, and maintaining long-term sufficient liquidity; "Operating on profit", that is, aiming for revenue growth under a reasonable business structure, continuing to optimize the cost structure and improving the balance of fixed and variable costs; "Operating on asset", that is, adhering to the asset-light operating model, fully mobilizing external high-quality resources, constantly improving asset efficiency, seeking rapid turnover, and increasing working capital efficiency. The Group will also implement "strong incentives", to promote the operating consciousness of employees as well as creativity, innovation, and originality, to achieve a win-win situation for all parties operating together. We will openly cooperate with both domestic and international technological front-runners and develop together with our partners.

In terms of technology, we will promote "precise engineering technology services" combined with Anton's reservoir geological strength and engineering services, which generates engineering solutions more accurately hit targets to create value for customers, and help customers maximize the benefits of reservoir resource development.

In terms of management, the Group actively promotes a "digital transformation", builds a comprehensive informationalized and digitized management system, and comprehensively promotes digital business. Under this system, the Group will do its utmost to promote the digitization of management, products, knowledge management and operations, implement a "decentralized" management model to increase management vitality and reduce management costs.

In terms of ESG (Environment, Social and Governance), the Group adheres to the corporate vision of "becoming a model for the high efficient and harmonious development between man and environment", builds an advanced governance structure for employee stock ownership, and implements restricted share award scheme and employee stock purchase plans to maximize the alignment of interests between employees and the Company, encourage employees to actively participate in the Company's construction and to contribute actively to create a "common home", and to promote long-term development along with the Company. At the same time, the Group will continue to set its benchmark against the world's leading companies, improve its ESG management, construct an environmental-friendly business model, help talents grow, promote stakeholder development, communities progress, and achieve long-term harmonious development.

The Group believes that with its sound business model, precise technical services, continuous revolution, and increasingly streamlined and efficient management, it will continue to discover new opportunities, passing through and grow in the challenging market environment of 2020 and continue to achieve its core operating target of cash flow.

ACKNOWLEDGEMENT

The year 2019 marks the 20th anniversary of the founding of the Group. Since its establishment in 1999 in the Tarim Basin of Xinjiang, the Group has grown from a regional start-up company to become the largest independent oilfield service company in China, and an integrated oilfield technology company that is extremely competitive in emerging markets around the world, thanks to its sustained entrepreneurial passion, hard-working corporate culture, and persistent focus. In 2019, the Group was awarded the "Top 10 Most Influential Enterprises" by the organizing committee of "Beijing Influence".

On behalf of the Board of Directors, I would like to extend my sincere thanks to all our customers, employees, partners and shareholders! Thanks to your long-standing trust and support, we can overcome the difficulties and achieve new achievements time continuously. Under the new circumstances in 2020, the Group will continue to work hard, evolve and grow amid fluctuations, and continue to strive for the goal of becoming "the world's leading integrated oilfield technology services company".

LUO Lin
Chairman

22 March 2020

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LUO Lin
Mr. PI Zhifeng
Mr. FAN Yonghong

Non-executive Director

Mr. John William CHISHOLM

Independent Non-executive Directors

Mr. ZHANG Yongyi
Mr. ZHU Xiaoping
Mr. WEE Yiaw Hin

AUDIT COMMITTEE

Mr. ZHU Xiaoping (Chairman)
Mr. ZHANG Yongyi
Mr. WEE Yiaw Hin

REMUNERATION COMMITTEE

Mr. WEE Yiaw Hin (Chairman)
Mr. ZHU Xiaoping
Mr. LUO Lin

NOMINATION COMMITTEE

Mr. ZHANG Yongyi (Chairman)
Mr. WEE Yiaw Hin
Mr. LUO Lin

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

Mr. PI Zhifeng (Chairman)
Mr. LUO Lin

AUTHORIZED REPRESENTATIVES

Mr. LUO Lin
Dr. NGAI Wai Fung

COMPANY SECRETARY

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

COMPANY'S WEBSITE

www.antonoil.com

INVESTOR RELATIONS HOTLINE

+86 10 57397584
Email: ir@antonoil.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor
Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN PRC

No. 8, Pingcui West Road, Donghuqu
Chaoyang District
Beijing, China 100102

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House
3rd Floor, 24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East Wanchai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

as to Hong Kong and U.S. law:

Sidley Austin

as to PRC law:

BEIJING TIAN TAI LAW FIRM

as to Cayman Islands law:

Maples and Calder

PRINCIPAL BANKS

Shanghai Pudong Development Bank
China Merchants Bank
Bank of Beijing
Industrial Bank Co,. Ltd

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

3337

DATE OF LISTING

14 December 2007

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

In 2019, the international crude oil market as a whole experienced large fluctuations. However, the two major markets where the Group's main business is located, namely, the Iraqi market and the domestic market, were less sensitive to oil price fluctuations, and oil and gas development activities remained active throughout the year. In the Iraqi market, the government actively promoted the building-up of oil and gas development capacity, bringing numerous fresh market opportunities. The Group's integrated management project for the third largest oil field in Iraq has been operating smoothly for one and a half years. With high quality services, the Group was highly accoladed and supported by the customer, achieving a broad market prospect. In the domestic market, the three major oil companies actively responded to the call to significantly increase oil and gas exploration and development investment in the domestic market, and made every effort to increase the development of resources in major domestic oil and gas regions, especially natural gas development in Xinjiang in the northwest and the Sichuan shale gas development projects in the southwest, to improve oil and gas self-efficiency, reduce dependence on import, as well as ensure national energy security. Benefiting from this national development policy during the period, the Group's new orders and revenue in the domestic market, especially in the Xinjiang natural gas market, increased significantly. In the Southwest market, the Group made full use of its technological strength and brand influence to create the "equipment alliance" cooperation model. Without having to invest in new capital expenditures, the Group's market share for integrated drilling projects ranked first among private service companies. In other overseas markets, the Group achieved new breakthroughs in the Chad market in Africa during the year. In addition to the consistent winning of bids for traditional service projects, the Group successfully replicated the large-scale Iraqi oilfield management service project model, and won a contract from a new customer for integrated oilfield management projects. It proved that the Group has strong comprehensive strength in oilfield management projects, and further promoted the Group's asset-light integrated oilfield management business model in the global market.

Facing broad market opportunities, the Group continued to adhere to the operating principle of "cash flow and return on equity" as its core and achieve the high-quality growth business philosophy, proactively selected high-quality projects, and strictly followed the full-cycle management covering orders, procurement, operations and receivables collection, while continuing to strictly control capital expenditures. Throughout the year, the implementation of the Group's core operating philosophy achieved great success, and performance indicators shown new breakthroughs. In addition to the increase in revenue and profits, the Group's core operating indicator of "cash flow" has grown strongly, significantly exceeding the Group's operating budget, and has achieved positive free cash flow in the first half of the year. For the full year, it increased significantly as compared with 2018 by 450.7%, reaching RMB238.8 million, the highest in the history of the Group.

In terms of financial management, the Group proactively managed its existing debt and initiated the refinancing of its USD notes due on 5 December, 2020 one year in advance. On 2 December, 2019, the new three-year US$300 million notes due in 2022 were successfully issued and listed with a coupon rate of 7.50%. This not only eliminated in advance the liquidity risk that may be caused by the 2020 notes maturing, but also significantly reduced the coupon rate of the notes, which significantly save financial costs in the future. After the successful issuance of the notes, the Group further proactively managed financial costs and mobilized the equivalent RMB328.0 million of funds to repay some domestic short-term borrowings in advance, while retaining the unused credit facilities recovered after repayment of such borrowings ready to be utilized when in need at any time. As of 31 December, 2019, the Group had sufficient cash on hand of RMB2,422.9 million.

Results and Performance

In 2019, the Group's total revenue was RMB3,589.5 million, an increase of RMB653.6 million compared with 2018, an increase of 22.3%. The Group's operating profit was RMB719.6 million, an increase of RMB75.3 million compared with RMB644.3 million for the same period in 2018, an increase of 11.7%. Net profit was RMB282.4 million, an increase of RMB31.7 million compared with RMB250.7 million for the same period in 2018, an increase of 12.6%. Profit attributable to owners of the Company was RMB268.6 million, an increase of RMB46.2 million, an increase of 20.8% compared with RMB222.4 million of the same period in 2018. The net margin attributable to the equity holders of the Company was 7.5%, decreasing 0.1 percentage points from 7.6% for the same period in 2018.

In 2019, the Group's average turnover days of accounts receivable were 196 days, a decrease of 24 days compared to the same period last year; average inventory turnover days were 120 days, a decrease of 16 days compared to the same period last year; average payable turnover days were 80 days, a decrease of 21 days compared to the same period last year. Operating cash flow was RMB610.3 million, a significant increase of RMB190.3 million compared to RMB420.0 million of the same period last year.

Geographical Market Analysis

In 2019, revenue from the overseas market revenue was RMB1,906.1 million, an increase of RMB53.9 million or 2.9% over the RMB1,852.2 million of 2018. The overseas market accounted for 53.1% of the Group's total revenue. In the overseas markets, Iraq's market revenue was RMB1,419.8 million, an increase of RMB249.2 million or 21.3% compared with 2018's RMB1,170.6 million, accounting for 39.6% of the Group's total revenue; revenue from the other overseas markets was RMB486.3 million, a decrease of RMB195.3 million or 28.7% compared with 2018's RMB681.6 million, accounting for 13.5% of the Group's total revenue. Revenue in the domestic market was RMB1,683.4 million, an increase of RMB599.7 million or 55.3% compared with 2018's RMB1,083.7 million, accounting for 46.9% of the Group's total revenue;

Breakdown of Revenue by Market

	Twelve months ended 31 December			**% of total revenue of the Group Twelve months ended 31 December**	
	2019 (RMB'mn)	2018 (RMB'mn)	Change (%)	**2019**	2018
Overseas	**1,906.1**	1,852.2	2.9%	**53.1%**	63.1%
Domestic	**1,683.4**	1,083.7	55.3%	**46.9%**	36.9%
Total	**3,589.5**	2,935.9	22.3%	**100.0%**	100.0%

Overseas Market

	Twelve months ended 31 December			% of total revenue of the Group Twelve months ended 31 December	
	2019 (RMB'mn)	2018 (RMB'mn)	Change (%)	**2019**	2018
Iraq	**1,419.8**	1,170.6	21.3%	**39.6%**	39.9%
Other overseas markets	**486.3**	681.6	-28.7%	**13.5%**	23.2%
Total	**1,906.1**	1,852.2	2.9%	**53.1%**	63.1%

Overseas Market

In 2019, the Group's overseas market focused on the high-quality operations of the Iraqi market oilfield management projects and the development of other new projects, as well as focusing on the development of more premium overseas emerging markets. For previous projects in some overseas markets where customers had long repayment periods due to tight liquidity, the Group proactively gave up or suspended related projects based on the "cash flow-based" operating management philosophy, resulting in a decrease in the overall revenue from the other overseas markets. While proactively managing these markets, the Group has achieved important breakthroughs in the high value-added African Chad market. Not only has it continued to win conventional service projects, it has also successfully replicated Iraq's large-scale integrated oilfield management project model and won the integration oilfield management services project from a new customer. On the whole, the Group's key overseas markets have achieved healthy growth and breakthroughs, and annual revenue has increased by 2.9% compared with the same period last year.

Key overseas market – Iraqi Market

As of 31 December, 2019, the Group's large-scale integrated oilfield management project in Iraq has been running smoothly for one and a half years. With high standards and high-quality management, it has helped customers improve the efficiency of oilfield operations, receiving high praise and support from the customer. During the celebration of the first anniversary that the oilfield organized in July, the chairman of the Board and the customer conducted an in-depth discussion on the long-term operation plan of the oilfield. The service scope of the oilfield is expected to further expand. The Group will continue to maintain high-quality services to help customers achieve efficient and high-quality development. The contract has a service model of "2 + 1" (a fixed period of 2 years since formal commencement, and the two parties may choose to extend the service period by 1 year by written agreement depending on the project situation). The fixed 2-year period stipulated in the contract will expire on 1 July, 2020. Due to the Group's outstanding performance and the irreplaceable value created for the customer, the customer has issued a written confirmation to the Group in advance, confirming that the contract will be automatically renewed for one year after the expiry on 1 July, 2020. The Group is confident to continue to create value for customers and manage the project for a long time.

For other projects, the Group's operated in other oil fields with traditional competitive advantages, such as turn-key drilling projects, directional drilling and coiled tubing projects, operated smoothly and continued to gain new workload. In the fourth quarter, the Group successfully carried out pilot tests of low-modulus carbonate rock staged sand fracturing in the Halfaya oilfield. After fracturing, the daily output reached 5-10 times that of vertical wells in the same block, providing an efficient solution to fully utilize similar low-efficiency reservoirs in this oilfield, which is expected to be further promoted in the southern Iraq market in the future. Due to the customer's development plan and process adjustments, the Group's large-scale workover and completion project in the southern Iraqi oilfield will extend beyond the original contract period. The Group has renewed the contract and adjusted orders correspondingly in the fourth quarter according to contract commencement and subsequent workload. The project will continue to be carried out in 2020.

In 2019, the Company obtained a total of approximately RMB2,137.2 million of new orders in the Iraqi market, an increase of approximately 22.8% compared to RMB1,740.5 million in the same period last year; the Company recorded revenue of approximately RMB1,419.8 million, an increase of approximately 21.3% from the RMB1,170.6 million in the same period last year.

Other overseas markets – Global Emerging Markets

In 2019, under the business philosophy of comprehensively focusing on "cash flow and return on equity" as the core growth target, the Group adopted proactive business quality management in emerging markets around the world and prudently conducted the market expansion on the premise of fully safeguarding risks. During the year, the different markets in the region have experienced declines and increases. For regional markets such as Ethiopia and Kazakhstan, as the cash flow of some projects could not meet the management requirements of the Group, the Group voluntarily gave up or suspended the projects, and revenue in these markets decreased. For the premium African Chad market, the Group continued to obtain high-quality asset-light service project orders and won the bid for integrated oilfield management service projects during the year. This project is a successful replication of the large-scale integrated oilfield management service project model in Iraq, which proves the Group's strong strength and broad market prospects for promoting this type of oilfield management service project in emerging global markets. The project has successfully ignited the CPF torch in February, 2020, and officially entered into trial operation.

During the year, the Group's other overseas markets obtained a total of approximately RMB955.2 million of new orders, an increase of approximately 10.2% from RMB866.5 million of the same period last year; it recorded revenue of approximately RMB486.3 million, about 28.7% lower than the RMB681.6 million in the same period last year.

Domestic market

In 2019, the three major oil companies fully responded to the government's call to formulate a "seven-year action plan" and went all out to increase domestic oil and gas exploration and development efforts to ensure national energy security. Thanks to the rapid development of the domestic market, especially the accelerated development of the northwest Xinjiang market and the southwestern Sichuan shale gas market, the Group's business in the domestic market has achieved rapid growth.

During the year, relying on the Group's advanced high-end oil-based drilling fluids, drilling acceleration technology, coiled tubing and other superior technologies, the Group's business in the northwest Xinjiang market grew rapidly, continuously obtaining high quality project orders, and achieved significant growth in new orders as compared with 2018. In the Southwest shale gas market, the Group, as one of the only two private service companies capable of conducting integrated turnkey drilling service projects for customers, has relied on its leading technologies and brand influence in domestic unconventional resource development projects, and adopted the "equipment alliance" strategy to fully mobilize equipment resources in the industry. In the drilling qualification tenders organized by customers this year, the Group won bids for 14 teams thanks to its mobilization of industry resources, the number of teams being the highest among private oil service companies. Facing the strong market demand, the Group adheres to the comprehensive management method based on "cash flow" to ensure high-quality growth. In the whole year of 2019, the company received new orders in the domestic market of approximately RMB2,763.0 million, increasing by about 90.8% compared with RMB1,448.2 million of the same period last year, and achieving significant increase in business quality than 2018. In 2019, it has recorded revenue of approximately RMB1,683.4 million, a significant increase of 55.3% from last year's RMB1,083.7 million.

Business Cluster Analysis

In 2019, upstream capital investment increased and exploration and development was active. The Group's drilling business continued to maintain rapid growth. During the reporting period, the Group's drilling technology service cluster recorded revenue of RMB1,624.2 million, an increase of approximately 21.2% compared to the full year of 2018 and accounting for 45.2% of the Group's full-year revenue in 2019. The well completion business of the Group has also grown steadily. In 2019, revenue from the well completion cluster was RMB836.0 million, an increase of approximately 12.7% compared to the full year of 2018, accounting for 23.3% of the Group's total revenue. In terms of oil production services, the Group's large-scale integrated oilfield management project in the Iraqi market has been operating smoothly. The oil production services cluster recorded revenue of RMB1,129.3 million, an increase of approximately 32.2%, accounting for 31.5% of the Group's overall revenue.

Revenue Breakdown by Cluster

	Twelve months ended 31 December			**% of total revenue Twelve months ended 31 December**	
	2019 (RMB'mn)	2018 (RMB'mn)	Change (%)	**2019**	2018
Drilling technology cluster	**1,624.2**	1,339.9	21.2%	**45.2%**	45.6%
Well completion cluster	**836.0**	741.8	12.7%	**23.3%**	25.3%
Oil production services cluster	**1,129.3**	854.2	32.2%	**31.5%**	29.1%
Total	**3,589.5**	2,935.9	22.3%	**100.0%**	100.0%

Drilling technology cluster

In 2019, the Group's drilling technology cluster recorded revenue of RMB1,624.2 million, an increase of 21.2% from RMB1,339.9 million in 2018. The increase in revenue of this cluster was mainly due to the increase in capital expenditures of customers for new production capacity, and the investment in new well development increased significantly.

Analysis of major product lines in this cluster:

1) Integrated drilling services: during the year, the Group's integrated drilling projects were actively carried out in the Iraqi market and the shale gas market in southwest China. However, based on the proactive management of "cash flow", the Group suspended Kazakhstan-related projects whose cash flow cannot meet management requirements. During the reporting period, the revenue from integrated drilling services was RMB367.7 million, which was approximately 14.1% lower than RMB428.0 million in 2018.

2) Directional drilling services: the Group's directional drilling services have been carrying out with high quality in Iraq, Northwest China, Xinjiang, and Southwest Shale Gas, and other markets. Due to the suspension of some projects in other overseas markets by the Group, directional drilling services recorded revenue of RMB186.3 million, a decrease of approximately 9.3% from RMB205.4 million of the same period last year.

3) Drilling fluid services: the Group's oil-based muds and high-performance water-based muds serve the Group's traditional superior services in the domestic northwest Xinjiang market. During the year, the development of the northwest Xinjiang market picked up pace, and the business volume of this product line increased significantly. In 2019, the Group's drilling fluid services recorded revenue of RMB200.1 million, a significant increase of 46.6% from RMB136.5 million of the same period last year.

4) Land drilling services: in overseas, drilling projects in Iraqi and Pakistani markets operated smoothly; while drilling business in the Erdos market in China and other markets has further increased. During the reporting period, land drilling services recorded revenue of RMB366.6 million, an increase of 20.7% from RMB303.8 million of the same period last year.

5) Oilfield waste management services: in 2019, this product line has recorded revenue of RMB16.8 million, a decrease of 53.8% from last year's RMB36.4 million.

6) Drilling tool rental and services: with the increase of the overall drilling business volume, customers have maintained strong demand for drilling tools, which has promoted the substantial growth of drilling tool rental and services businesses. During the reporting period, the product line recorded revenue of RMB305.6 million, a significant increase of 158.1% from RMB118.4 million of 2018.

7) Oil production facilities inspection and evaluation services: in 2019, the demand for this product line business further expanded. During the reporting period, the product line recorded revenue of RMB169.9 million, a significant increase of 56.4% from RMB108.6 million of the same period last year.

The EBITDA of the drilling technology cluster increased from RMB624.9 million in the same period last year to RMB684.5 million in 2019, an increase of 9.5%. In 2019, the EBITDA margin was 42.1%, a decrease of 4.5 percentage points from the 46.6% of the same period last year, mainly due to the Group's cash-flow-centric operation policy, and controlling capital expenditure while having a substantial increase in business volume. For large equipment such as drilling rigs required for projects, the Group provides services to customers by cooperating with third parties. Despite sharing profits with such third parties, the Group has achieved better cash flow and higher return.

Well completion cluster

In 2019, the Group's well completion business grew steadily. During the reporting period, the revenue from the completion technology cluster was RMB836.0 million, an increase of 12.7% from last year's RMB741.8 million.

Analysis of major product lines in this cluster:

1) Well completion integration: during the reporting period, the well completion integration product line maintained stable operations, and the workload was basically flat compared to the same period last year. In 2019, it recorded revenue of RMB200.4 million, a decrease of approximately 7.4% from RMB216.5 million of the same period last year.

2) Pressure pumping service: during the year, the Group mainly provided pressure pumping services to customers in the southwest shale gas market and the Erdos market. Benefiting from the overall acceleration of domestic capacity building, pressure pumping services recorded revenue of RMB274.0 million during the reporting period, a significant increase of 58.7% from RMB172.6 million of the same period last year.

3) Coiled tubing service: during the year, the Group continued to provide customers with high-quality coiled tubing services in overseas Iraqi markets, domestic northwest Xinjiang and southwest shale gas markets. Due to the decrease in other overseas market projects, in 2019, the product line recorded revenue of RMB200.8 million, a 14.4% decrease from RMB234.7 million of the same period last year.

4) Fracturing/acidizing technique and chemical materials: in 2019, the Group's low-modulus carbonated rock segmented sand fracturing technology was successfully tested in Iraq's Halfaya oil field. It is expected to be further promoted in the entire Iraqi market in the future. Domestic market operation volume is stable. During the reporting period, the product line recorded revenue of RMB47.5 million, an increase of 7.5% from RMB44.2 million of the same period last year.

5) Gravel packing service: the product line recorded revenue of RMB112.6 million in 2019, a significant increase of 52.6% from RMB73.8 million in the same period last year.

The EBITDA of the well completion cluster increased from RMB329.3 million in the same period last year to RMB352.2 million in 2019, an increase of 7.0%. In 2019, the EBITDA margin was 42.1%, a decrease of 2.3 percentage points from the 44.4% of the same period last year, mainly due to the Group taking consideration of cash flow and reducing some projects in overseas emerging markets with higher profit margins but a poor cash flow outlook, while the dramatically increasing domestic market pressure pumping projects with relatively low profit margins.

Production services cluster

In 2019, the revenue of the production services cluster was RMB1,129.3 million, an increase of 32.2% from RMB854.2 million in the same period last year. The Majnoon oilfield, whose management the Group took over in the Iraqi market, maintained high-quality operations during the year. In addition, the Group has secured new orders for integrated oilfield management services in the African Chad market. It has been successfully put into trial production in February 2020, and will contribute towards stable growth of the cluster in the future.

Analysis of product lines in this cluster:

1) Production operation service: in 2019, the integrated oilfield management service project undertaken by the Group for the large-scale oilfield in southern Iraq, the Majnoon oilfield, maintained stable operation. Since the formal takeover of the oilfield management on July 1, 2018, the Group has smoothly operated the oilfield for more than one and a half years, the oilfield operations have been carried out in an orderly manner, and the production capacity has gradually increased. The Group has also received high praise from customers. Besides, the Group successfully won the bid for oilfield management projects in the African Chad market. During the reporting period, production operation services recorded revenue of RMB788.5 million, an increase of 30.3% from RMB605.1 million of the same period last year;

2) Workover service: during the reporting period, affected by adjustments to customer operation plans in some regional markets, this product line recorded revenue of RMB283.2 million, an increase of 31.8% from RMB214.8 million of the same period last year;

3) Oil tubing and casing and anti-corrosion technology：during the reporting period, the product line recorded revenue of RMB57.6 million, a significant increase of 67.9% from RMB34.3 million of the same period last year;

The EBITDA of the production services cluster increased from RMB360.8 million in the same period last year to RMB468.7 million in 2019, an increase of 29.9%. The EBITDA margin of the cluster in 2019 was 41.5%, which was a 0.7 percentage point decrease from the 42.2% of last year. The decline in the EBITDA of the cluster was mainly due to increased revenue contribution from large oilfield management projects during the year, and that the margin of these projects is slightly lower than previous service projects, but such projects are "asset-light" management projects, thus the Group does not need capital expenditure, and the projects have a stable and positive free cash flow, which contribute to better project returns and cash inflows for the Group.

Strategic Resources Alignment

In 2019, although the overall business volume of the Group has increased significantly, it continued to strictly control its new capital expenditures in accordance with the requirements of the "asset-light" business model and the comprehensive management control requirements with "cash flow" as its core. Non-essential investment requirements are met by leasing or allocating resources from partners. The annual net capital expenditure of RMB101.9 million was much lower than the budget set by the Group, and an increase of 3.8% compared to the RMB98.2 million in 2018.

Alignment of Investment

In 2019, the Group continued to strictly control its investment while the market has grown significantly. During the year, the investment was mainly used to supplement the equipment for projects under execution.

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

In 2019, the Group focused on the practical needs of customers to increase production and reduce costs, carried out improvements and innovations in related technologies or tools, and promoted the optimization and upgrade of the Group's products through technical cooperation. In 2019, the Group's R&D investment amounted to RMB51.7 million, an increase of 84.6% from last year's RMB28.0 million. Key R&D pipelines include:

- Development and application of auxiliary tools for high-end production and completion
- High-temperature high-density high-performance environmental-friendly water-based drilling fluid system
- Development of auxiliary technology for volume fracturing
- Phase II of automatic fluid control technique and technologies research project
- R&D of drilling acceleration technology
- Development of a new demulsifier

Alignment of Human Resources

In 2019, the Group continued to focus on strategic development goals and promote the all-round development of talents. At the same time, the Group further improved the incentive mechanism and launched a restricted share award plan to bind the interests of employees with the interests of shareholders, and encourage employees to create value for the growth of the Group's business. Major human resource developments in 2019 include:

- In 2019, the Group continued to promote the internationalization, professionalization, and informatization of talents. At the same time, the Group continued to implement the project-based employee policy to ensure the efficient operation of the project, and give full play to the efficiency of talents. In 2019, the number of employees of the Group increased by 286 people compared with 2018. As of 31 December, 2019, the number of employees of the Group was 4,326, among which 2,179 were overseas employees, accounting for 50.4% of the total number of employees in the Group.

- The Group adopted the restricted share award scheme (the "Scheme"). The Board has resolved on 30 December 2019 to adopt the Scheme. The Scheme forms one of the Company's employee share schemes. The Company's employee share schemes include the share option scheme adopted in the past, the scheme currently adopted and the scheme for employees to purchase Company's shares with their own funds. The purpose for setting up multiple employee share schemes is to (i) establish a partnership mechanism through employee shareholding in the Company to encourage employees to participate in the operation and management of the Company, so as to optimize its corporate governance structure and create a new form of partnership platform; (ii) align the interests of employees with that of the shareholders so as to form a entrepreneurship and sharing culture atmosphere, encourage employees to participate in building a common community, create value, share achievements, actively promote the growth and development of the Company and achieve an ultimate win-win target for the Company, employees and investors. The Scheme is part of the Company's remuneration system. The Company will, based on its assessment on the industry situation, its business development and other related matters, allocate a relevant amount from its overall remuneration budget every year and entrust a trustee to purchase shares on the secondary market, and then distribute such shares to employees through the employee shareholding platform according to their contribution towards the business development and performance growth of the Group. According to general market practice, the Scheme will have in place relevant restrictive requirements, including performance appraisal, lock-up period and other requirements to reflect the awards for value creation and to encourage employees to hold the shares on a long-term basis. The limited of the number of Shares that may be granted under the Scheme is 10% of the total number of issued shares of the Company as of the approval date of the Scheme, and the Scheme will be valid and effective for a period of ten years, which will be gradually implemented by purchasing Shares on the secondary market.

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

- The Group cultivated the core values of "learning and innovation". The Group encourages all employees to learn from the outside, innovate in technology and management, and create a culture of learning and innovation.

Outlook

In the first quarter of 2020, the novel coronavirus epidemic spreads around the globe, which greatly affected the global economic growth. Despite this, due to the failure of achieving an agreement of production cut between OPEC and Russia, Saudi Arabia announced a sharp cut of sales price of crude oil and a plan of huge raise in production. Global oil price slumped immediately after such change, and the global oil and gas industry entered to a new round of severe challenge. The Group regards this overlap and dual influence of global recession and running of low oil price would largely increase the uncertainty in the market, and lead to higher risks of business operation. Under such arduous market circumstances, the Group will continuously and more firmly execute its operating and management principle of taking "cash flow" and "ROE" as the core, increase its capital turnover, tighten the control of capital expenditure and lower its costs through every measure. It would vigorously advance its information management reform to improve the management efficiency, and meanwhile promotes the execution of the restricted stock incentive plan to make higher consistency of interests between the Group and its employees and encourage the staffs to proactively grow together with Group, continuous strive for best results, tackling the difficulties altogether and actively pursuing new breakthroughs, to ride out the industry downturn.

In terms of markets, in the Iraqi market, the Group will continue to provide customers with integrated management services in the Majnoon oilfield to help customers quickly expand production capacity while keep a close contact with customers. The Group has received written confirmation from the customer in advance that it will automatically renew the 2-year contract after its expiry on 1 July, 2020 for one year. The Group is confident to rely on its quality management to continue to create value for customers and strive to provide long-term and continuous management services for the oilfield. In addition, the Group will continue to vigorously promote the integrated oilfield management services, and endeavours to make new breakthroughs in the Iraqi market; in other overseas markets, the Group will further control risks, and while ensuring financial security, strengthen cooperation with the Belt and Road policy financial institutions, and seek more opportunities to cooperate with international oil companies and national oil companies, make full use of the successful experience of oilfield management projects on hand, strive for more project orders related to customers' routine operational expenditure, and achieve diversified business development. In the domestic market, the Group will continue to fully cooperate with customers' needs, give full play to its technological advantages in the oil and gas development market, especially the natural gas market and unconventional energy markets, and provide high-end high-quality comprehensive integrated technical services to help customers quickly increase production capacity and maximize their oil and gas resource value.

In terms of product, technology and service capabilities, the Group will promote the construction of the full-round products system centred along geological engineering service and provide the customers with precise technical services which combined the geology research and engineering services to help customers develop the reservoir accurately and efficiently. While focusing on the development of oilfield management services and oilfield technology services as two major industries, it is also actively developing two small businesses but high in terms of return on capital: inspection and asset leasing services.

In terms of strategic resources alignment, with positive free cash flow and high return on equity as its core goals, we will resolutely put an end to inefficient investments and achieve the optimal allocation of resources. In terms of technology, in response to customers' needs for efficient development of resources, we shall independently research and develop geo-technology-focused sweet-spot-finding technologies and oilfield management technologies, and combine these technologies with engineering services to improve engineering efficiency by technical means in terms of conventional equipment, we will continue to adhere to the "asset-light" operating model to achieve a higher return on equity, strictly control capital expenditures, and meet the business demands for equipment and assets by leasing and outward cooperation.

In terms of human resources, a partnership sharing mechanism has been established. Employee shareholding plans have been adopted to encourage employees to fully participate in corporate governance and maximize their incentives. In 2020, the Group plans to actively implement the plan.

In terms of finance, we will continue to focus on the operational management core on free cash flow and return on equity, and pursue long term high-quality high-speed growth. We will strengthen our cooperation with financial institutions such as commercial banks, and while ensuring sufficient liquidity, and continue to obtain positive free cash flow through the improvement of business quality and operating efficiency.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2019 was RMB3,589.5 million, an increase of RMB653.6 million or 22.3% from RMB2,935.9 million in the same period in 2018. The increase in the Group's operating income was mainly due to the substantial growth in the domestic business under a market environment in which China is fully promoting oil and gas development, and the growth of oilfield management business in the Iraqi market.

Cost of Sales

Cost of sales increased from RMB1,821.6 million in 2018 to RMB2,308.0 million in 2019, an increase of 26.7%, mainly due to the increase in revenue.

Other Gains, Net

Other gains decreased from RMB11.9 million in 2018 to RMB0.2 million in 2019, a decrease of 98.3%.

Impairment Loss of Financial Assets

The impairment loss of financial assets increased from RMB75.2 million in 2018 to RMB87.7 million in 2019, an increase of 16.6%, mainly due to the increase in the impairment provision for other receivables under the ECL model.

Selling Expenses

Selling expenses in 2019 were RMB193.3 million, an increase of RMB22.1 million, or 12.9%, from RMB171.2 million in 2018, which was mainly due to the increased sales activities as a result of the recovery in the market and the growth of the Group's business.

Administrative Expenses

Administrative expenses in 2019 were RMB215.4 million, an increase of RMB18.2 million, or 9.2%, from RMB197.2 million in 2018, mainly due to the increased labor costs of the Group as the business grew. However, by strengthening control in various expenditures, the increase in administrative expenses is within the controllable range.

R&D Expenses

R&D expenses in 2019 were RMB51.7 million, an increase of RMB23.7 million, or 84.6%, from RMB28.0 million in 2018.

Sales Tax and Surcharges

Sales tax and surcharges in 2019 were RMB14.0 million, representing an increase of RMB3.7 million, or 35.9%, from RMB10.3 million in 2018, which was mainly due to the growth in business of the Group.

Operating Profit

As the result of the foregoing, the operating profit in 2019 was RMB719.6 million, an increase of RMB75.3 million, or 11.7%, from RMB644.3 million in 2018. The operating profit margin in 2019 was 20.0%, a decrease of 1.9 percentage points from 21.9% in 2018, which was mainly due to the Group's pursuit of high-cash-flow and high-ROE projects under the "asset-light" business model. Through cooperation with third parties to provide related project services with heavy asset requirements, the profit margin under this business model has been slightly lower than before, but due to the substantial increase in group revenue, the operating profit still increased significantly.

Net Finance Costs

In 2019, net financial costs were RMB295.1 million, a decrease of approximately RMB2.4 million as compared to RMB297.5 million in 2018.

Income Tax Expense

In 2019, income tax expenses were RMB142.8 million, an increase of RMB46.4 million from RMB96.4 million in 2018, which was mainly due to the increase in operating profit of the Group.

Profit for the Year

Based on the above, the Group's profit for the year of 2019 was RMB282.4 million, an increase of RMB31.7 million, or 12.6%, compared to RMB250.7 million in 2018.

Profit Attributable to the Owners of the Company

In 2019, the Group's profit attributable to owners of the Company was RMB268.6 million, an increase of RMB46.2 million compared to 2018.

Trade and Notes Receivables

As of 31 December, 2019, the Group's net trade and notes receivables were RMB2,200.2 million, an increase of RMB252.2 million from that of 31 December, 2018. The average turnover of trade receivables during the year was 196 days, a decrease of 24 days from 2018, which was mainly due to the Group's enhanced cash flow management and increased collection of trade receivables.

Inventories

As of 31 December, 2019, inventory of the Group was RMB765.5 million, a decrease of RMB8.9 million as compared to 31 December, 2018.

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December, 2019, the Group's cash and bank deposits were approximately RMB2,791.6 million, including: restricted bank deposits, and cash and cash equivalents, an increase of RMB1,774.0 million compared with 31 December, 2018.

The outstanding short-term borrowings of the Group as at 31 December, 2019 were approximately RMB497.7 million. The undrawn credit facilities granted by domestic banks to the Group was RMB705.5 million.

As at 31 December, 2019, the Group's gearing ratio was 67.0%, an increase of 7.3 percentage points from 59.7% as at 31 December, 2018. The gearing ratio is calculated as total borrowings divided by total capital. Total borrowings include borrowings, bonds, lease liabilities and trade and notes payables, as shown in the consolidated statement of financial position. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus total borrowings.

The equity attributable to owners of the Company increased from RMB2,645.9 million as of 31 December, 2018 to RMB2,902.1 million as of 31 December, 2019.

ACQUISITION AND SALE OF MAJOR SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the twelve months ended 31 December 2019, the Group did not have any significant acquisitions or disposals of subsidiaries, associates and joint ventures.

EXCHANGE RISK

The Group mainly uses RMB and USD as its operating currency with certain imported goods settled in foreign currency. The Group believes the exchange risk from foreign-currency-denominated settlements is limited. The exchange risk of the Group mainly arises from its foreign currency deposits, trade receivables and long-term bonds. Any fluctuations in RMB exchange rate against USD may have a negative impact on the Group's operating results and financial position.

CASH FLOW FROM OPERATING ACTIVITIES

For the twelve months ended 31 December, 2019, the Group's cash flow from operating activities for the year was a net inflow of RMB610.3 million, RMB190.3 million more than the same period in 2018, which was mainly due to the Group's strict cash flow management policy, which increased the amount of trade receivables collected, strengthened inventory management, and improved inventory turnover.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's net capital expenditure for the full year of 2019 was RMB101.9 million, of which fixed assets investment was RMB64.7 million and investment in intangible assets was RMB35.2 million.

CONTRACTUAL LIABILITY

The Group's contractual commitments mainly include the Group's capital commitments. The capital commitment (but no provision has been made on the consolidated statement of financial position) of the Group as at 31 December, 2019 was approximately RMB71.1 million.

CONTINGENT LIABILITIES

As at 31 December, 2019, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December, 2019, the Group's assets used for bank financing collaterals include property, plant, machinery and equipment with a net book value of RMB388.1 million, right-to-use assets with a net book value of RMB5.7 million, trade receivables with a net book value of RMB548.4 million and restricted bank deposits with a net book value of RMB10.3 million.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December, 2019, the Group did not have any off-balance sheet arrangement.

FINAL DIVIDENDS

The Company may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. Our Board will review dividend policy from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, and other factors our Board may deem relevant in determining whether dividends are to be declared and paid. Any declaration and payment as well as the amount of dividends will be subject to the Articles and Cayman Companies Law. No dividend shall be declared or paid except out of our distributable profit and funds that are lawfully available for distribution under the Cayman Companies Law.

In consideration of the impact on global economy by the outbreak of COVID-19 coronavirus, and the market uncertainty caused by recent plunge in oil price, it would be crucial for the Group to keep adequate liquidity. Thus, at the Board meeting held on 22 March 2020, the Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: RMB1 cent per Share).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on 25 May, 2020 (Monday), while the notice convening the AGM will be published and dispatched to the Company's shareholders in the form required in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May, 2020 (Wednesday) to 25 May, 2020 (Monday), both days inclusive, during which period no share transfers will be registered. In order to be eligible for attending and voting at the 2020 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 May 19, 2020 (Tuesday).

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, 2019.

DIRECTOR'S SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

On 2 December, 2019, the Company issued US$300 million 7.50% senior notes due in 2022 (the "Notes"). The Notes are listed on the Stock Exchange.

Save as disclosed, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December, 2019.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") consists of all the independent non-executive directors of the Company, namely Mr. Zhu Xiaoping, Mr. Zhang Yongyi and Mr. Wee Yiaw Hin. The chairman of the Audit Committee is Mr. Zhu Xiaoping.

DIRECTORS' REPORT

The Board of the Company is pleased to present the Directors' Report together with the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group provides integrated oil and gas field development technical services covering the entire life cycle of oil and gas field development, including drilling, completion and oil production stages.

The Company's performance analysis based on segments is set out on Note 5.

RESULTS OF OPERATIONS

The financial results of the Group for 2019 are set out on pages 67 to 156 of this Annual Report.

FIVE YEAR FINANCIAL SUMMARY

The five year financial summary of the Group is set out on pages 6 to 7 in the section headed "Financial Summary" of this Annual Report.

FINAL DIVIDEND

At the Board meeting held on 22 March 2020, the Board didn't recommend a payment of a final dividend for the year ended 31 December 2019(2018: RMB30.1 million).

BUSINESS REVIEW

Overview

The fair review of the Group's business is detailed in the Management Discussion and Analysis on pages 15 to 32 of this annual report. The discussion constitutes a part of this Director's Report.

Principal Risks and Uncertainties

The Group provides oil and gas fields technical services, the main market risk and uncertainties come from the fluctuation of oil and gas price and oil and gas development activities. The Board of the Company pays close attention to the market condition and will change the Group's market strategy according to the market changes to ensure a stable business development of the Group.

Important Events

The Board has not identified any important events affecting the Group that have occurred since the end of the financial year.

Future Development

The future business development of the Group is detailed in the Management Discussion and Analysis on pages 15 to 32 of this annual report. The discussion constitutes a part of this Director's Report.

Key Performance Indicators

The key performance indicators are detailed in the financial review set out in the Management Discussion and Analysis on pages 15 to 32 of this annual report. This discussion constitutes a part of this Directors' Report.

Environmental Policies and Performance and Compliance with Laws and Regulations

Matters in relation to Environmental Policies and Performance and Compliance with Laws and Regulations, please refer to the "ESG Report" which would be published separately by the Group at a later time. The discussion constitutes a part of this Director's Report.

Relationships with Employees

Please refer to the "ESG Report" which would be published separately by the Group. The discussion constitutes a part of this Director's Report.

Relationships with Customers and Suppliers

Main customers of the Group are domestic and overseas oil companies. The Group aims to provide its customer with high quality services as well as low costs and high efficiency. Target of the Group is to make oil and gas development much easier through the services it provides. The Group has formed a long- term strategic partnership with its main customers.

Main providers of the Group are equipment, tools and chemicals providers of this industry. The Group keeps good communication with those providers and formed close cooperation for the production and delivery according to the Group's business needs as well as lowering material costs according to long- term cooperation and batch purchases.

For matters in relation to Relationships with Customers and Suppliers, Please refer to the "ESG Report" which would be published separately by the Group. The discussions constitutes a part of this Director's Report.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group accounted for approximately 32.17% and 69.79% respectively of the Group's revenues for the year ended 31 December 2019.

For the year ended 31 December 2019, the total amount of purchases made by the Group from the largest supplier and its five largest suppliers accounted for 8.2% and 29.3% respectively of the total purchases for the year. As far as the Company is aware, none of the Directors, their associates and shareholders who are interested in more than 5% of the share capital of the Company has any interest in the five largest suppliers and customers.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 37 to the consolidated financial statements.

PROPERTIES, PLANT AND EQUIPMENT

Additions to the property, plant and equipment of the Group for the year ended 31 December 2019 totaled RMB193 million. Details of movements are shown under Note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 15 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive right under the Articles of Association of the Company and the Cayman Islands laws, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

On 2 December 2019, the Company issued US$300 million 7.50% senior notes due in 2022 (the "Notes"). The Notes are listed on the Stock Exchange. Save as disclosed, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019(2018: Nil).

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in Notes 16 and 39 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution amounted to RMB1,049.6 million.

BOND AND SENIOR NOTES

Details of the bonds and senior notes are set out in Note 17 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company disclosed in this Directors' Report on pages 33 to 46 and Note 15 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the year.

DIRECTORS

The members of the Board during the year and up to the date of this Annual Report are:

Executive Directors

Mr. Luo Lin	(appointed on 3 August 2007)
Mr. Pi Zhifeng	(appointed on 25 March 2015)
Mr. Fan Yonghong	(appointed on 16 April 2019)

Non-executive Director

Mr. John William Chisholm	(appointed on 2 November 2016)

Independent Non-executive Directors

Mr. Zhang Yongyi	(appointed on 17 November 2007)
Mr. Zhu Xiaoping	(appointed on 17 November 2007)
Mr. Wee Yiaw Hin	(appointed on 19 April 2017)

The biographical details of the Directors and senior management are set out under the section headed "Profiles of Directors and Senior Management" of this Annual Report.

In accordance with Article 130 of the Article s of Association, one-third of the Directors shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Wee Yiaw Hin shall retire and being eligible, will offer himself for re-election at the forthcoming annual general meeting (the "AGM") of the Company.

In accordance with the letters of appointment for all the Independent Non-executive Directors, namely Mr. Zhang Yongyi and Mr. Zhu Xiaoping, the Independent Non-executive Directors shall retire and being eligible, will offer themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Mr. Luo Lin, being the Executive Director, has renewed his service contract with the Company for a term of three years commencing from 3 June 2019, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Pi Zhifeng, being the Executive Director, has renewed his service agreement with the Company for a term of three years commencing from 25 May 2018, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Fan Yonghong, being the Executive Director, has entered into a service agreement with the Company for a term of three years commencing from 16 April 2019, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. John William Chisholm, being the Non-executive Director, has entered into a letter of appointment with the Company under which he will act as a Non-executive Director for a period of 3 years with effect from 2 November 2016, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Zhang Yongyi and Mr. Zhu Xiaoping, being the Independent Non-executive Directors, has renewed their letter of appointment with the Company for a term of one year commencing from 9 January 2020, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Wee Yiaw Hin, being the Independent Non-executive Director, has entered into a letter of appointment with the Company under which he will act as an independent Non-executive Director for a period of 3 years with effect from 19 April 2020, which may be terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, no Director for re-election at the AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

There was no transactions, arrangements or contract of significance connected to the business of the Group to which the Company, its subsidiaries, or its holding company or any of its fellow subsidiaries was a party and in which any Director and the Director's connected party had a direct or indirect material interest, subsisting at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

During the financial year, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors. The permitted indemnity provisions are provided for in the Company's Articles of Association in respect of potential loses and liability associated with legal proceedings that may be brought against such Directors and the payment of any sum primarily due from the Company that may be liable by the Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the company were entered into or exited during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") had an interest in any business which competes or may compete with the business in which the Group is engaged during the year.

Pro Development Holdings Corp. is beneficially controlled by Mr. Luo Lin, the Executive Director, who is the controlling shareholder of the Company.

The controlling shareholder and the Executive Directors have provided the Company with annual confirmations in respect of the compliance with non-competition undertaking given by them.

The Independent Non-executive Directors have also reviewed the compliance by the controlling shareholder and the Executive Directors with the Non-competition Undertaking during the year. The Independent Non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of the controlling shareholder and the Executive Directors of the non-competition undertaking given by them.

REMUNERATION OF DIRECTORS

In compliance with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules, the Company has established a remuneration committee (the "Remuneration Committee") to make recommendations to the Board on the Company's policy and structure for all the Directors' remuneration. The Director's remuneration structure may include a director's fee, a fixed salary, share options and performance bonus. The Directors' remuneration is determined by the Board with reference to the Directors' duties and responsibilities, the recommendations of the Remuneration Committee and the performance and results of the Group. Details of the remuneration of the Directors are set out in Note 40 to the consolidated financial statements of this Annual Report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and considers that all the Independent Non-executive Directors, namely Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wee Yiaw Hin to be independent.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

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

Name of Director	Note	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Luo Lin	1	Founder of a discretionary trust and beneficial owner	722,237,408	24.02%
Pi Zhifeng		Beneficial owner	448,000	0.01%
Zhang Yongyi		Beneficial owner	440,000	0.01%

1. Mr. Luo Lin is the founder of the Loles Trust, which is indirectly interested in the entire issued share capital of Pro Development Holdings Corp., which in turn is interested in 664,140,740 shares of the Company. Mr. Luo Lin and his family members are the beneficiaries of the Loles Trust. Mr. Luo Lin also holds 58,096,668 shares of the Company in the capacity of a beneficial owner.

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

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

Save as disclosed above, at no time during the year ended 31 December 2019, the Directors and chief executive (including their spouses and children under the age of 18 years) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, so far was known to any Director or the chief executive, the substantial shareholders, other than the Directors or the chief executive of the Company, who had an interest or short position in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

Name of Substantial Shareholders	Notes	Capacity	Long/Short Position	Number of Ordinary Shares Held	Approximate Percentage of Shareholding
Pro Development Holdings Corp.	1	Beneficiary Owner	Long Position	664,140,740	22.08%
Nomura Holdings. Inc.	2	Interest of controlled corporation	Long Position	507,147,687	16.86%
Nomura Holdings. Inc.	2	Interest of controlled corporation	Short Position	323,552,800	10.76%
China Oil HBP Science & Technology Co., Ltd.	3	Interest of controlled corporation	Long Position	308,211,113	10.25%
China Oil HBP Science & Technology Co., Ltd.	3	Interest of controlled corporation	Short Position	183,111,113	6.09%
UBS Group AG	4	Person having a security interest in shares	Long Position	133,102,000	4.42%
UBS Group AG	4	Interest of controlled corporation	Long Position	24,848,593	0.82%

Notes:

1. Pro Development Holdings Corp. is a company wholly-owned by Avalon Assets Limited and holds 664,140,740 Shares; Avalon Assets Limited is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited. Serangoon Limited and Seletar Limited are wholly owned by Credit Suisse trust limited. Credit Suisse Trust Limited is the trustee of Loles Trust. Mr. Luo Lin is the founder of Loles Trust of which Mr. Luo Lin and his family members are the beneficiaries. By virtue of the SFO, Credit Suisse Trust Limited, Serangoon Limited, Seletar Limited, Avalon Assets Limited are deemed to be interested in the shares held by Pro Development Holdings Corp.

2. Nomura International plc holds 507,147,687 shares and had a short position of 323,552,800 shares; Nomura International plc, is wholly owned by Nomura Europe Holdings plc, which is in turn wholly owned by Nomura Holdings, Inc.

   By virtue of the SFO, Nomura Holdings, Inc. and Nomura Europe Holdings plc are deemed to be interested in the shares held by Nomura International plc.

3. Hong Kong Huihua Global Technology Limited, which is a company wholly-owned by China Oil HBP Science & Technology Co., Ltd. and holds 308,211,113 shares and had a short position of 183,111,113 shares. By virtue of the SFO, China Oil HBP Science & Technology Co., Ltd. is deemed to be interested in the shares held by Hong Kong Huihua Global Technology Limited.

4. UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd and UBS Fund Management (Switzerland) AG holds 1,792,593, 18,020,000, 5,000,000 and 36,000 shares respectively. UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd and UBS Fund Management (Switzerland) AG are wholly-owned by UBS Group AG.

   By virtue of the SFO, UBS Group AG is deemed to be interested in the shares held by UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd and UBS Fund Management (Switzerland) AG.

Save as disclosed above, as at 31 December 2019, so far was known to the Directors, no other persons (other than the Directors or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 26 May 2017. For the year ended 31 December 2019, the group granted a total of 95,000,000 share options for the company's ordinary share on 7 January 2019 according to the option scheme. The purpose of the Share Option Scheme is to grant option to the eligible participants in recognition and acknowledgement of their contributions made or to be made to the Group. Under the Share Option Scheme, the Board may offer to grant an option to any director or employee, or any advisor, consultant, suppliers, customers or agents.

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

The maximum number of shares available for issue under options which may be granted under the Share Option Scheme or other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares in issue as at the date of approval of the share option Scheme limit (i.e. 26 May 2017), being 266,006,925 shares.

As at the date of this Annual Report, the total number of shares available for issue which includes share options available to be granted and outstanding options under the Share Option Scheme was 435,822,259 shares, representing 14.5% of the issued share capital of the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue as at the date of grant unless approved by the shareholders in general meeting.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be determined by the Board provided that it shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

As at 31 December 2019, the Directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company under the Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company of HK$0.10 each. Details of the movements in the number of share options during the year ended 31 December 2019 under the Share Option Scheme are as follows:

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share HK$	Notes	Number of share options as at 1 January 2019	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Number of share option as at 31 December 2019
Directors										
Zhang Yongyi	01 April 2016	01 April 2017 to 31 March 2022	0.800	2,7	900,000	-	-	-	-	900,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	2,9	700,000	-	-	-	-	700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	2,10	700,000	-	-	-	-	700,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	2,11	-	700,000	-	-	-	700,000
				Subtotal:	2,300,000	700,000	-	-	-	3,000,000
Zhu Xiaoping	01 April 2016	01 April 2017 to 31 March 2022	0.800	2,7	900,000	-	-	-	-	900,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	2,9	700,000	-	-	-	-	700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	2,10	700,000	-	-	-	-	700,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	2,11	-	700,000	-	-	-	700,000
				Subtotal:	2,300,000	700,000	-	-	-	3,000,000

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share HK$	Notes	Number of share options as at 1 January 2019	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Number of share option as at 31 December 2019
Luo Lin	21 June 2013	21 June 2014 to 20 June 2019	5.742	1,3	796,000	–	–	–	796,000	–
	2 December 2016	2 December 2017 to 1 December 2022	1.100	1,8	2,216,000	–	–	–	–	2,216,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,9	442,000	–	–	–	–	442,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,10	2,218,000	–	–	–	–	2,218,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,11	–	784,922	–	–	–	784,922
				Subtotal:	5,672,000	784,922	–	–	796,000	5,660,922
Pi Zhifeng	01 April 2016	01 April 2017 to 31 March 2022	0.800	1,7	3,000,000	–	–	–	–	3,000,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,9	3,000,000	–	–	–	–	3,000,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,10	2,600,000	–	–	–	–	2,600,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,11	–	2,600,000	–	–	–	2,600,000
				Subtotal:	8,600,000	2,600,000	–	–	–	11,200,000
John William	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,9	700,000	–	–	–	–	700,000
Chisholm	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,10	700,000	–	–	–	–	700,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,11	–	700,000	–	–	–	700,000
				Subtotal:	1,400,000	700,000	–	–	–	2,100,000
Mr. Wee Yiaw Hin	23 May 2017	23 May 2018 to 22 May 2023	0.810	2,9	700,000	–	–	–	–	700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	2,10	700,000	–	–	–	–	700,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	2,11	–	700,000	–	–	–	700,000
				Subtotal:	1,400,000	700,000	–	–	–	2,100,000

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share HK$	Notes	Number of share options as at 1 January 2019	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Number of share option as at 31 December 2019
Fan Yonghong	24 February 2016	24 February 2017 to 23 February 2022	0.74	1,6	2,700,000	–	–	–	–	2,700,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,9	2,700,000	–	–	–	–	2,700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,10	3,500,000	–	–	–	–	3,500,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,11	–	4,020,000	–	–	–	4,020,000
				Subtotal:	8,900,000	4,020,000	–	–	–	12,920,000
Employees in aggregate	21 June 2013	21 June 2014 to 20 June 2019	5.742	1,3	480,000	–	–	–	480,000	–
	28 June 2013	28 June 2014 to 27 June 2019	5.600	1,4	82,000	–	–	–	82,000	–
	20 November 2013	20 November 2014 to 19 November 2019	4.960	1,5	76,000	–	–	–	76,000	–
	24 February 2016	24 February 2017 to 23 February 2022	0.740	1,6	83,834,000	–	2,690,000	–	586,666	80,557,334
	1 April 2016	1 April 2017 to 31 March 2022	0.800	1,7	1,500,000	–	–	–	–	1,500,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,9	89,092,000	–	950,000	–	1,884,000	86,258,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,10	58,532,000	–	–	–	2,836,667	55,695,333
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,11	–	84,795,078	–	–	2,600,000	82,195,078
				Subtotal:	233,596,000	84,795,078	3,640,000	–	8,545,333	306,205,745
				Total:	264,168,000	95,000,000	3,640,000	–	9,341,333	346,186,667

Notes:

1. The option period for the share options granted above commences on the date of grant and ends on the last day of seventy-two months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to one-third of their share options during the option period commencing from each of the first, second and third anniversary of the date of grant.

2. The option period for the share options granted above commences on the date of grant and ends on the last day of seventy-two months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to 50% of their share options during the option period commencing from each of the first and second anniversary of the date of grant.

3. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$5.73.*

4. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$5.47.*

5. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$4.99.*

6. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.77.*

7. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.81.*

8. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.12.*

9. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.84.*

10. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.97.*

11. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.84.*

* Source from website of Hong Kong Exchange

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float in compliance with the requirement of the Listing Rules during the year and to the date of this Annual Report.

ARRANGEMENTS TO ACQUIRE SHARE OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" above, at no time during or at the end of the year was the Company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in, debentures of, the Company or any other body corporate.

TAXATION

For the year ended 31 December 2019, no foreign shareholder who is not resident of the PRC is liable for individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owing and disposing of the Company's shares.

RELATED PARTY/CONTINUING CONNECTED TRANSACTIONS

The related party transactions for the year ended 31 December 2019 are set out in Note 36 to the Financial Statements of this Annual Report. None of the related party transitions continuing to connected transition or continuing connected transitions subject to independent shareholders' approval, annual review and will disclosure requirements in Chapter 14A of the Listing Rules.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

There had been no change to the Company's constitutional documents during the year ended 31 December 2019.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely, Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Mr. Wee Yiaw Hin. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2019.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by Deloitte Touche Tohmatsu, who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution for the reappointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the Board

Luo Lin
Chairman

31 March 2020

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

LUO Lin (羅林), aged 53, is the Chairman and the founder of the Group. Prior to establishing the Group, Mr. Luo worked at the Tarim Basin from 1992 to 1999. Mr. Luo has 28 years of experience in the petroleum industry. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院). Mr. Luo is also a certified lawyer and a chartered accountant in the PRC.

PI Zhifeng (皮至峰), aged 42, is the Executive Director and Chief Executive Officer of the Company, in charge of the overall business of the Group. Mr. Pi joined the Group in 2004, and was responsible for the management of strategies, business establishment and capital market. Prior to joining the Group, Mr. Pi was responsible for investment in China Chengxin Financial Consultancy Co., Ltd (中誠信財務顧問有限公司). Mr. Pi has a Master of Business Administration degree from the University of Chicago Booth School of Business in the U.S.

FAN Yonghong (范永洪), aged 49, is the Executive Director, the President and Chief Technology Officer of the Company, and is responsible for daily operations of the Company and its technical construction. Mr. Fan joined the Group in 2004, and was responsible for the setup and technical construction of the well service business and the management of business clusters of the Group. Prior to joining the Group, Mr. Fan was employed by PetroChina Tarim Oilfield Company (中石油塔里木油田分公司) between 1991 and 2004. He has 29 years of experience in the petroleum industry. Mr. Fan has an Executive Master of Business Administration (EMBA) degree from China Europe International Business School (CEIBS).

NON-EXECUTIVE DIRECTOR

John William Chisholm, aged 65, is a Non-executive Director of the Company. Mr. Chisholm used to be chairman of the board of directors, president and chief executive officer of Flotek Industries, Inc. ("Flotek") (NYSE:FTK), Mr. Chisholm has served on the board of directors of NGSG, Inc. (NYSE:NGS) since December 2006. He serves on both the Compensation and Governance Committees of NGSG, Inc. Mr. Chisholm has also been selected to be on the editorial advisory board of Middle East Technology by the Oil and Gas Journal.

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHANG Yongyi (張永一), aged 84, is the Independent Non-executive Director of the Company. Mr. Zhang has extensive experience in the petroleum industry. Mr. Zhang was appointed as the Deputy General Manager of CNPC in 1992. Prior to this, he had taught in the Southwest Petroleum Institute (西南石油學院) for more than 32 years. Mr. Zhang was appointed as Chairman of the Supervisory Committee for State-owned Large and Medium Enterprises (國有大中型企業監事會主席) in 2000 and appointed by the State Council of the PRC as inspector (國務院稽察特派員) in 1998.

ZHU Xiaoping (朱小平), aged 71, is the Independent Non-executive Director. Mr. Zhu has extensive experience in corporate finance and is currently an Accounting Professor of the Renmin University of China (中國人民大學). He served as the Director of the China Accounting Society (中國會計學會理事) and Director of the China Audit Society (中國審計學會理事).

Wee Yiaw Hin, aged 61, is the Independent Non-executive Director. Mr. Wee has more than 31 years of experience in the Oil & Gas Industry. He spent 21 years in Shell in Malaysia and Overseas, and joined PETRONAS as Executive Vice President and Chief Executive Officer of Upstream Business in May 2010. Mr. Wee was Executive Director and Executive Committee member of the board of PETRONAS Group. Mr. Wee graduated as a Civil Engineer and holds a Masters of Science Degree from Imperial College, UK.

SENIOR MANAGEMENT

SHEN Haihong (沈海洪), aged 51, is an Executive Vice President of the Company, and is in charge of operation, and QHSE management. Mr. Shen also acts as head of "Anton College" (HR training centre). Mr. Shen joined the Group in 2007, and was in charge of the tubular service cluster as well as operational management of the Group. Prior to joining the Group, Mr. Shen was employed by CNPC between 1991 and 2006. He has more than 29 years of experience in the petroleum industry. Mr. Shen has a Master of Business Administration degree from Tsinghua University.

XU Hongjian (徐宏劍), aged 39, The financial controller of the company, is in charge of the Group's financial management, asset and capital management work. Mr. Xu joined the Group in 2006 and was responsible for the financial work, risk control and marketing of the Group. Prior to joining the Group, from 2003 to 2006, Mr. Xu worked at Deloitte & Touche LLP and was engaged in financial audit. Mr. Xu holds a bachelor's degree in finance from Fudan University, and a Master of Business Administration degree from Tsinghua University.

COMPANY SECRETARY

Dr. NGAI Wai Fung (魏偉峰), aged 58, is the Company Secretary of the Company. Dr. Ngai currently is the director and chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited. Dr. Ngai has over 30 years' experience and knowledge in senior management and professional matters in listed companies, including IPO, Merger and Acquisition, corporate financing, internal control, governance and company secretary etc. Dr. Ngai is a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom. He also is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Dr. Ngai obtained a Doctorate in Finance from the Shanghai University of Finance and Economics, a Master's degree in Corporate Finance from the Hong Kong Polytechnic University, a Master's degree in Business Administration (MBA) from Andrews University of the United States and a Bachelor's degree (Honours) in Law from the University of Wolverhampton, the United Kingdom.

CORPORATE GOVERNANCE REPORT

Since the listing of its shares on the Stock Exchange on 14 December 2007, the Company is committed to maintaining a high standard of corporate governance and has adopted the code provisions (the "Code Provision(s)") under Appendix 14 to the Listing Rules as its own code. The Company has been in compliance with all the applicable Code Provisions for the year ended 31 December 2019.

Under the structure of the existing Board of Directors, there are three Executive Directors, one Non-executive Directors and three Independent Non-executive Directors to ensure the independent and objective running of the Board, and the relevant Board committees play an important role in the Company's decision-making, monitoring and advisory work.

CORPORATE GOVERNANCE STRUCTURE

As the core of corporate governance for the Company, the Board has distinct duties from those of the management. The Board is responsible for providing direction to and effective supervision of the management, while the management is in charge of executing established strategies and directions. Generally speaking, the Board is responsible for:

- formulating long term strategies of the Group and supervising their execution, its subsidiaries and associated companies;
- approval of operational plan and financial budget;
- approval of the relevant annual and interim results;
- reviewing and monitoring the risk management and internal control of the Group;
- ensuring good corporate governance and compliance; and
- ensuring high quality ESG Management according to the requirement under sustainable growth.

The Board authorized the management to execute established strategies and directions of the Group, the management is in charge of the Group's daily operation and reports to the Board. Accordingly, the Board has set out clear written guidelines, in particular, it clearly determined the scope of authority of the management, and those items requiring the Board's approval.

There are agreed procedures for the Directors, upon reasonable request, to seek independent professional advice at the Company's expense in appropriate circumstances.

BOARD OF DIRECTORS

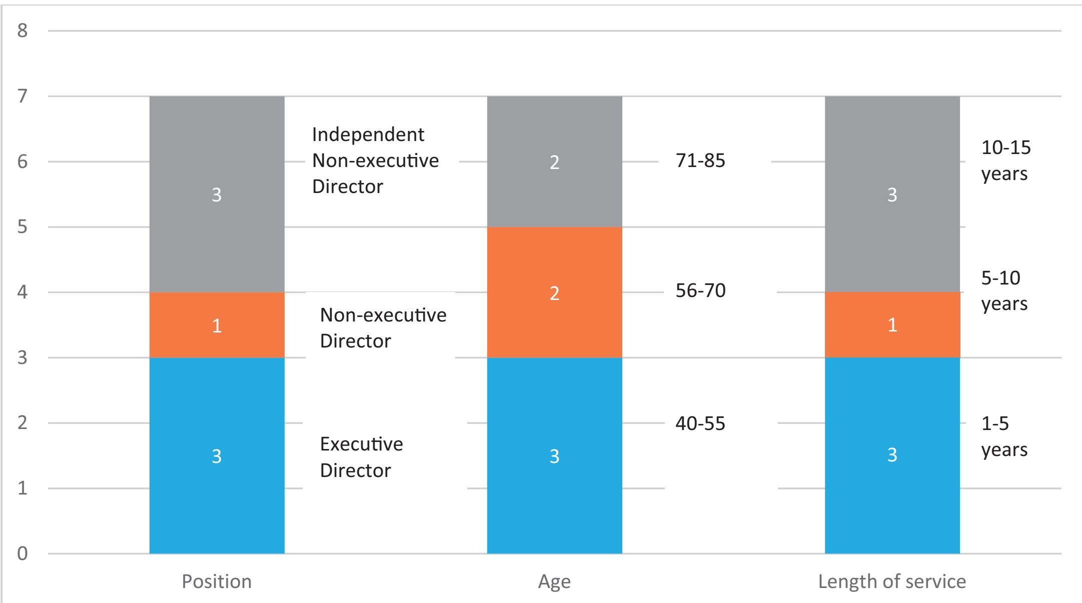
Board Composition

The constitution of Board adheres strictly to the principle of ensuring balance, fairness and diversity in the backgrounds of our Board members, and the Board strives to recruit the most suitable candidates to lead the Group towards a rapid and healthy growth. As at the date of this Annual Report, the Board currently comprises three Executive Directors namely, Mr. Luo Lin, Mr. Pi Zhifeng and Mr. Fan Yonghong, one Non-executive Director namely, John William Chisholm and three Independent Non-executive Directors namely, Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wee Yiaw Hin. The Chairman of the Board is Mr. Luo Lin. The background of these Directors brings different expertise and experiences to the Board. The biographical details of all the Directors are set out under the section headed "Profiles of Directors and Senior Management" of this Annual Report.

To the best knowledge of the Company, there is no relationship (including financial, business, family or other material relationship) among members of the Board.

Board Diversity

The Board recognized the benefits of diversity in the Board in enhancing the Board's effectiveness. In this regard, the Board has adopted a Board Diversity Policy (the "Board Diversity Policy") in August 2013 which sets out the approach to achieve diversity on the Board. The Nomination Committee will give consideration to a number of factors as set out in the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service. Details on the biographies and experience of the Directors are set out on page 47 to page 48 of this annual report.



The Board is considered well balanced and of a diverse mix appropriate for the needs of the Company. The Company will also take into account its own business model and specific needs from time to time to determine the optimal composition of the Board. The Nomination Committee will review the Board Diversity Policy on a regular basis to ensure its continued effectiveness.

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company has been in compliance with Code Provision A.2.1 with Mr. Luo Lin serving as the Chairman of the Company and Mr. Pi Zhifeng serving as the Chief Executive Officer.

Independence of Independent Non-Executive Directors

The Company has received annual confirmation of independence from all the Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Consequently, the Board is of the opinion that all the current Independent Non-executive Directors comply with the relevant guidelines set out in Rule 3.13 of the Listing Rules, thus the Company regards all the Independent Non-executive Directors as independent parties.

During the year, the Company has complied with the requirements of Rule 3.10 of the Listing Rules and has at least three Independent Non-executive Directors, including one Independent Non-executive Director, Mr. Zhu Xiaoping, with appropriate professional qualifications or accounting or related financial management expertise. Throughout the year, the Board has at least one-third in number of its members comprising Independent Non- executive Directors in compliance with Rule 3.10A of the Listing Rules.

Mr. Zhang Yongyi and Mr. Zhu Xiaoping have served the Board since 17 November 2007. They have served as independent directors for more than 10 years. Mr. Wee Yiaw Hin have served the Board since 19 April 2017. During their years of appointment, Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wee Yiaw Hin have demonstrated their ability to provide an independent view to the Company's matters. Notwithstanding their years of service as Independent Non-executive Directors, the Board is of the view that they are able to continue to fulfill their role as required and thus recommends them for re-election at the annual general meeting of the Company.

Appointment And Re-Election of The Directors

The term of the appointment for all three Executive Directors and one Independent Non-executive Director, Mr. Wee Yiaw Hin, is three years and the term of the appointment for the another two Independent Non-executive Directors, Mr. ZHANG Yongyi and Mr. ZHU Xiaoping, is one year. According to the Company's Articles of Association, at every annual general meeting of the Company, one-third of the current Directors shall retire from office by rotation (or if the number of the Directors is not three or a multiple of three, then the nearest but not less than one- third) provided that each Director (including those appointed for a specific term but not including those appointed to fill a casual vacancy or as an addition to the existing Board in accordance with Articles 114 and 115) must retire by rotation at least once every three years. The retiring Directors can be re-elected and continue to participate in the relevant meeting in the capacity as Director.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles of Association of the Company. The Nomination Committee is responsible for reviewing the Board composition, monitoring and make recommendations to the Board on the appointment, re-election and succession planning of Directors.

The newly appointed Directors will receive induction packages containing the duties and responsibilities of directors under the Listing Rules and other applicable rules and regulations.

The Company has arranged appropriate insurance cover to indemnify the Directors and officers of the Group for their potential liabilities incurred by them in discharging their duties.

Corporate Governance Functions

The Board has adopted the written terms of reference on corporate governance functions in March 2012 so as to perform corporate governance functions effectively. The relevant authority and duties are clearly set out in its terms of reference which are summarized as follows:

(a) To develop and review the Company's corporate governance policies and implementation on corporate governance;

(b) To review and monitor the training and continuous professional development of Directors and senior management;

(c) To review and monitor the Company's policies and implementation on compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) To review the Company's compliance with the Code Provisions and disclosure in the Corporate Governance Report.

The following is a summary of the work performed by the Board on corporate governance functions during 2019:

(a) Reviewed the Company's corporate governance policy and the implementation thereof;

(b) Reviewed and monitored the code of conduct and compliance manual applicable to the Directors and employees;

(c) Reviewed the Company's compliance with the Code Provisions; and

(d) Reviewed the Board composition.

DIRECTORS' SECURITIES TRANSACTIONS

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

During the year ended 31 December 2019, the Directors confirmed that they have complied with the Code Provision A.6.5 on Directors' training. During the year, all the Directors have participated in continuous professional development by attending seminars and/or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company.

Name of Directors	Topics on training covered (Notes)	Hours spent
Mr. Luo Lin	C, L, R	7
Mr. Pi Zhifeng	C, L, R	7
Mr. Fan Yonghong	C, L, R	7
Mr. John William Chisholm	C, L, R	7
Mr. Zhang Yongyi	C, L, R	7
Mr. Zhu Xiaoping	C, L, R	7
Mr. Wee Yiaw Hin	C, L, R	7

Notes:

C: Corporate governance

L: Listing Rules updates

R: Other relevant regulatory updates

BOARD/BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

The Company has set up the Audit Committee, Remuneration Committee and Nomination Committee on 17 November 2007 and set up QHSE (Quality, Health, Safety, Environment) committee on 21 January 2013. During the reporting year, the Company had convened 8 Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee meetings, 1 Nomination Committee meeting and 1 QHSE committee meeting. Also, the Company had convened an Annual General Meeting during the reporting year.

Attendances of meetings by the Directors during the year were set out in the table below:

	Meeting attendance/number of meetings					
Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**QHSE Committee Meeting**	**Annual General Meeting**
Executive Directors						
Mr. Luo Lin (Chairman of the Board)	8/8	N/A	1/1	1/1	1/1	1/1
Mr. Pi Zhifeng (Chief Executive Officer)	8/8	2/2	N/A	N/A	1/1	1/1
Mr. Fan Yonghong (President)	8/8	N/A	N/A	N/A	N/A	1/1
Non-executive Director						
Mr. John William Chisholm	8/8	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors						
Mr. Zhang Yongyi	8/8	2/2	N/A	1/1	N/A	1/1
Mr. Zhu Xiaoping	8/8	2/2	1/1	N/A	N/A	1/1
Mr. Wee Yiaw Hin	8/8	1/2	1/1	1/1	N/A	1/1

In addition to the Board Meetings for results announcement, which are held twice per year, the Company also holds Board Meetings every quarter (the "Quarterly Meetings") to better exercise the strategic and monitoring roles of the Board. Senior management is invited to attend to enhance Board and management communications. The Quarterly Meetings mainly focus on key issues in four areas, i.e. strategic work, operation status, financial operation and budgeting, and capital market. Each quarter, a summary report is made on these four areas in the previous quarter and discussions are conducted on the plans in these areas for the next quarter. During the year, the dates of holding the Quarterly Meetings were set out as follows:

	1st Quarterly Meeting	**2nd Quarterly Meeting**	**3rd Quarterly Meeting**	**4th Quarterly Meeting**
Date	21 January 2019	23 April 2019	23 July 2019	22 October 2019

MONTHLY MANAGEMENT REPORT

During the inter-sessional period, each Executive Director receives a copy of the financial report and the management report each month, and holds business meetings with the management to obtain information of monthly operating conditions, monitor business progress, and mentor the management with effective planning.

Management will report to all Board Members a monthly briefing which concludes important issues in relation to the marketing, operation, business development, human resources and capital market etc.

BOARD COMMITTEES

The Board has established the Audit Committee, Remuneration Committee and Nomination Committee (all chaired by Independent Non-executive Director) with defined terms of reference (available on the Company's website) since the listing of the Company, which are on no less exacting terms than those set out in the Corporate Governance Code.

In addition, the Board has also established QHSE (Quality, Health, Safety, Environment) Committee on 21 January 2013.

The Board of Directors

Membership:
Three Independent Non-executive Directors,
one Non-executive Director, three Executive Directors

Audit Committee	Remuneration Committee	Nomination Committee	QHSE Committee
Membership: Three Independent Non-executive Directors	Membership: Two Independent Non-executive Directors and one Executive Director	Membership: Two Independent Non-executive Directors and one Executive Director	Membership: Two Executive Directors

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. To further reinforce independence and effectiveness, all the Audit Committee members are the Independent Non-executive Directors, and the Nomination and Remuneration Committees have been structured with a majority of the Independent Non-executive Directors as members since their establishment in November 2007.

Audit Committee

The Company has set up the Audit Committee since 17 November 2007 which took effect upon listing of the Company.

There are three members in the Audit Committee, all of them are the Independent Non-executive Directors, namely Mr. Zhu Xiaoping, Mr. Zhang Yongyi and Mr. Wee Yiaw Hin. Mr. Zhu Xiaoping is the Chairman of the Audit Committee. Mr. Zhu Xiaoping has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 (2) of the Listing Rules. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Audit Committee are as follows:

(a) To monitor the relationship between the Company and the external auditors, make proposals to the Board on the appointment, renewal and dismissal of the external auditors of the Group as well as the relevant remuneration and terms of appointment;

(b) To review the Company's financial information; and

(c) To oversee of the Company's financial reporting system and internal control procedures.

The Audit Committee held 2 meetings during 2019 and the following major matters were reviewed and discussed in the meetings:

(a) Reviewed the Group's annual results of 2018 and the interim results of 2019 and made recommendations to the Board for approval;

(b) Made recommendation on the re-appointment of the auditor; and

(c) Reviewed the financial reporting system and the internal control system.

Remuneration Committee

The Company has set up the Remuneration Committee since 17 November 2007 which took effect upon listing of the Company. The Remuneration Committee comprises two Independent Non-executive Directors, Mr. Wee Yiaw Hin and Mr. Zhu Xiaoping, and one Executive Director, Mr. Luo Lin. Mr. Wee Yiaw Hin is the Chairman of the Remuneration Committee. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Remuneration Committee are as follows:

(a) To review and recommend the terms of remuneration, benefits, bonus and other allowances of the Directors and senior management;

(b) To submit proposals to the Board on the remuneration policy and structure of all the Directors and senior management; and

(c) To approve and monitor the execution of the Company's Share Option Scheme.

The Board has authority to approve the recommendations made by the Remuneration Committee.

The Remuneration Committee held 1 meeting during 2019 and reviewed overall remuneration structure adjustment and the performance based incentive mechanism of the Group.

Nomination Committee

The Company has set up the Nomination Committee since 17 November 2007 which took effect upon listing of the Company. The Nomination Committee is composed of two Independent Non-executive Directors, Mr. Zhang Yongyi and Mr. Wee Yiaw Hin, and one Executive Director, Mr. Luo Lin. Mr. Wee Yiaw Hin is the Chairman of the Nomination Committee. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Nomination Committee are as follows:

(a) To review the structure, number and composition and diversity of the Board and make recommendation to the Board on the policy and procedures for the nomination of Directors;

(b) To identify individuals suitably qualified to become Board members and may select individuals nominated for directorship, and consider individuals on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

(c) To make recommendations to the Board on the appointment or re-appointment of Directors, succession planning for Directors, in particular the chairman and the chief executive;

(d) To review the independence of the Independent Non-executive Directors and submit proposals to the Board; and

(e) To review the Board Diversity Policy in particular the measurable objectives contained therein to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained.

The Nomination Committee held 1 meeting during 2019 and made recommendation to the board for the appointment of an Independent Non-executive Director.

QHSE (QUALITY, HEALTH, SAFETY, ENVIRONMENT) COMMITTEE

The Company set up the QHSE Committee on 21 January 2013. The QHSE Committee is composed of two Executive Directors, Mr. Luo Lin and Mr. Pi Zhifeng. Mr. Pi Zhifeng is the Chairman of the QHSE Committee. The QHSE Committee is tasked with the responsibilities of providing guidance and advice on the quality, health, safety and environment (QHSE) strategies of the Group. QHSE represents an important standard for oilfield services industry. The Company strives to introduce international standards to enhance its service level at home and abroad. The QHSE Committee meets at least once every year.

The major roles and functions of the QHSE Committee are as follows:

(a) To assist the Board to review the current status of the Group's QHSE performance;

(b) To assist the Board with oversight of the Group's QHSE management, reporting processes and systems;

(c) To assist the Board to formulate the Group's QHSE plans and supervise its effective implementation; and

(d) To make recommendations to the Board in respect of matters affecting the Group's QHSE standards.

The QHSE Committee held 1 meeting during the year to reviewing and discuss the Company's work on QHSE and planning the forthcoming work.

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to Code B.1.5 of the Code Provisions, the remuneration of the members of the senior management by band for the year ended 31 December 2019 was set out below:

Remuneration band	**Number of individuals**
HK$1,500,001 – HK$2,000,000	2

ACCOUNTABILITY AND AUDIT

The Directors understand that they must assume the responsibility of preparing the financial accounts of each year. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis.

The declaration of duties by the Auditors of the Group on the Group's financial statements is contained on pages 62 to 66 of the Independent Auditor's Report.

AUDITOR'S REMUNERATION

An analysis of the remuneration for audit and non-audit services provided by the auditor appointed by the Group during the year is as follows:

	2019 **RMB '000**
Audit services	**4,600**
Non-audit services	**300**
Total:	**4,900**

COMPANY SECRETARY

The Company Secretary is Dr. Ngai Wai Fung ("Dr. Ngai"), who has been appointed by the Board. Dr. Ngai is the director and chief executive officer of a corporate service provider, SWCS Corporate Services Group (Hong Kong) Limited. The primary corporate contact person at the Company is Mr. Pi Zhifeng, the Executive Director.

Dr. Ngai has taken no less than 15 hours of relevant professional training during the year ended 31 December 2019 in compliance with Rule 3.29 of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to maintain effective risk management and internal control systems of the Company in order to manage rather than eliminate risks of failure to achieve business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss.

The Company implemented various policies and procedures to ensure effective risk management at each aspect of its operation, including the provision of construction operations management, on-site inspection, surveying and sampling services, administration of daily operation, financial reporting and recording, compliance with applicable laws and regulations on environmental protection and workplace safety.

During the year, the Group had reviewed its internal control system. Based on the review, the Board was satisfied with the effectiveness of the current internal control system of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's activity and financial reporting function.

The Group has set up the Internal Audit Department, the Legal Department and the Quality Control Department in charge of the internal control and risk management duties. The Executive Directors of the Company receive internal financial report and management report every month for monitoring the operational progress of each business department and making reasonable planning.

The Group has put in place a set of policy for the disclosure of inside information which sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and in compliance with the Securities and Futures Ordinance.

SHAREHOLDERS' RIGHTS

The Company encourages shareholders to attend shareholders' meetings. Directors, chairman of each of Audit Committee, Remuneration Committee, Nomination Committee (or a delegated member of the Committee), chairman of the independent board committee (if any) and management will attend the annual general meeting of the Company to answer queries about the Group's business.

In 2019, the Company had convened one annual general meeting (the "2019 AGM"). The 2019 AGM provided an ideal chance for communication between the Board and the shareholders. The Chairmen of the Board, Audit Committee, Remuneration Committee and Nomination Committee and the Company's external auditor were all present at the AGM held on 27 May 2019, to answer shareholders' inquiries.

THE PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING ("EGM")

Pursuant to the Article 79 of the Articles of Association of the Company, any two or more members of the Company or any one member of the Company which is a recognized clearing house (or its nominee (s)) holding at the date of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company shall deposit the written requisition at the principal office of the Company in Hong Kong, which is presently situated at 40/F, Sunlight Tower, No. 248 Queen's Road East, Wan Chai, Hong Kong specifying the objects of the meeting and signed by the requisitionist(s) (the "Requisitionist(s)").

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene a meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months form the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

THE PROCEDURES AND CONTACT DETAILS FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETING

The annual general meeting and other general meetings provide an important opportunity for shareholders to express their views and the Company encourages and promotes shareholder attendance and participation at general meetings.

The Board members, in particular, the chairman or his delegates, appropriate members of management team and external auditors of the Company will attend annual general meetings to answer shareholders' questions.

Shareholders attending at the annual general meeting and other general meetings are allowed to have a reasonable opportunity to ask questions regarding the items on the meeting agenda, including but not limiting to questions to the external auditor regarding the conduct of the audit and the preparation and content of the auditor's report.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year ended 31 December 2019.

THE PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD AND SUFFICIENT CONTACT DETAILS TO ENABLE THESE ENQUIRIES TO BE PROPERLY DIRECTED

Shareholders, investors and members of the public should direct their questions about their shareholdings to the Company's Branch Share Registrar in Hong Kong. The contact details for the Share Registrar are:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Telephone: (852) 2862 8628
Fax: (852) 2865 0990
Website: www.computershare.com

To contact the Company in relation to your query about the Company, the contact details are as follows:

Tel: (86 10) 5739 7584
Email: ir@antonoil.com

DISCLAIMERS

The information contained in the section headed "Shareholders' Rights" in this Annual Report is for reference only and does not represent and shall not be regarded as legal or professional advice to the shareholders. Shareholders should seek their own independent legal advice as to their rights as shareholders of the Company. The Company disclaims any and all liabilities and losses that may be incurred by the shareholders for using or relying on any information contained in the section headed "Shareholders' Rights" in this Annual Report.

FINANCIAL CALENDAR 2020

Announcement of 2019 Unaudited Annual Results

22 March 2020

Update on the Annual Results of Company for the year ended 31 December 2019

31 March 2020

Last Day to Register for Attending 2020 Annual General Meeting

19 May 2020

2020 Annual General Meeting

25 May 2020

Deloitte. 德勤

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ANTON OILFIELD SERVICES GROUP
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Anton Oilfield Services Group (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 156, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ANTON OILFIELD SERVICES GROUP *(Continued)*
(incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition from provision of services	
We identified revenue recognition from provision of services as a key audit matter due to the significance of revenue generated from provision of services and the inherent risk of manipulating revenue recognition from provision of services by the management. As disclosed in Note 23, the Group has different revenue streams and is mainly engaged in provision of services through contracts with its customers. Revenue from provision of services amounting to RMB3,165,682,000 for the year ended 31 December 2019 accounted for 88.2% of the Group's total revenue in the consolidated statement of profit or loss. Revenue performance from provision of services is a key performance indicator of the Group which affects the management's reward and also is a focus of investors. Details of revenue recognition from provision of services and its accounting policies are set out in Note 23 and Note 3, respectively, to the consolidated financial statements.	Our procedures in relation to revenue recognition from provision of services included: • understanding and evaluating the key internal controls relevant to the audit on revenue recognition from provision of services; • examining, on a sample basis, the key terms set out in the Group's contracts with its customers governing the performance obligations and the associated revenue recognition; • obtaining confirmations for the services provided to the selected major customers; and • inspecting, on a sample basis, the customer acceptance documents, the contracts and invoices evidencing that the performance obligations of services were satisfied and control was transferred.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ANTON OILFIELD SERVICES GROUP *(Continued)*
(incorporated in the Cayman Islands with limited liability)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ANTON OILFIELD SERVICES GROUP *(Continued)*
(incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ANTON OILFIELD SERVICES GROUP *(Continued)*
(incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mak Chi Lung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS at 31 December 2019
(Amounts expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

	Notes	As at 31 December **2019**	 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,137,866**	2,255,805
Right-of-use assets	7	**189,901**	–
Prepaid lease payments	8	**-**	75,635
Goodwill	9	**242,004**	242,004
Intangible assets	10	**259,986**	252,714
Interest in a joint venture		**3,808**	3,046
Interest in an associate		**2,000**	–
Prepayments and other receivables	13	**155,696**	112,810
Other non-current assets		**-**	8,375
Deferred income tax assets	22	**34,637**	52,076
		3,025,898	3,002,465
Current assets			
Inventories	11	**765,496**	774,359
Prepaid lease payments	8	**-**	1,932
Trade and notes receivables	12	**2,200,247**	1,948,030
Contract assets	23(ii)(a)	**75,519**	58,579
Prepayments and other receivables	13	**648,048**	437,958
Current portion of other non-current assets		**-**	5,694
Restricted bank deposits	14	**368,730**	330,948
Cash and cash equivalents	14	**2,422,874**	686,636
		6,480,914	4,244,136
Total assets		**9,506,812**	7,246,601

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS at 31 December 2019
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Notes	As at 31 December 2019	2018
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	15	**276,273**	275,959
Reserves	16	**2,625,865**	2,369,915
		2,902,138	2,645,874
Non-controlling interests		**55,525**	48,688
Total equity		**2,957,663**	2,694,562
LIABILITIES			
Non-current liabilities			
Long-term bonds	17	**2,028,423**	2,051,403
Long-term borrowings	18	**202,426**	243,341
Lease liabilities	19	**69,259**	–
Deferred income tax liabilities	22	**10,219**	10,440
		2,310,327	2,305,184
Current liabilities			
Short-term borrowings	18	**497,749**	879,192
Current portion of long-term bonds	17	**2,116,445**	14,498
Current portion of long-term borrowings	18	**92,174**	82,214
Trade and notes payables	20	**957,406**	714,091
Accruals and other payables	21	**404,528**	455,278
Lease liabilities	19	**45,834**	–
Contract liabilities		**13,976**	38,814
Current income tax liabilities		**110,710**	62,768
		4,238,822	2,246,855
Total liabilities		**6,549,149**	4,552,039
Total equity and liabilities		**9,506,812**	7,246,601

The consolidated financial statements on pages 67 to 156 were approved and authorised for issue by the Board of Directors on 31 March 2020 and were signed on its behalf by:

Chairman	*Executive Director*
Luo Lin	**Pi Zhifeng**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Notes	Year ended 31 December **2019**	2018
Revenue			
Goods and services	23	**3,328,839**	2,875,197
Rental	23	**260,658**	60,691
Total revenue	23	**3,589,497**	2,935,888
Cost of sales	24	**(2,308,042)**	(1,821,615)
Gross profit		**1,281,455**	1,114,273
Other gains, net	25	**176**	11,932
Impairment losses under expected credit loss model, net of reversal	24, 26	**(87,693)**	(75,201)
Selling expenses	24	**(193,298)**	(171,152)
Administrative expenses	24	**(215,403)**	(197,241)
Research and development expenses	24	**(51,682)**	(28,002)
Sales tax and surcharges	24	**(13,973)**	(10,346)
Operating profit		**719,582**	644,263
Interest income	27	**3,367**	2,565
Finance expenses	27	**(298,500)**	(300,019)
Finance costs, net	27	**(295,133)**	(297,454)
Share of profit of a joint venture		**762**	355
Profit before income tax		**425,211**	347,164
Income tax expense	29	**(142,791)**	(96,443)
Profit for the year		**282,420**	250,721
Profit attributable to:			
Owners of the Company		**268,583**	222,423
Non-controlling interests		**13,837**	28,298
		282,420	250,721
Earnings per share for profit attributable to the owners of the Company for the year (expressed in RMB per share)			
– Basic	30	**0.0894**	0.0792
– Diluted	30	**0.0889**	0.0783

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Amounts expressed in thousands of RMB, unless otherwise stated)

		Year ended 31 December	
	Notes	**2019**	2018
Profit for the year		**282,420**	250,721
Other comprehensive income/(expense), net of tax:			
Items that may be reclassified subsequently to profit or loss			
Net investment hedge	16(b)	**(30,239)**	(84,932)
Currency translation differences	16(a)	**16,859**	87,425
Other comprehensive (expense)/income for the year, net of tax		**(13,380)**	2,493
Total comprehensive income for the year		**269,040**	253,214
Total comprehensive income attributable to:			
– Owners of the Company		**255,203**	224,889
– Non-controlling interests		**13,837**	28,325
		269,040	253,214

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(Amounts expressed in thousands of RMB, unless otherwise stated)

		Attributable to the owners of the Company								
	Notes	Share capital	Share premium	Capital reserve	Statutory reserve	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2018		246,271	813,243	395,229	76,900	597,373	360,260	2,489,276	388,953	2,878,229
Comprehensive income										
Profit for the year		–	–	–	–	222,423	–	222,423	28,298	250,721
Other comprehensive income/ (expense)										
Net investment hedge	16(b)	–	–	–	–	–	(64,317)	(64,317)	(20,615)	(84,932)
Currency translation differences	16(a)	–	–	–	–	–	66,783	66,783	20,642	87,425
Total comprehensive income		–	–	–	–	222,423	2,466	224,889	28,325	253,214
Issue of ordinary shares	15(ii)	28,936	256,064	–	–	–	–	285,000	–	285,000
Share option scheme	15(i)	–	–	24,094	–	–	–	24,094	–	24,094
Share option exercised	15	752	7,222	(2,838)	–	–	–	5,136	–	5,136
Acquisition of non-controlling interests of subsidiaries		–	–	–	–	–	(382,521)	(382,521)	(368,590)	(751,111)
Total transactions with owners, recognised directly in equity		29,688	263,286	21,256	–	–	(382,521)	(68,291)	(368,590)	(436,881)
Balance at 31 December 2018		275,959	1,076,529	416,485	76,900	819,796	(19,795)	2,645,874	48,688	2,694,562
Balance at 1 January 2019		**275,959**	**1,076,529**	**416,485**	**76,900**	**819,796**	**(19,795)**	**2,645,874**	**48,688**	**2,694,562**
Comprehensive income										
Profit for the year		**-**	**-**	**-**	**-**	**268,583**	**-**	**268,583**	**13,837**	**282,420**
Other comprehensive income/ (expense)										
Net investment hedge	16(b)	**-**	**-**	**-**	**-**	**-**	**(30,239)**	**(30,239)**	**-**	**(30,239)**
Currency translation differences	16(a)	**-**	**-**	**-**	**-**	**-**	**16,859**	**16,859**	**-**	**16,859**
Total comprehensive income		**-**	**-**	**-**	**-**	**268,583**	**(13,380)**	**255,203**	**13,837**	**269,040**
Share option scheme	15(i)	**-**	**-**	**29,167**	**-**	**-**	**-**	**29,167**	**-**	**29,167**
Share option exercised	15	**314**	**3,148**	**(1,461)**	**-**	**-**	**-**	**2,001**	**-**	**2,001**
Dividends	31, 37(b)	**-**	**(30,107)**	**-**	**-**	**-**	**-**	**(30,107)**	**(7,000)**	**(37,107)**
Total transactions with owners, recognised directly in equity		**314**	**(26,959)**	**27,706**	**-**	**-**	**-**	**1,061**	**(7,000)**	**(5,939)**
Balance at 31 December 2019		**276,273**	**1,049,570**	**444,191**	**76,900**	**1,088,379**	**(33,175)**	**2,902,138**	**55,525**	**2,957,663**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(Amounts expressed in thousands of RMB, unless otherwise stated)

		Year ended 31 December	
	Notes	**2019**	2018
Cash flows from operating activities			
Net cash inflows from operations	32	**684,514**	481,069
Interest received	27	**3,367**	2,565
Income tax paid		**(77,631)**	(63,626)
Net cash generated from operating activities		**610,250**	420,008
Cash flows from investing activities			
Purchase of property, plant and equipment		**(86,105)**	(36,005)
Proceeds from disposal of property, plant and equipment		**21,461**	968
Purchase of intangible assets		**(35,240)**	(63,159)
Investment in an associate		**(2,000)**	–
Net cash used in investing activities		**(101,884)**	(98,196)
Cash flows from financing activities			
Proceeds from short-term borrowings		**865,147**	1,505,850
Repayments of short-term borrowings		**(1,246,543)**	(1,509,571)
Repayments of lease liabilities		**(45,094)**	–
Proceeds from long-term borrowings		**100,000**	357,280
Repayments of long-term borrowings		**(135,714)**	(197,204)
Proceeds from long-term bonds		**2,037,836**	–
Repayments of long-term bonds		**-**	(490,893)
Net cash paid to non-controlling interests for additional interest in subsidiaries		**(920)**	(165,191)
Proceeds from share options exercised	15(i)	**2,001**	5,136
Interest paid		**(269,584)**	(278,452)
Dividends distribution	(a)	**(92,818)**	–
Placement of restricted bank deposits		**(10,260)**	–
Withdrawal of restricted bank deposits		**-**	30,000
Cash paid relating to other financing activities		**-**	(52,500)
Net cash generated from/(used in) financing activities		**1,204,051**	(795,545)
Net increase/(decrease) in cash and cash equivalents		**1,712,417**	(473,733)
Cash and cash equivalents at beginning of the year		**686,636**	1,133,097
Exchange gain on cash and cash equivalents		**23,821**	27,272
Cash and cash equivalents at end of the year		**2,422,874**	686,636

Note (a):

During the year of 2018, pursuant to the agreement signed between the Group and China Oil HBP Science & Technology Co., Ltd. ("China Oil HBP"), trade receivables due from China Oil HBP amounting to RMB136,042,000 has been collected through the exemption of the payment of dividend due to China Oil HBP amounting to RMB136,042,000. Such non-cash transaction has been excluded from the operating activities and financing activities of the consolidated statement of cash flows above.

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

1. GENERAL INFORMATION

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

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

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

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

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

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

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2019.

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IAS 19	*Plan Amendment, Curtailment or settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRSs 2015-2017 Cycle*

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease. The application of new definition of a lease has had no material impact on those contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by- lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of buildings and equipment in the PRC was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 16 *Leases (Continued)*

As a lessee *(Continued)*

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rates applied by the relevant group entities range from 8.41% to 9.70%.

	Note	**At 1 January 2019**
Operating lease commitments disclosed as at 31 December 2018		**39,173**
Lease liabilities discounted at relevant incremental borrowing rates		**34,942**
Less: Recognition exemption – short-term leases		**6,479**
Lease liabilities relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	(a)	**28,463**
Analysed as		
Current		**8,692**
Non-current		**19,771**
		28,463

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets**
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		28,463
Reclassified from prepaid lease payments	(b)	77,567
		106,030
By class:		
Leasehold lands		77,567
Buildings		28,463
		106,030

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 16 *Leases* *(Continued)*

As a lessee *(Continued)*

Notes:

(a) Upon application of IFRS 16, the Group recognised and measured the lease liabilities at the present value, using the incremental borrowing rate, of lease payments that were unpaid after excluding short-term leases. In addition, the Group reclassified the lease liabilities as current and non-current liabilities respectively at 1 January 2019 based on settlement term.

(b) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB1,932,000 and RMB75,635,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 16 *Leases* *(Continued)*

There is no material impact of transition to IFRS 16 on retained earnings at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018	Adjustments	**Carrying amounts under IFRS 16 at 1 January 2019**
Non-current Assets				
Right-of-use assets	(b)	–	106,030	**106,030**
Prepaid lease payments	(b)	75,635	(75,635)	**-**
Current Assets				
Prepaid lease payments	(b)	1,932	(1,932)	**-**
Non-current Liabilities				
Lease liabilities	(a)	–	19,771	**19,771**
Current Liabilities				
Lease liabilities	(a)	–	8,692	**8,692**

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

There is no material impact of applying IFRS 16 as a lessor on the Group's consolidated statement of financial position as at 31 December 2019 and its consolidated statement of profit or loss and other comprehensive income and cash flows for the year.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[4]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for annual periods beginning on or after 1 January 2022

5 Effective for annual periods beginning on or after a date to be determined

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

New and amendments to IFRSs in issue but not yet effective *(Continued)*

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements.

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

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

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;

- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;

- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories*, or value in use in IAS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group has the power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interest (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9/IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer, executive vice presidents and directors who make strategic decisions.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency. The financial statements are presented in RMB, which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss, except when deferred in other comprehensive income as qualifying net investment hedge.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation *(Continued)*

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the financial period;

(ii) income and expenses for each consolidated statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress represents property, plant and equipment under construction and is stated at cost. This includes the costs of construction, machinery and other expenditures necessary for the purpose of preparing the construction-in-progress for its intended use and those borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction-in-progress is not depreciated until such time as the relevant asset is completed and ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation of property, plant and equipment is calculated using the straight-line method except for drill pipes are depreciated using unit-of-production method, to allocate their costs to their residual values over their estimated useful lives, as follows:

	Estimated useful life
Buildings	5-50 years
Machinery and equipment	5-10 years
Motor vehicles	5-10 years
Furniture, fixtures, leasehold improvements and others	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the financial period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net", in the consolidated statement of profit or loss.

Goodwill

Goodwill arises on the acquisition of subsidiaries, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Computer software

Computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years.

Patents

Patents are initially recorded at actual cost incurred to acquire and amortised on a straight-line basis over their estimated useful lives, ranging from 3 to 10 years. Development costs that are directly attributable to the design, development and application of patents are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the patents so that it will be available for use;
- Management intends to complete the patents and use or sell it;
- There is an ability to use or sell the patents;
- It can be demonstrated how the patents will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the patents are available; and
- The expenditure attributable to the patents during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the patent include material costs, patent development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGU, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables from goods and services, notes receivable, other receivables, restricted bank deposits and cash and cash equivalents), and other items (lease receivables and contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables from goods and services, contract assets and lease receivables. For trade receivables from goods and services, contract assets and lease receivables with significant balances mainly from large multinational and state-owned oil companies, the ECL are assessed individually. For trade receivables from goods and services from private and relatively small customers, the ECL are assessed collectively using a provision matrix with appropriate groupings.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 *(Continued)*

(i) Significant increase in credit risk

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

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

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 *(Continued)*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (prior to 1 January 2019).

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables from goods and services from private and relatively small customers are assessed as a separate group. Other financial instruments and other items are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group entity or the counterparty.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities at amortised cost

Financial liabilities including long-term borrowings, current portion of long-term borrowings, short-term borrowings, long-term bonds, current portion of long-term bonds, trade and notes payables and part of accruals and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Non-substantial modifications of financial liabilities

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

Hedging activities

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Assessment of hedging relationship and effectiveness

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Hedging activities *(Continued)*

Net investment hedge

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in profit or loss.

Gains and losses accumulated in equity are included in the profit or loss when the foreign operation is partially disposed of or sold.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of project-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand and bank deposits.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the financial period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Current and deferred income tax *(Continued)*

Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of financial period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on temporary differences arising from investments in subsidiaries, a joint venture and an associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, a joint venture and an associate only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the lease transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Pension and other social obligations

The Group has various defined contribution plans for pensions, housing fund and other social obligations in accordance with the local conditions and practices in the municipalities and provinces in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate publicly administered pension and/or other social insurance plan on mandatory bases. The Group will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when incurred.

Share-based compensation

The Group operates a number of equity-settled share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date:

- Including any market performance conditions;

- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- Including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the cash subscribed for the shares issued is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs; and the amount previously recognised in capital reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in capital reserve will continue to be held in capital reserve.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

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

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

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

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

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

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

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

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

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

Output method

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

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2)

Short-term leases and leases of low-valued assets

The Group applies the short-term lease recognition exemption to leases of buildings and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2) *(Continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (prior to 1 January 2019)

The Group leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as operating leases. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in Note 2)

Sublease

The Group leases certain drilling equipment from its suppliers and then leases to its customers. When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Government grants

Grants from the government are recognised at fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to cost are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the related costs that they are intended to compensate.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual result may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Provision of ECL for trade receivables from goods and services

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

The Group uses provision matrix to calculate ECL for the trade receivables from goods and services from private and relatively small customers. The provision rates are based on past due analysis as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables from goods and services with significant balances from large multinational and state-owned oil companies or credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. In estimating the provision of ECL, the management is required to consider all relevant factors with reasonable and supportable assumptions to make significant accounting estimations. The information about the ECL and the Group's trade receivables from goods and services are disclosed in Note 35.2(b)(i) and Note 12.

(b) Impairment of inventory

Inventories are reviewed for impairment whenever events or changes in circumstances cause their cost to exceed their net realisable value. Cost is determined on the weighted average basis. The determination of net realisable value of the inventories requires the use of estimates. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Where the actual outcome or expectation in future is different from the original estimate, such difference will have an impact on the cost of inventories and a provision may be made or reversed in the year in which these estimates have been changed. As at 31 December 2019, the carrying amount of inventories was RMB765,496,000 (31 December 2018: RMB774,359,000), already net of accumulated impairment loss of RMB83,232,000 (31 December 2018: RMB135,510,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(c) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculations require the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2019 and 2018, the carrying amount of goodwill was RMB242,004,000, already net of accumulated impairment loss of RMB26,325,000. Details of the key assumptions used by the management in goodwill impairment assessment are set out in Note 9.

5. SEGMENT INFORMATION

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

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

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

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

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

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

5. SEGMENT INFORMATION *(Continued)*

	Drilling technology	Well completion	Oil production services	Total
For the year ended 31 December 2019				
Revenue (Note)	**1,624,203**	**836,028**	**1,129,266**	**3,589,497**
EBITDA	**684,516**	**352,190**	**468,693**	**1,505,399**
Depreciation and amortisation	**(169,923)**	**(125,119)**	**(26,803)**	**(321,845)**
Asset impairment provision of				
– Inventories	**(16,559)**	**(15,380)**	**(5,050)**	**(36,989)**
– Trade receivables	**(26,122)**	**(17,812)**	**(18,999)**	**(62,933)**
– Other receivables	**(10,327)**	**(14,433)**	**-**	**(24,760)**
Interest income	**269**	**1,372**	**508**	**2,149**
Finance expenses	**(8,536)**	**(6,418)**	**(6,122)**	**(21,076)**
Share of profit of a joint venture	**762**	**-**	**-**	**762**
Income tax expense	**(50,332)**	**(30,976)**	**(61,483)**	**(142,791)**
For the year ended 31 December 2018				
Revenue (Note)	1,339,850	741,820	854,218	2,935,888
EBITDA	624,858	329,273	360,792	1,314,923
Depreciation and amortisation	(125,947)	(122,784)	(24,896)	(273,627)
Asset impairment provision of				
– Inventories	(6,599)	(2,282)	(7,472)	(16,353)
– Trade receivables	(25,962)	(29,346)	(3,148)	(58,456)
– Other receivables	(9,518)	(7,015)	(212)	(16,745)
Interest income	136	211	421	768
Finance expenses	(5,335)	(5,452)	(3,934)	(14,721)
Share of profit of a joint venture	355	–	–	355
Income tax expense	(17,807)	(32,058)	(46,578)	(96,443)

Note: Sales between segments, with details set out in Note 23, are carried out at terms mutually agreed between relevant group entities. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss.

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

5. SEGMENT INFORMATION *(Continued)*

	Drilling technology	Well completion	Oil production services	Total
As at 31 December 2019				
Total assets	**2,304,384**	**2,786,231**	**712,727**	**5,803,342**
Total assets include:				
Capital expenditures	**122,618**	**65,984**	**32,106**	**220,708**
As at 31 December 2018				
Total assets	2,082,006	2,679,875	545,808	5,307,689
Total assets include:				
Capital expenditures	117,318	64,179	31,228	212,725

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

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

	Year ended 31 December	
	2019	2018
EBITDA for reportable segments	**1,505,399**	1,314,923
Corporate overheads	**(615,496)**	(588,980)
Depreciation	**(294,039)**	(243,388)
Amortisation	**(27,806)**	(30,239)
Asset impairment provisions	**(124,682)**	(91,554)
Interest income	**2,149**	768
Finance expenses	**(21,076)**	(14,721)
Share of profit of a joint venture	**762**	355
Profit before income tax	**425,211**	347,164

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

5. SEGMENT INFORMATION *(Continued)*

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

	As at 31 December	
	2019	2018
Assets for reportable segments	**5,803,342**	5,307,689
Corporate assets for general management	**3,703,470**	1,938,912
Total assets	**9,506,812**	7,246,601

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

Geographical Information

	Revenue Year ended 31 December		Non-current assets As at 31 December	
	2019	2018	**2019**	2018
PRC	**1,683,365**	1,083,690	**2,069,023**	2,025,979
Republic of Iraq ("Iraq")	**1,419,755**	1,170,562	**741,214**	706,029
Other countries	**486,377**	681,636	**167,524**	204,881
Total	**3,589,497**	2,935,888	**2,977,761**	2,936,889

Client information

For the year ended 31 December 2019, revenues of approximately RMB1,666,245,000 (2018: RMB1,208,999,000) were derived from two external independent customers, which contributed 32.17% and 14.25% (2018: 25.59% and 15.59%) to the total revenue respectively. These revenues were mainly attributable to drilling technology and well completion segments (2018: drilling technology and well completion segments).

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

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures, leasehold improvements and others	Construction-in-progress	Total
As at 1 January 2018						
Cost	627,914	2,246,553	45,696	105,927	238,893	3,264,983
Accumulated depreciation	(68,158)	(774,026)	(35,203)	(56,025)	–	(933,412)
Carrying values	559,756	1,472,527	10,493	49,902	238,893	2,331,571
Year ended 31 December 2018						
As at 1 January 2018	559,756	1,472,527	10,493	49,902	238,893	2,331,571
Additions	6,766	43,904	1,082	2,841	94,466	149,059
Transfer in/(out)	88,088	116,377	6,097	17,261	(227,823)	–
Depreciation charge	(35,289)	(210,148)	(4,590)	(12,485)	–	(262,512)
Disposals	–	(183)	(22)	(1,451)	–	(1,656)
Currency translation differences	5,443	29,290	300	772	3,538	39,343
As at 31 December 2018	624,764	1,451,767	13,360	56,840	109,074	2,255,805
As at 31 December 2018						
Cost	729,077	2,445,099	53,027	124,424	109,074	3,460,701
Accumulated depreciation	(104,313)	(993,332)	(39,667)	(67,584)	–	(1,204,896)
Carrying values	624,764	1,451,767	13,360	56,840	109,074	2,255,805
Year ended 31 December 2019						
As at 1 January 2019	**624,764**	**1,451,767**	**13,360**	**56,840**	**109,074**	**2,255,805**
Additions	**-**	**43,971**	**315**	**15,046**	**133,757**	**193,089**
Transfer in/(out)	**5,564**	**34,914**	**2,590**	**10,697**	**(53,765)**	**-**
Depreciation charge	**(36,872)**	**(226,213)**	**(2,836)**	**(18,268)**	**-**	**(284,189)**
Disposals	**-**	**(40,021)**	**(328)**	**(310)**	**-**	**(40,659)**
Currency translation differences	**2,151**	**9,640**	**110**	**348**	**1,571**	**13,820**
As at 31 December 2019	**595,607**	**1,274,058**	**13,211**	**64,353**	**190,637**	**2,137,866**
As at 31 December 2019						
Cost	**737,310**	**2,473,968**	**54,626**	**149,550**	**190,637**	**3,606,091**
Accumulated depreciation	**(141,703)**	**(1,199,910)**	**(41,415)**	**(85,197)**	**-**	**(1,468,225)**
Carrying values	**595,607**	**1,274,058**	**13,211**	**64,353**	**190,637**	**2,137,866**

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

6. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the year ended 31 December 2019, the depreciation charges of the Group were recorded in cost of sales with an amount of RMB233,583,000 (2018: RMB221,414,000), selling, general and administrative expenses with an amount of RMB30,904,000 (2018: RMB23,858,000), and cost of inventories which remained unsold as at year end with an amount of RMB19,702,000 (2018: RMB17,240,000), respectively.

As at 31 December 2019, long-term borrowings were secured by certain equipment with a carrying value of RMB277,924,000 (31 December 2018: RMB319,311,000) and certain buildings with a carrying value of RMB63,362,000 (31 December 2018: RMB93,618,000) (Note 18(a)).

As at 31 December 2019, short-term borrowings were secured by the Group's buildings with a carrying value of RMB46,815,000 (31 December 2018: Nil) (Note 18(b)).

As at 31 December 2019 and 2018, none of the Group's property, plant and equipment were pledged as security of undrawn bank borrowing facilities.

The Group as lessor

The Group leases out a number of equipment under operating leases. The leases typically run for an initial period of 1 to 2 years. None of the leases includes variable lease payments. The disaggregation of the equipment under operating leases included within "machinery and equipment" and the reconciliation of the carrying amount at the beginning and end of the period are set out as below:

Year ended 31 December 2019	
As at 1 January 2019	178,447
Additions	–
Disposals	(12,926)
Depreciation charge	(35,023)
As at 31 December 2019	130,498
As at 31 December 2019	
Cost	**222,025**
Accumulated depreciation	**(91,527)**
Carrying values	**130,498**

Furthermore, the Group leases certain drilling equipment from its suppliers and then leases to its customers. The Group accounts for the head lease and the sublease as two separate contracts. The sublease is classified as operating leases by reference to the right-of-use asset or expenses relating to short-term leases arising from the head lease, not with reference to the underlying asset.

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

7. RIGHT-OF-USE ASSETS

	Leasehold lands	Equipment	Buildings	Total
Year ended 31 December 2019				
As at 1 January 2019	77,567	–	28,463	106,030
Additions	–	110,456	13,791	124,247
Depreciation charge	(1,932)	(28,073)	(10,371)	(40,376)
As at 31 December 2019	75,635	82,383	31,883	189,901
As at 31 December 2019				
Cost	**77,567**	**110,456**	**42,254**	**230,277**
Accumulated depreciation	**(1,932)**	**(28,073)**	**(10,371)**	**(40,376)**
Carrying values	**75,635**	**82,383**	**31,883**	**189,901**

During the current year, the Group entered into new lease agreements for the use of buildings and equipment for 2 to 5 years with extension and termination options. The Group is required to make fixed quarterly, semi-annually or annually payments depending on the usage of the assets during the contract periods. On lease commencement, the Group recognised RMB124,247,000 of right-of-use assets and RMB124,247,000 lease liabilities. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. In addition, the lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets except for the leasehold lands may not be used as security for borrowing purposes.

For termination options, the Group assesses at lease commencement date that it is reasonably certain not to exercise. For extension options in lease contracts of equipment, the Group assesses at lease commencement date that it is reasonably certain not to exercise since those equipment is used to certain service projects with a limited duration. For extension options in lease contracts of buildings, the Group assesses at lease commencement date that it is not reasonably certain to exercise; however, except for the lease liabilities recognised as at 31 December 2019 for lease contracts of buildings, the Directors consider the potential future lease payments for lease contracts of buildings not included in lease liabilities are immaterial and hence, no further disclosure is made.

During the year ended 31 December 2019, the depreciation charges of the Group were recorded in cost of sales with an amount of RMB38,224,000 and cost of inventories which remained unsold as at year end with an amount of RMB2,152,000, respectively.

During the year ended 31 December 2019, the expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 amounts to RMB152,548,000.

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

7. RIGHT-OF-USE ASSETS *(Continued)*

During the year ended 31 December 2019, the total cash outflow for leases amounts to RMB160,146,000, consisting of RMB45,094,000 paid for lease liabilities and RMB115,052,000 paid for short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16.

The Group has obtained the land use right certificates for all leasehold lands.

As at 31 December 2019, the outstanding lease commitment relating to short-term leases of certain equipment and buildings is RMB39,777,000.

As at 31 December 2019, certain long-term borrowings were secured by the right-of-use assets (leasehold lands) with a carrying value of RMB3,281,000 (Note 18(a)), and certain short-term borrowings were secured by the right-of-use assets (leasehold lands) with a carrying value of RMB2,423,000 (Note 18(b)).

8. PREPAID LEASE PAYMENTS

Year ended 31 December 2018	
As at 1 January 2018	79,499
Amortisation charge	(1,932)
As at 31 December 2018	77,567
As at 31 December 2018	
Cost	89,581
Accumulated amortisation	(12,014)
Carrying value	77,567

Analysed for reporting purpose as:

	As at 31 December 2018
Current asset	1,932
Non-current asset	75,635
Closing carrying amount	77,567

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

As at 31 December 2018, prepaid lease payments with carrying amount of RMB5,860,000 were pledged as guarantee for certain long-term borrowings (Note 18(a)).

As at 31 December 2018, none of the prepaid lease payments were pledged as security of undrawn bank borrowing facilities.

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

9. GOODWILL

As at 1 January 2018, 31 December 2018 and 2019	
Cost	268,329
Accumulated impairment	(26,325)
Carrying value	242,004

An operating segment-level summary of the goodwill allocation is presented below.

As at 31 December 2019 and 2018	**Drilling technology**	**Well completion**	**Total**
Shandong Precede Petroleum Technology Co., Ltd. (山東普瑞思德石油技術有限公司, "Shandong Precede")	**-**	**132,486**	**132,486**
Beijing Haineng Haite Petroleum Technology Development Co., Ltd. (北京海能海特石油科技發展有限公司, "Beijing Haineng Haite")	**-**	**106,886**	**106,886**
Anton Machinery and Meter Testing Co., Ltd. (安東儀器儀表檢測服務有限公司, "Anton Testing", formerly 四川誠量檢測服務有限公司)	**2,632**	**-**	**2,632**
	2,632	**239,372**	**242,004**

Goodwill is allocated to the CGUs of the Group identified according to their operations.

The recoverable amount of the CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expects cash flow beyond the five-year period will be similar to that of the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using 2% growth rates after considering the inflation factor. Based on the assessments, no goodwill was further impaired as at 31 December 2019.

The key assumptions used for value-in-use calculations in 2019 are as follows:

As at 31 December 2019	**Shandong Precede**	**Beijing Haineng Haite**	**Anton Testing**
Gross margin	**18.52%**	**20.50%**	**12.23%**
Discount rate	**14.38%**	**15.87%**	**16.70%**

As at 31 December 2018	Shandong Precede	Beijing Haineng Haite	Anton Testing
Gross margin	21.58%	15.05%	16.42%
Discount rate	12.70%	12.70%	13.50%

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

9. GOODWILL *(Continued)*

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax long-term weighted average costs of capital, which are based on the management's best estimation of the investment returns that market participants would require for the relevant assets.

Except for the accumulated impairment loss already recognised, management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed their recoverable amount as of 31 December 2019.

10. INTANGIBLE ASSETS

As at 31 December 2019 and 2018	**Patent**	**Computer software**	**Total**
As at 1 January 2018			
Cost	314,993	71,623	386,616
Accumulated amortisation	(125,653)	(36,678)	(162,331)
Carrying value	189,340	34,945	224,285
Year ended 31 December 2018			
As at 1 January 2018	189,340	34,945	224,285
Additions	53,849	9,817	63,666
Amortisation charge	(30,716)	(4,521)	(35,237)
As at 31 December 2018	212,473	40,241	252,714
As at 31 December 2018			
Cost	368,842	81,440	450,282
Accumulated amortisation	(156,369)	(41,199)	(197,568)
Carrying value	212,473	40,241	252,714
Year ended 31 December 2019			
As at 1 January 2019	**212,473**	**40,241**	**252,714**
Additions	**38,122**	**2,384**	**40,506**
Amortisation charge	**(28,287)**	**(4,947)**	**(33,234)**
As at 31 December 2019	**222,308**	**37,678**	**259,986**
As at 31 December 2019			
Cost	**406,964**	**83,824**	**490,788**
Accumulated amortisation	**(184,656)**	**(46,146)**	**(230,802)**
Carrying value	**222,308**	**37,678**	**259,986**

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

11. INVENTORIES

	As at 31 December 2019	2018
Project materials, spare parts and other materials	**478,679**	531,476
Project-in-progress	**286,817**	242,883
	765,496	774,359

Movements of provision for inventory obsolescence during the year are analysed as follows:

	2019	2018
As at 1 January	**(135,510)**	(119,157)
Addition	**(36,989)**	(16,353)
Write-off	**89,267**	–
As at 31 December	**(83,232)**	(135,510)

12. TRADE AND NOTES RECEIVABLES

	As at 31 December 2019	2018
Trade receivables, net (a)		
– contracts with customers (b)	**1,944,361**	1,896,066
– lease receivables	**75,671**	–
	2,020,032	1,896,066
Notes receivable (f)	**180,215**	51,964
	2,200,247	1,948,030

Notes:

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

	As at 31 December 2019	2018
1 – 6 months	**1,233,147**	1,242,571
6 months – 1 year	**362,996**	427,329
1 – 2 years	**390,047**	198,697
2 – 3 years	**33,842**	27,469
	2,020,032	1,896,066

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

12. TRADE AND NOTES RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) As at 31 December 2019 and 31 December 2018, trade receivables from contracts with customers amounted to RMB1,944,361,000 and RMB1,896,066,000 respectively.

(c) Most of the Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB423,889,000 (31 December 2018: RMB226,166,000) which are past due but not considered as in default as at the reporting date because the management considered such long ageing items were receivables from customers with good cooperation and would be collected subsequently.

(d) Most of the trade receivables are with credit terms of one year or less. The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables.

As at 31 December 2019, trade receivables of RMB265,986,000 (31 December 2018: RMB357,123,000) were pledged as security for short-term borrowings of RMB128,263,000 (31 December 2018: RMB268,235,000) (Note 18(b)).

As at 31 December 2019, trade receivables of RMB282,420,000 (31 December 2018: Nil) were pledged as security for long-term borrowings of RMB99,217,000 (31 December 2018: Nil) (Note 18(a)).

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

	2019	2018
As at 1 January	**(122,120)**	(63,664)
Addition	**(62,933)**	(65,645)
Reversal	**-**	7,189
As at 31 December	**(185,053)**	(122,120)

Details of impairment assessment of trade receivables and notes receivable for the year ended 31 December 2019 and 2018 are set out in Note 35.2(b)(i) and Note 35.2(b)(iii) respectively.

(f) As at 31 December 2019, total notes received amounting to RMB180,215,000 (31 December 2018: RMB51,964,000) as settlement of corresponding trade receivables. As at 31 December 2019 and 2018, notes receivable are all bank acceptance bills with maturity dates within 1 year.

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

	As at 31 December	
	2019	2018
RMB	**1,071,422**	755,673
United States dollar ("US$")	**975,246**	978,961
Others	**153,579**	213,396
	2,200,247	1,948,030

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

13. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
Current		
Advances to suppliers	**262,148**	130,809
Other receivables	**375,200**	291,580
Value-added tax recoverable	**10,700**	15,569
	648,048	437,958
Non-current		
Value-added tax recoverable	**30,051**	35,620
Advances to engineering equipment suppliers	**112,145**	63,690
Other receivables (Note 33)	**13,500**	13,500
	155,696	112,810

Ageing analysis of the current portion of prepayments and other receivables at the reporting date was disclosed as follows:

	As at 31 December	
	2019	2018
1 – 6 months	**401,411**	284,845
6 months – 1 year	**93,888**	24,223
1 – 2 years	**81,388**	86,206
2 – 3 years	**72,913**	30,730
Over 3 years	**44,079**	32,825
	693,679	458,829
Less: allowance for impairment (a)	**(45,631)**	(20,871)
Prepayments and other receivables, net	**648,048**	437,958

Note:

(a) Movements of allowance for impairment are as follows:

	2019	2018
As at 1 January	**(20,871)**	(4,126)
Addition	**(24,760)**	(16,745)
As at 31 December	**(45,631)**	(20,871)

Details of impairment assessment of other receivables for the year ended 31 December 2019 and 2018 are set out in Note 35.2(b)(ii).

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

14. CASH AND BANK

	As at 31 December	
	2019	2018
Restricted bank deposits (a)	**368,730**	330,948
Cash and cash equivalents		
– Cash on hand	**19,743**	8,680
– Deposits in bank	**2,403,131**	677,956
	2,791,604	1,017,584

Notes:

(a) As at 31 December 2019, bank deposits amounting to RMB358,470,000 (31 December 2018: RMB330,948,000) were held as securities for letter of guarantee and issuance of notes payable, and bank deposits amounting to RMB10,260,000 (31 December 2018: Nil) were held as securities for securing short-term bank borrowings (Note 18(b)). The restricted bank deposits carried a fixed interest rate at 0.35% per annum as at 31 December 2019 (2018: 0.35% per annum).

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

	As at 31 December	
	2019	2018
RMB	**750,915**	486,999
US$	**1,980,611**	467,522
Hong Kong dollar ("HK$")	**20,392**	13,132
Others	**39,686**	49,931
	2,791,604	1,017,584

(c) As at 31 December 2019, cash and cash equivalents were bank deposits mainly bearing market interest rate at 0.35% per annum (31 December 2018: 0.35% per annum).

(d) Details of impairment assessment of restricted bank deposits and cash and cash equivalents for the year ended 31 December 2019 and 2018 are set out in Note 35.2(b)(iii).

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

15. SHARE CAPITAL AND SHARE OPTIONS

	Number of shares issued and fully paid of HK$0.1 each (thousands)	Share capital HK$' 000	RMB' 000
Ordinary shares issued and fully paid:			
As at 1 January 2018	2,660,234	266,023	246,271
Issue of new shares (ii)	334,225	33,423	28,936
Exercise of share options (i)	8,464	846	752
As at 31 December 2018	3,002,923	300,292	275,959
Exercise of share options (i)	3,640	364	314
As at 31 December 2019	3,006,563	300,656	276,273

Notes:

(i) Share options

During the year ended 31 December 2019, options to subscribe for 95,000,000 shares at the exercise price of HK$0.790 (2018: 70,000,000 shares at the exercise price of HK$1.020) have been conditionally granted to three independent non-executive directors, other executive directors and certain key employees. 2,100,000 shares granted to independent non-executive directors have a 2-year vesting period, 50% each exercisable per year and the other 92,900,000 shares have a 3-year vesting period, 33.33% each exercisable per year, on the premises of achieving the performance conditions of the Group set out in the share option scheme. The options have an option period of 6 years.

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

	Average exercise price in HK$ per share	Number of share options (thousands)
As at 1 January 2018		204,972
Granted (on 03 April 2018)	1.020	70,000
Forfeited	0.801	(2,340)
Exercised	0.751	(8,464)
As at 1 January 2019		264,168
Granted (on 07 Jan 2019)	0.790	95,000
Forfeited	0.874	(7,907)
Exercised	0.758	(3,640)
Expired	5.692	(1,434)
As at 31 December 2019		346,187

15. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

Notes: *(Continued)*

(i) Share options *(Continued)*

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

Expiry date	**Exercise price HK$ per share**	**Number of share options (thousands) As at 31 December 2019**
23 February 2022	0.740	83,258
31 March 2022	0.800	6,300
1 December 2022	1.100	2,216
22 May 2023	0.810	95,200
2 April 2024	1.020	66,813
6 Jan 2025	0.790	92,400
		346,187

The exercise price of the granted options is equal to the highest of (i) the closing price of the shares of the Company in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the par value of the shares. Options are conditional on the employee completing one to three years' service (the vesting period) and have a contractual option term of six years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As of 31 December 2019, out of the 346,187,000 options (31 December 2018: 264,168,000 options), 150,497,000 options (31 December 2018: 96,702,000 options) were exercisable. Options exercised in 2019 resulted in 3,640,000 shares (31 December 2018: 8,464,000 shares) being issued at a weighted average price of HK$0.758 (31 December 2018: HK$0.751) each. The related weighted average share price at the time of exercise was HK$1.066 per share in 2019 (2018: HK$1.221).

The fair value of the options granted during the year ended 31 December 2019 was determined using the Binomial Option Pricing Model. The major assumptions used in the pricing model for options granted on 7 Jan 2019 were the exercise prices shown above and other parameters are shown below:

Parameters	**Options granted in 2019**	Options granted in 2018
Share price as of the valuation date (HK$)	**0.79**	1.02
Expected dividend yield	**–**	–
Forfeiture rate	**0.34%**	0.50%
Exercise multiples	**3.38-3.39**	3.39-3.54
Maturity years	**6**	6
Risk free rate	**1.79%**	1.83%
Annualised volatility	**59.54%**	58.95%

The weighted average fair value of options granted during the year determined using the Binomial valuation model was HK$0.422 per option (2018: HK$0.540 per option). The volatility measured at the standard deviation of continuously compounded share returns is derived from historical volatility of the share price over the last 6 years.

The total expense recognised in the consolidated statement of profit or loss for the year ended 31 December 2019 for share options amounted to RMB29,167,000 (31 December 2018: RMB24,094,000), with a corresponding amount credited in capital reserve (Note 16).

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

15. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

Notes: *(Continued)*

(ii) On 22 December 2017, the Company, Anton Oilfield Services Company International Limited ("Anton International") and Anton Oilfield Services DMCC ("DMCC") entered into an agreement with China Oil HBP Science & Technology Co., Ltd. ("China Oil HBP") and Hong Kong Huihua Global Technology Limited ("Huihua"), a wholly-owned subsidiary of China Oil HBP, pursuant to which the Group will acquire from Huihua 40% of the issued share capital of DMCC for the consideration of RMB735,000,000. The consideration for the acquisition was settled as to RMB450,000,000 by cash and as to RMB285,000,000 by the issuance of an aggregate of 334,224,599 new shares of the Company to Huihua at the issue price of HK$1.014 per share. The issuance of new shares was completed on 27 July 2018. The issuance shares represent approximately 12.54% of the then existing issued share capital of the Company and approximately 11.14% of the Company's then issued share capital as enlarged by the issuance, respectively. The new shares rank pari passu with other existing shares in all respects.

16. RESERVES

	Share premium	Capital reserve (d)	Statutory reserve (c)	Retained earnings	Other reserves	Total
As at 1 January 2018	813,243	395,229	76,900	597,373	360,260	2,243,005
Profit for the year	–	–	–	222,423	–	222,423
Net investment hedge (b)	–	–	–	–	(64,317)	(64,317)
Currency translation differences (a)	–	–	–	–	66,783	66,783
Issue of ordinary shares (Note 15 (ii))	256,064	–	–	–	–	256,064
Share option exercised	7,222	(2,838)	–	–	–	4,384
Share option scheme (Note 15 (i))	–	24,094	–	–	–	24,094
Acquisition of non-controlling interests	–	–	–	–	(382,521)	(382,521)
As at 31 December 2018	1,076,529	416,485	76,900	819,796	(19,795)	2,369,915
Balance at 1 January 2019	**1,076,529**	**416,485**	**76,900**	**819,796**	**(19,795)**	**2,369,915**
Profit for the year	**-**	**-**	**-**	**268,583**	**-**	**268,583**
Net investment hedge (b)	**-**	**-**	**-**	**-**	**(30,239)**	**(30,239)**
Currency translation differences (a)	**-**	**-**	**-**	**-**	**16,859**	**16,859**
Share option exercised	**3,148**	**(1,461)**	**-**	**-**	**-**	**1,687**
Share option scheme (Note 15 (i))	**-**	**29,167**	**-**	**-**	**-**	**29,167**
Dividends (Note 31)	**(30,107)**	**-**	**-**	**-**	**-**	**(30,107)**
As at 31 December 2019	**1,049,570**	**444,191**	**76,900**	**1,088,379**	**(33,175)**	**2,625,865**

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

16. RESERVES *(Continued)*

Notes:

(a) Translation reserve

	2019	2018
Items that may be reclassified subsequently to profit or loss:		
At 1 January	**83,853**	17,070
Currency translation differences	**16,859**	66,783
At 31 December	**100,712**	83,853

Currency translation differences relating to the translation of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the translation reserve which is shown in other reserves. Currency translation differences accumulated in the translation reserve are reclassified to profit or loss on the disposal/partial disposal of the foreign operations.

(b) Hedging reserve

	2019	2018
Items that may be reclassified subsequently to profit or loss:		
At 1 January	**(118,425)**	(54,108)
Net investment hedge	**(30,239)**	(64,317)
At 31 December	**(148,664)**	(118,425)

The net investment hedging reserve represents the cumulative effective portion of gains and losses arising on changes in exchange rate of hedging instruments entered into for net investment hedge. The cumulative gain and loss arising on changes in exchange rate of the hedging instrument that are recognised and accumulated under the heading of net investment hedging reserve which is further shown in other reserves will be reclassified to profit or loss on the disposal/partial disposal of the foreign operations.

During the year ended 31 December 2019, a proportion of the Group's US$ denominated long-term bonds amounting to US$265,889,000 (2018: US$256,364,000) has been designated as hedging instrument for the US$ denominated net investment in the Group's overseas subsidiaries. For the year ended 31 December 2019, foreign exchange translation loss of RMB30,239,000 (2018: loss of RMB64,317,000) on the hedging instrument was recognised in other comprehensive income as deduction in other reserves.

(c) Statutory reserve

Subsidiaries established in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When the balance of such reserve fund reaches 50% of each entity's paid capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or increase capital after approval. However, except for offsetting prior years' losses, the statutory reserve fund must be maintained at a minimum of 25% of paid capital after such usage.

(d) Capital reserve

Capital reserve represents share-based payments reserve and capital injection before listing by shareholders. As at 31 December 2019, included in the balance of capital reserve, there is RMB208,729,000 (31 December 2018: RMB181,023,000) share-based payments reserve and RMB235,462,000 (31 December 2018: RMB235,462,000) capital injection before listing by shareholders.

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

17. LONG-TERM BONDS

Issue date	Par value	Coupon rate	As at 31 December 2019	As at 31 December 2018	Effective interest rate
5 December 2017 (a)	US$176.4 million	9.75%	**1,247,484**	1,234,145	8.31%
5 December 2017 (a)	US$123.6 million	9.75%	**856,725**	831,756	11.62%
2 December 2019 (b)	US$300.0 million	7.50%	**2,040,659**	–	8.91%
Subtotal			**4,144,868**	2,065,901	
Less: Current portion			**(2,116,445)**	(14,498)	
			2,028,423	2,051,403	

Notes:

(a) The Company issued US$300 million 9.75% senior notes at discount of par value on 5 December 2017 with direct transaction costs amounting to RMB39,989,000, in which US$176.4 million were arranged to exchange the senior notes issued on 31 October 2013 in the amount of US$172.2 million during the year ended 31 December 2017. The exchange is accounted as a non-substantial modification of financial liabilities. The notes mature in 3 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 31 December 2019, interest payable amounted to approximately RMB15.0 million (31 December 2018: RMB14.5 million).

(b) The Company issued US$300 million 7.50% senior notes at discount of par value on 2 December 2019 with direct transaction costs amounting to RMB45,359,000. The notes mature in 3 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 31 December 2019, interest payable amounted to approximately RMB12.2 million (31 December 2018: Nil).

18. BORROWINGS

	As at 31 December			
	2019 Amount	**2019 Interest Rate**	2018 Amount	2018 Interest Rate
Long-term borrowings				
– Secured				
– RMB denominated (a)	**294,600**	**7.10%-9.70%**	325,555	8.41%-9.70%
Less: Current portion	**(92,174)**		(82,214)	
	202,426		243,341	
Short-term bank borrowings				
– Unsecured				
– RMB denominated	**80,406**	**5.44%-6.09%**	248,393	5.66%-6.53%
– Secured				
– RMB denominated (b)	**329,600**	**4.70%-6.79%**	444,408	5.22%-7.50%
– USD denominated (b)	**87,743**	**4.70%-4.77%**	85,720	4.70%
Other short-term borrowings				
– Unsecured				
– RMB denominated (c)	**-**		100,671	5.66%
	497,749		879,192	

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

18. BORROWINGS *(Continued)*

	As at 31 December	
	2019	2018
The carrying amounts of the above borrowings are repayable:		
– Within one year	**589,923**	961,406
– More than one year but not exceeding two years	**202,426**	89,915
– More than two years but not exceeding five years	**-**	153,426
	792,349	1,204,747
Less: Amount due for settlement within one year and shown under current liabilities	**(589,923)**	(961,406)
Amount due after one year	**202,426**	243,341

The exposure of the Group's borrowings are as follows:

	As at 31 December	
	2019	2018
Fixed-rate borrowings	**546,873**	509,152
Variable-rate borrowings	**245,476**	695,595
	792,349	1,204,747

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	Year ended 31 December	
	2019	2018
Effective interest rate:		
Fixed-rate borrowings	**4.70%-7.10%**	4.70%-7.50%
Variable-rate borrowings	**6.09%-9.70%**	5.22%-9.70%

18. BORROWINGS *(Continued)*

Notes:

(a) As at 31 December 2019, secured long-term borrowings of RMB146,341,000 (31 December 2018: RMB228,306,000) represented borrowings from China Railway Construction Financial Leasing Co., Ltd., a third party, which will mature in 2 years, and secured by the Group's equipment with a carrying value of RMB277,924,000 (31 December 2018: RMB319,311,000) (Note 6).

Secured long-term borrowings of RMB49,042,000 (31 December 2018: RMB97,249,000), represented borrowings from banks and secured by the Group's buildings with a carrying value of RMB63,362,000 (31 December 2018: RMB93,618,000) (Note 6) and right-of-use assets (leasehold lands) with a carrying value of RMB3,281,000 (Note 7) (31 December 2018: prepaid lease payments with carrying amount of RMB5,860,000) (Note 8), respectively.

Secured long-term borrowings of RMB99,217,000 (31 December 2018:Nil) represented borrowings from banks and secured by the Group's trade receivables amounting to RMB282,420,000 (31 December 2018:Nil) (Note 12(d)).

(b) As at 31 December 2019, secured short-term bank borrowings of RMB100,741,000 (31 December 2018: RMB80,536,000) were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd. (北京中關村科技融資擔保有限公司), a third party. Secured short-term bank borrowings of RMB128,263,000 (31 December 2018: RMB268,235,000) were secured by the Group's trade receivables amounting to RMB265,986,000 (31 December 2018: RMB357,123,000) (Note 12(d)). Secured US$ denominated short-term bank borrowings of RMB87,743,000 (31 December 2018: RMB85,720,000) and secured RMB denominated short-term bank borrowings of RMB50,575,000 (31 December 2018: RMB95,637,000) were guaranteed by Mr. Luo Lin, the Company's ultimate controlling shareholder (Note 36(b)).

Secured short-term bank borrowings of RMB40,021,000 (31 December 2018: Nil) were secured by the Group's buildings with a carrying value of RMB46,815,000 (31 December 2018: Nil) (Note 6) and right-of-use assets (leasehold lands) with a carrying value of RMB2,423,000 (31 December 2018: Nil) (Note 7) respectively.

Secured short-term bank borrowing of RMB10,000,000 (31 December 2018: Nil) were secured by the bank deposits amounting to RMB10,260,000 (31 December 2018: Nil) (Note 14(a)).

(c) As at 31 December 2018, other unsecured short-term borrowings represented a loan borrowed by Anton Oilfield Services (Group) Ltd. from Beijing Zhongguancun Sci-tech Guaranty Co., Ltd. (北京中關村科技融資擔保有限公司), a third party.

(d) As at 31 December 2019, the undrawn bank borrowing facilities of the Group of approximately RMB706 million (31 December 2018: RMB583 million), with maturity dates up to 8 July 2022 (31 December 2018: 9 December 2019), were unsecured (31 December 2018: unsecured).

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

19. LEASE LIABILITIES

	As at 31 December 2019
Lease liabilities payable:	
Within one year	**45,834**
One to two years	**49,829**
Two to five years	**19,430**
	115,093
Less: Amount due for settlement with 12 months shown under current liabilities	**(45,834)**
Amount due for settlement after 12 months shown under non-current liabilities	**69,259**

20. TRADE AND NOTES PAYABLES

	As at 31 December	
	2019	2018
Trade payables	**546,945**	481,391
Notes payable	**410,461**	232,700
	957,406	714,091

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

	As at 31 December	
	2019	2018
Less than 1 year	**790,866**	596,564
1 – 2 years	**77,348**	43,527
2 – 3 years	**30,371**	34,465
Over 3 years	**58,821**	39,535
	957,406	714,091

Trade and notes payables were denominated in the following currencies:

	As at 31 December	
	2019	2018
RMB	**868,702**	607,052
US$	**80,105**	80,536
Others	**8,599**	26,503
	957,406	714,091

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

21. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2019	2018
Payroll and welfare payables	**28,125**	33,406
Taxes other than income taxes payable	**22,364**	14,053
Payables to equipment venders	**220,353**	226,969
Dividend payable	**–**	55,711
Others	**133,686**	125,139
	404,528	455,278

22. DEFERRED INCOME TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred income tax assets and liabilities have been offset. The following is the analysis of the deferred income tax balances for financial reporting purposes:

	As at 31 December	
	2019	2018
Deferred income tax assets	**34,637**	52,076
Deferred income tax liabilities	**10,219**	10,440
	24,418	41,636

Deferred tax assets:

	Taxable losses	**Impairment provision of receivables and inventories**	**Unrealised profit**	**Total**
As at 1 January 2018	54,474	6,280	2,989	63,743
(Debited)/credited to the consolidated statement of profit or loss	(23,169)	7,509	3,993	(11,667)
As at 31 December 2018	31,305	13,789	6,982	52,076
(Debited)/credited to the consolidated statement of profit or loss	(12,150)	1,693	(6,982)	(17,439)
As at 31 December 2019	19,155	15,482	–	34,637

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

22. DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2019, the Group did not recognise deferred income tax assets of RMB110,976,000 (31 December 2018: RMB85,272,000) in respect of accumulated tax losses and temporary difference amounting to RMB395,894,000 (31 December 2018: RMB298,947,000) that can be carried forward against taxable income as the Group is going to dissolve the subsidiaries or the losses are considered as unrecoverable in 5 years.

Deferred tax liabilities:

	Fair value adjustment from acquisition of subsidiaries	Withholding tax on investment income	Total
As at 1 January 2018	6,944	3,717	10,661
Credited to the consolidated statement of profit or loss	(221)	–	(221)
As at 31 December 2018	6,723	3,717	10,440
Credited to the consolidated statement of profit or loss	(221)	–	(221)
As at 31 December 2019	6,502	3,717	10,219

As at 31 December 2019, deferred income tax liabilities of RMB39,604,000 (31 December 2018: RMB33,515,000) have not been recognised for the withholding tax relating to the unremitted earnings of subsidiaries. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

23. REVENUE

	Year ended 31 December	
	2019	2018
Sales of goods	**163,157**	238,636
Provision of services	**3,165,682**	2,636,561
Rental	**260,658**	60,691
	3,589,497	2,935,888

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

23. REVENUE *(Continued)*

(i) Disaggregation of revenue

	For the year ended 31 December 2019		
Segments	**Drilling technology**	**Well completion**	**Oil production services**
Types of goods or service			
Sales of goods	44,151	90,858	28,148
Provision of services	1,321,231	743,333	1,101,118
Total	1,365,382	834,191	1,129,266
Geographical markets			
PRC	750,566	519,826	152,315
Iraq	336,910	212,894	869,951
Other countries	277,906	101,471	107,000
Total	1,365,382	834,191	1,129,266
Timing of revenue recognition			
A point in time	1,365,382	834,191	310,954
Over time	-	-	818,312
Total	1,365,382	834,191	1,129,266

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

	For the year ended 31 December 2019		
	Drilling technology	**Well completion**	**Oil production services**
Revenue disclosed in segment information			
External customers	1,624,203	836,028	1,129,266
Inter-segment	978,903	614,249	731,062
Total	2,603,106	1,450,277	1,860,328
Adjustments and eliminations	(978,903)	(614,249)	(731,062)
Rental income	(258,821)	(1,837)	-
Revenue from contracts with customers	1,365,382	834,191	1,129,266

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

23. REVENUE *(Continued)*

(i) Disaggregation of revenue *(Continued)*

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

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

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

23. REVENUE *(Continued)*

(ii) Performance obligations for contracts with customers

a. Provision of oilfield technology services (excluding operation and maintenance services)

The Group provides oilfield technology services (excluding operation and maintenance services) which include drilling technology, well completion and part of oil production services to customers like large multinational and state-owned oil companies.

Such services are each recognised as a performance obligation in different stages of a contract, with transaction price allocated to the different and separate performance obligations on a relative stand-alone price basis. Revenue will be recognised for each of these performance obligations when control over the corresponding services is transferred to the customer. Since the services are expected to meet certain specified technological criteria which are not simply based on size and weight characteristics, the Group cannot objectively determine that the services provided to the customer are in accordance with the agreed-upon specifications in the contract and then the Group would not be able to conclude that the customer has obtained control until it receives the customer's acceptance. Therefore, the revenue from oilfield technology services (excluding operation and maintenance services) is recognised at a point when the customer acceptance is concluded.

The Group's contracts for such services include the Group's entitlement to payment which requires customer acceptance.

The contract assets (retention money receivables from large multinational and state-owned oil companies), net of contract liabilities related to the same contract, primarily relate to the Group's right to consideration for services completed and not billed because the rights are conditioned on the Group's achieving specified milestones as stipulated in the contracts at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically agrees to a one-year retention period for 5% of the transaction price for certain customers like some large multinational and state-owned oil companies. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on achieving specified milestones as stipulated in the contracts. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle. The Group typically bills the retention money receivables in one year after the completion of relevant services when trade receivables will be recognised.

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

23. REVENUE *(Continued)*

(ii) Performance obligations for contracts with customers *(Continued)*

b. Provision of oilfield-related operation and maintenance services

The Group provides oilfield-related operation and maintenance services which include oil production services to customers.

Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits during the course of operation and maintenance services provided by the Group based on the fact that these services are routine with no complicated processes involved and customer acceptance is a formality. Revenue from these services is recognised based on hours and unit labour cost using output method.

Payment of the transaction price will be settled monthly over the period of service.

c. Sales of oilfield-related goods

The Group sells oilfield-related goods, such as drilling tools, tubing and casing to customers.

Since the goods are not self-manufactured and the Group is not entitled to payment until the customer receives and accepts the goods, revenue will be recognised at a point when control over the corresponding goods is transferred to the customer.

The Group's contracts for such sales of goods include payment in the normal credit term granted to customers.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and the expected timing of recognising revenue are as follows:

	PRC	Iraq	Other countries
Within one year	**1,705,460**	**1,634,561**	**231,619**
More than one year but not more than two years	**208,903**	**959,039**	**155,709**
More than two years	**60,423**	**681,998**	**158,685**
	1,974,786	**3,275,598**	**546,013**

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

23. REVENUE *(Continued)*

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers *(Continued)*

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	PRC	Iraq	Other countries
Within one year	488,499	1,391,645	152,434
More than one year but not more than two years	406,347	1,233,367	44,500
More than two years	118,594	484,798	30,146
	1,013,440	3,109,810	227,080

(iv) Leases

	Year ended 31 December 2019
For operating leases:	
Lease payments that are fixed or depend on an index or a rate	**260,658**
Total revenue arising from leases	**260,658**

	Year ended 31 December 2018
For operating leases:	
Operating lease income – equipment	60,691
Total revenue arising from leases	60,691

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

24. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Year ended 31 December	
	2019	2018
Materials and services purchased	**1,010,288**	835,697
Staff costs	**768,784**	576,029
In which:		
– Salaries and other staff expenses	**739,617**	551,935
– Share-based compensation (Note 15(i))	**29,167**	24,094
Depreciation	**341,805**	278,817
In which:		
– Property, plant and equipment (Note 6)	**301,429**	278,817
– Right-of-use assets (Note 7)	**40,376**	–
Less: Capitalised in inventories (Note 6) (Note 7)	**(21,854)**	(17,240)
	319,951	261,577
Amortisation	**36,226**	39,434
Less: Capitalised in inventories	**(3,591)**	(2,992)
	32,635	36,442
In which:		
– Cost of sales	**26,490**	29,030
– Administrative expenses	**160**	2,006
– Selling expenses	**18**	–
– Research and development expenses	**5,967**	5,406
Sales tax and surcharges	**13,973**	10,346
Auditor's remuneration		
– Audit and related services	**4,600**	4,200
– Other services	**300**	200
Other operating expenses	**719,560**	579,066
In which:		
– Impairment of receivables	**87,693**	75,201
– Impairment of inventories	**36,989**	16,353

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

25. OTHER GAINS, NET

	Year ended 31 December	
	2019	2018
Government grants and subsidies (a)	**1,283**	3,155
Loss on disposal of property, plant and equipment	**(973)**	(688)
Others	**(134)**	9,465
	176	11,932

Note:

(a) Government grants and subsidies of RMB1,283,000 (2018: RMB3,155,000) were received in the current year towards awarding of research and development expenditures.

26. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Year ended 31 December	
	2019	2018
Impairment losses recognised on:		
– Trade receivables – goods and services	**62,933**	58,456
– Other receivables	**24,760**	16,745
	87,693	75,201

Details of impairment assessment for the year ended 31 December 2019 and 2018 are set out in Note 35.2(b).

27. FINANCE COSTS, NET

	Year ended 31 December	
	2019	2018
Interest expenses		
– on bank borrowings	**(77,667)**	(83,977)
– on bonds	**(219,534)**	(200,755)
– on lease liabilities	**(7,477)**	–
Exchange gain, net	**19,334**	1,401
Others	**(13,156)**	(16,688)
Finance expenses	**(298,500)**	(300,019)
Interest income	**3,367**	2,565
	(295,133)	(297,454)

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

28. STAFF COSTS

	Year ended 31 December	
	2019	2018
Wages, salaries and allowances	**652,246**	483,983
Housing subsidies (a)	**12,888**	11,960
Contributions to pension plans (b)	**23,705**	23,695
Share option costs		
– equity settled share-based payment (Note 15(i))	**29,167**	24,094
Welfare and other expenses	**50,778**	32,297
	768,784	576,029

Notes:

(a) Housing subsidies mainly include the Group's contributions to government-sponsored housing funds, at rates ranging from 5% to 12% of the employees' salaries for the Group's Chinese employees in the PRC.

(b) This represents the Group's contributions to defined contribution plans or schemes organised by relevant government authorities or authorised entities in accordance with the requirements in the locations where the Group operates.

The Group has no other material obligations for the payment of pensions and other post-retirement benefits of employees or retirees other than those disclosed above.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2018: two) Directors whose emoluments are reflected in the analysis shown in Note 40. The emolument payable to the other two (2018: three) individuals during the year were as follows:

	Year ended 31 December	
	2019	2018
Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,114**	6,057
Contributions to pension schemes	**100**	166
	3,214	6,223

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emoluments bands		
HK$1,500,001 – HK$2,000,000	**2**	–
HK$2,000,001 – HK$2,500,000	**–**	2
HK$2,500,001 – HK$3,000,000	**–**	1
	2	3

(d) During the years ended 31 December 2019 and 2018, no Directors or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the Directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

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

29. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
Current income tax		
– PRC enterprise income tax	**20,681**	2,297
– Iraq corporate income tax	**98,289**	80,562
– Others	**6,603**	2,138
Deferred income tax (Note 22)	**17,218**	11,446
	142,791	96,443

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

PRC enterprise income tax ("EIT") is provided on the basis of estimated taxable profits of PRC established subsidiaries at applicable tax rate of 25% in 2019 (2018: 25%), based on the relevant PRC tax laws and regulations. Certain subsidiaries have been granted a preferential rate of 15% as high technology enterprises or as enterprises set up in western area of the PRC.

The corporate income tax of Iraq entities is levied at the higher of 7% on the total turnover, or 35% on the net taxable profit.

The taxation of the Group's profit before income tax differs from the theoretical amount that would arise using applicable tax rates of the Group companies as follows:

	Year ended 31 December	
	2019	2018
Profit before income tax	**425,211**	347,164
Tax calculated at applicable tax rates	**123,614**	77,857
Income not subject to taxation	**(3,593)**	(62)
Expenses not deductible for taxation purposes	**1,283**	6,048
Additional deduction of research and development expense	**(4,468)**	(1,568)
Tax losses and deductible temporary difference for which no deferred income tax was recognised	**32,109**	21,018
Utilisation of unused deductible tax losses previously not recognised as deferred income tax	**(6,405)**	(6,390)
Effect of share of profit of a joint venture	**(114)**	(53)
Others	**365**	(407)
	142,791	96,443

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

30. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2019	2018
Profit attributable to the owners of the Company	**268,583**	222,423
Weighted average number of ordinary shares in issue (thousands of shares)	**3,005,255**	2,807,453
Basic earnings per share (expressed in RMB per share)	**0.0894**	0.0792

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2019 and 2018, the only dilutive factor of the Company was the outstanding share options.

	Year ended 31 December	
	2019	2018
Profit attributable to the owners of the Company	**268,583**	222,423
Weighted average number of ordinary shares in issue (thousands of shares)	**3,005,255**	2,807,453
Adjustments for assumed conversion of share options (thousands of shares)	**17,260**	34,154
Weighted average number of ordinary shares for computation of diluted earnings per share (thousands of shares)	**3,022,515**	2,841,607
Diluted earnings per share (expressed in RMB per share)	**0.0889**	0.0783

31. DIVIDENDS

During the current year, a final dividend of RMB1 cent per share, with the aggregate amount of RMB30,107,000, in respect of the year ended 31 December 2018 was declared and paid to the owners of the Company (2018: Nil).

The Directors have determined that no dividend will be proposed in respect of the current year (Year ended 31 December 2018: RMB30,107,000).

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

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Year ended 31 December	
	2019	2018
Profit for the year	**282,420**	250,721
Adjustments for:		
Property, plant and equipment		
– Depreciation charge	**281,727**	261,577
– Loss on disposals	**973**	688
Depreciation of right-of-use assets	**38,224**	–
Amortisation of prepaid lease payments	**–**	1,932
Amortisation of intangible assets	**32,635**	34,510
Amortisation of long-term deferred and prepaid expenses	**–**	5,694
Addition of impairment of receivables	**87,693**	75,201
Addition of impairment of inventories	**36,989**	16,353
Charge of share option scheme	**29,167**	24,094
Share of profit of a joint venture	**(762)**	(355)
Net foreign exchange gain	**(19,334)**	(1,401)
Interest income	**(3,367)**	(2,565)
Interest expenses	**304,678**	284,732
Income tax expense	**142,791**	96,443
Operating cash flows before movements in working capital	**1,213,834**	1,047,624
Changes in working capital:		
– Inventories	**(22,913)**	(173,247)
– Trade and notes receivables	**(289,604)**	(345,468)
– Contract assets	**(16,940)**	(58,579)
– Prepayments and other receivables and value-added tax recoverable	**(230,099)**	2,797
– Trade and notes payables	**70,099**	(89,725)
– Accruals and other payables	**12,497**	4,666
– Contract liabilities	**(24,838)**	38,814
– Restricted bank deposits	**(27,522)**	54,187
Net cash inflows from operations	**684,514**	481,069

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

33. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings Note 18	Long-term bonds Note 17	Accruals and other payables Note (i)	Prepayments and other receivables Note 13	Restricted bank deposits Note 14(a)	Lease liabilities Note 19	Total
As at 31 December 2018	**1,204,747**	**2,065,901**	**56,631**	**(13,500)**	**-**	**-**	**3,313,779**
Adjustment upon application of IFRS 16 (Note 2.1)	**-**	**-**	**-**	**-**	**-**	**28,463**	**28,463**
As at 1 January 2019	**1,204,747**	**2,065,901**	**56,631**	**(13,500)**	**-**	**28,463**	**3,342,242**
Financing cash flows	**(490,065)**	**1,841,207**	**(93,738)**	**-**	**(10,260)**	**(45,094)**	**1,202,050**
Dividends (Note 31) (Note 37(b))	**-**	**-**	**37,107**	**-**	**-**	**-**	**37,107**
New leases entered (Note 7)	**-**	**-**	**-**	**-**	**-**	**124,247**	**124,247**
Currency translation differences	**-**	**18,226**	**-**	**-**	**-**	**-**	**18,226**
Interest expenses	**77,667**	**219,534**	**-**	**-**	**-**	**7,477**	**304,678**
As at 31 December 2019	**792,349**	**4,144,868**	**-**	**(13,500)**	**(10,260)**	**115,093**	**5,028,550**

	Borrowings	Long-term bonds	Accruals and other payables Note (i)	Prepayments and other receivables	Other non-current assets	Restricted bank deposits	Total
As at 1 January 2018	1,057,642	2,416,175	270,418	(14,000)	(299,229)	(30,000)	3,401,006
Financing cash flows	63,128	(650,453)	(78,665)	500	(165,191)	30,000	(800,681)
Acquisition of non-controlling Interests	-	-	920	-	465,191	-	466,111
Currency translation differences	-	99,424	-	-	(771)	-	98,653
Interest expenses	83,977	200,755	-	-	-	-	284,732
Other changes (Note ii)	-	-	(136,042)	-	-	-	(136,042)
As at 31 December 2018	1,204,747	2,065,901	56,631	(13,500)	-	-	3,313,779

Notes:

(i) Included in the balance of accruals and other payables, dividend payable (Note 21), other payables in relation to acquisition of non-controlling interests and direct transaction costs of issuance of long-term bonds are liabilities arising from financing activities.

(ii) Other changes mainly represent the non-cash transaction of decrease of those liabilities arising from financing activities. For detailed non-cash transaction information, please refer to Note (a) of the consolidated statement of cash flows.

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

34. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2019	2018
Contracted but not provided for	**71,142**	20,887

(b) Operating lease commitments – where the Group as lessee

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

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

	As at 31 December 2018
No later than 1 year	17,511
1 to 5 years	21,662
	39,173

35. FINANCIAL RISK MANAGEMENT

35.1 Categories of financial instruments

	As at 31 December	
	2019	2018
Financial assets		
Amortised cost		
– Cash and cash equivalents	**2,422,874**	686,636
– Restricted bank deposits	**368,730**	330,948
– Included in trade and notes receivables	**2,124,576**	1,948,030
– Included in prepayments and other receivables	**347,888**	280,446
	5,264,068	3,246,060

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.1 Categories of financial instruments *(Continued)*

	As at 31 December	
	2019	2018
Financial liabilities		
Amortised cost		
– Trade and notes payables	**957,406**	714,091
– Included in accruals and other payables	**381,331**	441,225
– Borrowings	**792,349**	1,204,747
– Long-term bonds	**4,144,868**	2,065,901
	6,275,954	4,425,964

35.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses non-derivative financial instruments (part of US$ denominated long-term bonds) (Note 16(b)) to hedge certain foreign currency risk exposure.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, while the Group also has purchases from and sales to overseas parties. During the year ended 31 December 2019, the Group developed its businesses overseas with most of the transactions denominated and settled in US$. Foreign exchange risk also arise from certain bank deposits, borrowings and long-term bonds denominated in US$. The Group is exposed to foreign currency exchange risk primarily with respect to US$.

As at 31 December 2019, if RMB had strengthened/weakened by 3% against the US$ with all other variables held constant, profit after income tax for the year would have been RMB11,514,000 higher/lower and equity reserves would have been RMB1,623,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US$-denominated cash and bank, trade and other receivables, trade and other payables, borrowings, long-term bonds and net investment hedge of foreign operations.

As at 31 December 2018, if RMB had strengthened/weakened by 3% against the US$ with all other variables held constant, profit after income tax for the year would have been RMB8,050,000 higher/lower and equity reserves would have been RMB19,369,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US$-denominated cash and bank, trade and other receivables, trade and other payables, borrowings, long-term bonds and net investment hedge of foreign operations.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.2 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term bonds, long-term borrowings and short-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Long-term bonds, long-term borrowings and lease liabilities obtained at fixed rates expose the Group to fair value interest rate risk.

Based on the balance of floating interest borrowings as at 31 December 2019, if interest rates on these borrowings for the year had been higher/lower by 100 basis points, profit before income tax for the year would have been RMB2,455,000 lower/higher.

Based on the balance of floating interest borrowings as at 31 December 2018, if interest rates on these borrowings for the year had been higher/lower by 100 basis points, profit before income tax for the year would have been RMB6,956,000 lower/higher.

(b) Credit risk and impairment assessment

As at 31 December 2019, the maximum exposure to credit risk of the Group is the carrying value of financial assets. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables, contract assets and other receivables

The Group has policies in place to ensure that sales of products and services and other transactions are made to customers or counterparties with an appropriate credit history after internal approvals and follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade receivables, contract assets and other receivables individually or based on provision matrix. In the regards, the Directors consider that the Group's credit risk is significantly reduced and are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements.

A considerable portion of sales were made to several major oilfield operators of the PRC and their affiliates, which are state-owned entities with good credit reputation, therefore the trade receivables of the Group had concentration risk (Note 5).

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.2 Financial risk factors *(Continued)*

(b) Credit risk and impairment assessment *(Continued)*

Notes receivable, restricted bank deposits and cash and cash equivalents

The credit risks on notes receivable, restricted bank deposits and cash equivalents are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group performs impairment assessment under 12m ECL model on notes receivable, restricted bank deposits and cash and cash equivalents. The Directors does not expect any losses from non-performance by these counterparties.

Most of the Group's restricted bank deposits and cash and cash equivalents were placed with state-owned banks in the PRC and Hong Kong, the relevant credit risk is relatively low.

The tables below detail the credit risk exposures of the Group's financial assets (including trade receivables from goods and services, notes receivable, other receivables, restricted bank deposits and cash and cash equivalents), and other items (lease receivables and contract assets) which are subject to ECL assessment:

2019	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount
Financial assets at amortised cost					
Trade receivables – goods and services	12	N/A	Note (i)	Lifetime ECL (provision matrix)	**669,758**
				Lifetime ECL (individually, not credit-impaired)	**1,386,775**
				Lifetime ECL (individually, credit-impaired)	**72,881**
Other receivables	13	N/A	Note (ii)	12m ECL	**276,339**
				Lifetime ECL (not credit-impaired)	**75,273**
				Lifetime ECL (credit-impaired)	**41,907**
Notes receivable	12	A1	N/A	12m ECL	**180,215**
Restricted bank deposits	14	A1	N/A	12m ECL	**368,730**
Cash and cash equivalents	14	A1	N/A	12m ECL	**2,422,874**
Other items					
Contract assets – goods and services	23(ii)(a)	N/A	Note (i)	Lifetime ECL (individually, not credit-impaired)	**75,519**
Lease receivables – operating leases	12	N/A	Note (i)	Lifetime ECL (individually, not credit-impaired)	**75,671**

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.2 Financial risk factors *(Continued)*

(b) Credit risk and impairment assessment *(Continued)*

2018	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount
Financial assets at amortised cost					
Trade receivables – goods and services	12	N/A	Note (i)	Lifetime ECL (provision matrix)	824,040
				Lifetime ECL (individually, not credit-impaired)	1,137,671
				Lifetime ECL (individually, credit-impaired)	56,475
Other receivables	13	N/A	Note (ii)	12m ECL	192,000
				Lifetime ECL (not credit-impaired)	94,927
				Lifetime ECL (credit-impaired)	14,390
Notes receivable	12	A1	N/A	12m ECL	51,964
Restricted bank deposits	14	A1	N/A	12m ECL	330,948
Cash and cash equivalents	14	A1	N/A	12m ECL	686,636
Other item					
Contract assets – goods and services	23(ii)(a)	N/A	Note (i)	Lifetime ECL (individually, not credit-impaired)	58,579

Notes:

(i) Trade receivables and contract assets from goods and services and lease receivables

For trade receivables and contract assets from goods and services and lease receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' ageing to assess the impairment for part of its customers in relation to its oilfield technology services, oilfield related operation and maintenance services and sales of oilfield-related goods operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables from goods and services from private and relatively small customers which are assessed based on provision matrix as at 31 December 2019 within lifetime ECL (not credit impaired). Trade receivables from goods and services with significant outstanding balances from large multinational and state-owned oil companies and credit impaired with gross carrying amounts of RMB1,386,775,000 (2018: RMB1,137,671,000) and RMB72,881,000 (2018: RMB56,475,000) respectively as at 31 December 2019 were assessed individually.

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.2 Financial risk factors *(Continued)*

(b) Credit risk and impairment assessment *(Continued)*

Notes: *(Continued)*

(i) Trade receivables and contract assets from goods and services and lease receivables *(Continued)*

Trade receivables from goods and services from private and relatively small customers

31/12/2019

	Average loss rate	**Gross carrying amount**	**Impairment loss allowance**
Current (not past due)	**4.18%**	**461,256**	**19,286**
Within 1 year past due	**22.04%**	**138,892**	**30,615**
1-2 years past due	**85.61%**	**69,610**	**59,595**
		669,758	**109,496**

31/12/2018

	Average loss rate	Gross carrying amount	Impairment loss allowance
Current (not past due)	4.28%	650,492	27,815
Within 1 year past due	11.46%	152,554	17,477
1-2 years past due	77.00%	10,821	8,332
More than 2 years past due	100.00%	10,173	10,173
		824,040	63,797

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

During the year ended 31 December 2019, the Group provided RMB62,105,000 (2018: RMB63,797,000) impairment allowance for trade receivables from goods and services from private and relatively small customers based on the provision matrix. Impairment allowance of RMB828,000 (2018: RMB1,848,000) and impairment reversal of RMB Nil (2018: RMB7,189,000) were made on trade receivables from goods and services with significant balances from large multinational and state-owned oil companies and credit impaired debtors respectively.

For contract assets (the retention money receivables) and lease receivables which are arising from large multinational and state-owned oil companies, the Group performed impairment assessment and conclude that the probability of defaults of the counterparties are insignificant and accordingly, no allowance for credit losses is provided.

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.2 Financial risk factors *(Continued)*

(b) Credit risk and impairment assessment *(Continued)*

Notes: *(Continued)*

(i) Trade receivables and contract assets from goods and services and lease receivables *(Continued)*

The following table shows the movements in lifetime ECL that has been recognised for trade receivables from goods and services under the simplified approach:

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
As at 1 January 2018	–	63,664	63,664
Changes due to financial instruments recognised as at 1 January 2018:			
– Impairment losses recognised	36,380	–	36,380
– Impairment losses reversed	–	(7,189)	(7,189)
New originated or purchased	29,265	–	29,265
As at 31 December 2018	65,645	56,475	122,120
Changes due to financial instruments recognised as at 1 January 2019:			
– Impairment losses recognised	**42,483**	**-**	**42,483**
– Transfer to credit-impaired	**(16,406)**	**16,406**	**-**
New originated or purchased	**20,450**	**-**	**20,450**
As at 31 December 2019	**112,172**	**72,881**	**185,053**

Changes in the loss allowance for trade receivables from goods and services are mainly due to impairment losses recognised under lifetime ECL and trade debtors with a gross carrying amount of RMB16,406,000 (2018: Nil) defaulted and transferred to credit-impaired.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.2 Financial risk factors *(Continued)*

(b) Credit risk and impairment assessment *(Continued)*

Notes: *(Continued)*

(ii) Other receivables

For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due/ No fixed repayment terms	Total
31/12/2019			
Other receivables	**41,907**	**351,612**	**393,519**
31/12/2018			
Other receivables	29,860	271,457	301,317

The following tables show reconciliation of loss allowances that has been recognised for other receivables:

	12m ECL	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
As at 1 January 2018	–	–	4,126	4,126
Changes due to financial instruments recognised as at 1 January 2018:				
– Impairment losses recognised	–	6,481	10,264	16,745
New originated or purchased	–	–	–	–
As at 31 December 2018	–	6,481	14,390	20,871
Changes due to financial instruments recognised as at 1 January 2019:				
– Impairment losses recognised	**–**	**–**	**24,760**	**24,760**
– Transfer to credit-impaired	**–**	**(2,757)**	**2,757**	**–**
New originated or purchased	**–**	**–**	**–**	**–**
As at 31 December 2019	**–**	**3,724**	**41,907**	**45,631**

Changes in the loss allowance for other receivables are mainly due to debtors with a gross carrying amount of RMB24,760,000 (2018: RMB10,264,000) defaulted and being credit-impaired under lifetime ECL.

(iii) Notes receivable, restricted bank deposits and cash and cash equivalents

At the end of the reporting period, the Directors have performed impairment assessment under 12m ECL model for notes receivable, restricted bank deposit, and cash and cash equivalents, and concluded that there has been no significant increase in credit risk since initial recognition. Since the counterparties are banks with high credit ratings assigned by international credit-rating agencies, the probability of defaults of the counterparties are insignificant and accordingly, no allowance for credit losses is provided for these financial assets.

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.2 Financial risk factors *(Continued)*

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated primarily from operating and financing activities.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the end of the financial period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31/12/2019

	Weighted average interest rate	**On demand or less than 1 year**	**1-5 years**	**Total undiscounted cash flows**	**Carrying amount**
Non-derivative financial liabilities					
Trade and notes payables	**-**	**957,406**	**-**	**957,406**	**957,406**
Included in accruals and other payables	**-**	**381,331**	**-**	**381,331**	**381,331**
Lease liabilities	**8.700%**	**48,964**	**71,753**	**120,717**	**115,093**
Short-term borrowings	**5.825%**	**511,740**	**-**	**511,740**	**497,749**
Long-term borrowings	**8.609%**	**112,090**	**211,745**	**323,835**	**294,600**
Long-term bonds	**9.288%**	**2,481,078**	**2,406,789**	**4,887,867**	**4,144,868**
		4,492,609	**2,690,287**	**7,182,896**	**6,391,047**

31/12/2018

	Weighted average interest rate	On demand or less than 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
Non-derivative financial liabilities					
Trade and notes payables	–	714,091	–	714,091	714,091
Included in accruals and other payables	–	441,225	–	441,225	441,225
Short-term borrowings	5.740%	903,207	–	903,207	879,192
Long-term borrowings	9.315%	108,539	259,989	368,528	325,555
Long-term bonds	9.643%	215,247	2,259,709	2,474,956	2,065,901
		2,382,309	2,519,698	4,902,007	4,425,964

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

35.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include borrowings, bonds, lease liabilities and trade and notes payables, as shown in the consolidated statement of financial position. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus total borrowings.

The gearing ratios at 31 December 2019 and 2018 were as follows:

	As at 31 December	
	2019	2018
Total borrowings	**6,009,716**	3,984,739
Total equity	**2,957,663**	2,694,562
Total capital	**8,967,379**	6,679,301
Gearing ratio	**67%**	60%

35.4 Fair value estimation

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

Financial liabilities

As at 31 December 2019	**Carrying value**	**Fair value**
Long-term borrowings (non-current)	**99,217**	**96,143**
Long-term bonds (non-current)	**2,028,423**	**2,041,349**
	2,127,640	**2,137,492**

As at 31 December 2018	Carrying value	Fair value
Long-term borrowings (non-current)	–	–
Long-term bonds (non-current)	2,051,403	2,083,529
	2,051,403	2,083,529

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

36. RELATED PARTY TRANSACTIONS

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

(a) The following party is related party of the Group during the year ended 31 December 2019:

Name of related party	Nature of relationship
Mr. Luo Lin	The ultimate controlling shareholder of the Company

(b) Short-term bank borrowings guaranteed by related party

	As at 31 December	
	2019	2018
Short-term borrowings		
Mr. Luo Lin (Note 18(b))	**138,318**	181,357

(c) Notes payable guaranteed by related party

	As at 31 December	
	2019	2018
Notes payable		
Mr. Luo Lin	**50,000**	–

(d) Key management compensation

	Year ended 31 December	
	2019	2018
Salaries and other short-term employee benefits	**13,876**	17,623
Pension scheme	**350**	400
Share-based payments	**5,830**	5,235
	20,056	23,258

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

37. SUBSIDIARIES

(a) The following is a list of principal subsidiaries in which the Company directly or indirectly holds equity interests as at 31 December 2019 and 2018:

Company name	Place and date of incorporation/ establishment	Registered capital	Equity interest and voting power held by the Group	Principal activities
Directly held:				
Anton Oilfield Services Company Limited	Hong Kong, 17 August 2007	HK$100	100%	Investment holding
Anton International	Hong Kong, 17 July 2008	HK$100	100%	Investment holding
Indirectly held:				
Anton Oilfield Services (Group) Ltd. (安東石油技術(集團)有限公司)	Beijing, the PRC, 28 January 2002	US$151,000,000	100%	Oilfield services and sales of equipment
Xinjiang Tong'ao Oilfield Services Co., Ltd. (新疆通奥油田技術服務有限公司, "Xinjiang Tong'ao")	Xinjiang Uygur Autonomous Region, the PRC, 21 February 2002	RMB51,000,000	100%	Oilfield services
Anton Tong'ao Technological Products Co., Limited (安東通奥科技產業股份有限公司, "Anton Tong'ao")	Xinjiang Uygur Autonomous Region, the PRC, 15 December 2005	RMB90,000,000	90%	Manufacturing of rod casing
Shandong Precede	Shandong Province, the PRC, 2 September 2008	RMB55,000,000	100%	Oilfield services and sales of equipment
Anton International FZE ("Anton Dubai")	The United Arab Emirates, 12 April 2009	US$7,300,000	100%	Oilfield services

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

37. SUBSIDIARIES *(Continued)*

(a) The following is a list of principal subsidiaries in which the Company directly or indirectly holds equity interests as at 31 December 2019 and 2018: *(Continued)*

Company name	Place and date of incorporation/ establishment	Registered capital	Equity interest and voting power held by the Group	Principal activities
Sichuan Anton Oil Gas Engineering and Technology Services Co., Ltd. (四川安東油氣工程技術服務有限公司,"Sichuan Anton")	Sichuan Province, the PRC, 14 July 2009	RMB400,000,000	100%	Oilfield services and sales of equipment
DMCC	The United Arab Emirates, 28 March 2011	US$54,462,150	100%	Oilfield services
Sichuan Tongsheng Drilling Technology Co., Ltd. (四川通盛鑽探工程有限公司, "Sichuan Tongsheng")	Sichuan Province, the PRC, 13 February 2012	RMB100,000,000	100%	Construction and drilling services, sales of drilling product
Xinjiang Anton Oilfield Services Co., Ltd. (新疆安東石油技術服務有限責任公司, "Xinjiang Anton")	Xinjiang Uygur Autonomous Region, the PRC, 24 February 2012	RMB80,000,000	100%	Oilfield services

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

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

37. SUBSIDIARIES *(Continued)*

(b) Material non-controlling interests

The total non-controlling interest as at 31 December 2019 was RMB55,525,000 (31 December 2018: RMB48,688,000), of which RMB36,725,000 (31 December 2018: RMB36,206,000) was attributable to Anton Tong'ao. The non-controlling interests in respect of other subsidiaries are not material.

Set out below are the summarised financial information for Anton Tong'ao that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Anton Tong'ao	
	As at 31 December	
	2019	2018
Current		
Assets	**845,650**	806,901
Liabilities	**(689,360)**	(715,002)
Total net current assets	**156,290**	91,899
Non-current		
Assets	**274,334**	333,566
Liabilities	**(63,375)**	(63,401)
Total net non-current assets	**210,959**	270,165
Net assets	**367,249**	362,064
Net assets attributable to non-controlling interests	**36,725**	36,206

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

37. SUBSIDIARIES *(Continued)*

(b) Material non-controlling interests *(Continued)*

Summarised statement of profit or loss and other comprehensive income

	Anton Tong'ao Year ended 31 December	
	2019	2018
Revenue	**563,457**	322,702
Profit before income tax	**87,365**	16,091
Income tax expense	**(12,179)**	(2,311)
Post-tax profit	**75,186**	13,780
Other comprehensive expense	**-**	–
Total comprehensive income	**75,186**	13,780
Total comprehensive income attributable to non-controlling interests	**7,519**	1,378
Dividends paid to non-controlling interests	**7,000**	–

Summarised statement of cash flows

	Anton Tong'ao Year ended 31 December	
	2019	2018
Cash flows from operating activities		
Cash generated from/(used in) operations	**89,415**	(33,741)
Income tax paid	**(1,509)**	(3,448)
Net cash generated from/(used in) operating activities	**87,906**	(37,189)
Net cash generated from/(used in) investing activities	**3,207**	(22,325)
Net cash (used in)/generated from financing activities	**(26,095)**	58,444
Net increase/(decrease) in cash and cash equivalents	**65,018**	(1,070)
Cash and cash equivalents at beginning of year	**28,624**	29,642
Exchange gain on cash and cash equivalents	**2**	52
Cash and cash equivalents at end of year	**93,644**	28,624

The information above is the amount before inter-company eliminations.

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

38. EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus ("COVID-19") continues to spread across the world, and the international oil price plummeted in March. The management of the Group has kept an in-time communication with its management teams running businesses globally and its oil company customers through information platforms to timely follow the market change and evaluate the affection to its businesses. The Group will continue closely monitoring the development of COVID-19 situation and the market uncertainty caused by recent plunge in oil price, and ensure the stable operations. By the date of this announcement, the impact of COVID-19 and the market uncertainty caused by recent plunge in oil price on the Group's subsequent operating results is still under assessment.

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at 31 December	
	2019	2018
Assets		
Non-current assets		
Investments in subsidiaries	**4,979,725**	5,397,857
Current assets		
Trade and notes receivables	**73,192**	70,754
Prepayments and other receivables	**1,821,205**	180
Cash and cash equivalents	**234,491**	60,283
	2,128,888	131,217
Total assets	**7,108,613**	5,529,074
Equity and liabilities		
Equity		
Share capital	**276,273**	275,959
Other reserves (a)	**2,591,196**	2,857,532
Total equity	**2,867,469**	3,133,491
Liabilities		
Non-current liabilities		
Long-term bonds	**2,028,423**	2,051,403
Current liabilities		
Current portion of long-term bonds	**2,116,445**	14,498
Trade and notes payables	**–**	1,600
Accruals and other payables	**96,276**	328,082
	2,212,721	344,180
Total liabilities	**4,241,144**	2,395,583
Total equity and liabilities	**7,108,613**	5,529,074

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

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Note:

(a) Reserve movements of the Company

	Share premium	Capital reserve	Accumulated losses	Total
Balance at 1 January 2018	813,243	3,022,199	(979,256)	2,856,186
Loss for the year	–	–	(283,196)	(283,196)
Share option scheme	–	24,094	–	24,094
Issue of ordinary shares	256,064	–	–	256,064
Share option exercised	7,222	(2,838)	–	4,384
At 31 December 2018	1,076,529	3,043,455	(1,262,452)	2,857,532
Balance at 1 January 2019	**1,076,529**	**3,043,455**	**(1,262,452)**	**2,857,532**
Loss for the year	**-**	**-**	**(267,083)**	**(267,083)**
Share option scheme	**-**	**29,167**	**-**	**29,167**
Share option exercised	**3,148**	**(1,461)**	**-**	**1,687**
Dividends	**(30,107)**	**-**	**-**	**(30,107)**
At 31 December 2019	**1,049,570**	**3,071,161**	**(1,529,535)**	**2,591,196**

40. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2019:

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (i)	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Executive Directors									
Mr. Luo Lin	-	2,472	-	-	31	50	-	-	2,553
Mr. Pi Zhifeng (chief executive)	-	1,873	-	-	69	50	-	-	1,992
Mr. Fan Yonghong	-	1,829	-	-	69	50	-	-	1,948
Non-executive Director									
Mr. John William Chisholm	-	689	-	-	-	-	-	-	689
Independent Non-executive Directors									
Mr. Zhang Yongyi (ii)	287	-	-	-	-	-	-	-	287
Mr. Zhu Xiaoping (ii)	287	-	-	-	-	-	-	-	287
Mr. Wee Yiaw Hin (ii)	689	-	-	-	-	-	-	-	689

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

40. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

The remuneration of every director and the chief executive is set out below: *(Continued)*

For the year ended 31 December 2018:

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (i)	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Executive Directors									
Mr. Luo Lin	-	2,348	1,368	-	30	55	-	-	3,801
Mr. Pi Zhifeng (chief executive)	-	1,894	352	-	65	55	-	-	2,366
Mr. Wu Di	-	898	-	-	17	13	-	-	928
Non-executive Director									
Mr. John William Chisholm	-	663	-	-	-	-	-	-	663
Independent Non-executive Directors									
Mr. Zhang Yongyi (ii)	287	-	-	-	-	-	-	-	287
Mr. Zhu Xiaoping (ii)	287	-	-	-	-	-	-	-	287
Mr. Wee Yiaw Hin (ii)	663	-	-	-	-	-	-	-	663

Notes:

(i) Other benefits include other insurance premium.

(ii) 2,100,000 share options in aggregate were granted to three independent non-executive directors during the year ended 31 December 2019 (2018: 2,100,000 share options), and the total expense recognised in the consolidated statement of profit or loss for year ended 31 December 2019 amounted to RMB1,019,000 (31 December 2018: RMB921,000), the same amount for each independent non-executive director which are not included in this summary.