



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)



2020
INTERIM REPORT





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. ZHANG Yongyi (Chairman)
Mr. Wee Yiau Hin
Mr. LUO Lin

ESG (“ENVIRONMENT, SOCIETY AND GOVERNANCE”) COMMITTEE

Mr. PI Zhifeng (Chairman)
Mr. LUO Lin
Mr. FAN Yonghong

AUTHORIZED REPRESENTATIVES

Mr. LUO Lin
Ms. LAU Jeanie

COMPANY SECRETARY

Ms. LAU Jeanie

COMPANY’S WEBSITE

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Corporate Information

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Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

as to Hong Kong and U.S. law:

Sidley Austin LLP

as to PRC law:

Tiger Partners

as to Cayman Islands law:

Maples and Calder

PRINCIPAL BANKS

Shanghai Pudong Development Bank
China Merchants Bank
Bank of Beijing

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

3337

DATE OF LISTING

14 December 2007

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, the sudden COVID-19 pandemic dealt a heavy blow to the global economy. In order to prevent the spread of the virus, countries around the globe have adopted various quarantine and social distancing policies, resulting in the suspension of flights, closing of borders, and all cross-border movements of personnel were frozen, which brought a huge impact to the Group's overseas business. Thanks to the outstanding epidemic prevention and control measures adopted by the Chinese government, all regions of the country have quickly resumed work and production after the first quarter. In addition, the Group's business in China is mainly natural gas related, and the determination of the Chinese government to increase its independent supply of oil and gas to ensure national energy security remains unchanged, the impact on the Group in the Chinese market is relatively small.

Faced with such a huge global and industry-wide impact, the Group firmly grasped the opportunities in the Chinese market and unwaveringly implemented the strategy of high-quality development. In the first half of 2020, the revenue of the Chinese market increased despite all odds, especially in the northwest, the southwest and the northern China markets, which are dominated by natural gas, the Group achieved overall revenue growth. Since 2019, the Group has implemented stricter development quality management for the three major business clusters and focused on the development of product lines with excellent financial indicators. In the first half of 2020, although the industry was in a downturn, both of the Group's inspection and rental business under the drilling cluster and the oilfield management business of the oil production services cluster, i.e. production operation management, achieved sustained growth in revenue, making the Group's high-quality businesses even more resilient during the downturn.

Results and Performance

In the first half of 2020, the Group's revenue amounted to RMB1,453.9 million, representing a decrease of RMB196.7 million, or 11.9%, from the first half of 2019. The Group's operating profit amounted to RMB177.8 million, representing a decrease of RMB188.5 million, or 51.5%, from RMB366.3 million for the same period in 2019. Net loss of the Group amounted to RMB87.8 million, representing a change of RMB233.1 million, or 160.4%, as compared to a profit of RMB145.3 million for the same period in 2019. The loss attributable to equity holders of the Company was RMB91.0 million, representing a change of RMB236.4 million, or 162.6%, from a profit of RMB145.4 million for the same period in 2019. The net profit margin attributable to equity holders of the Company was -6.3%, a decrease of 15.1 percentage points from 8.8% for the same period in 2019.

As at 30 June 2020, the balance of the Group's accounts receivable was approximately RMB2,189.6 million, with an average turnover of accounts receivable of 261 days, representing an increase of 49 days as compared to the same period last year; an average turnover of inventories of 147 days, representing an increase of 22 days as compared to the same period last year; an average turnover of accounts payable of 102 days, representing an increase of 22 days as compared to the same period last year. Operating cash flow was RMB95.4 million, a significant decrease of RMB172.6 million from RMB268.0 million for the same period last year.

Management Discussion and Analysis

Geographical Market Analysis

In the first half of 2020, the Group's revenue from overseas markets amounted to RMB743.7 million, representing a decrease of RMB234.4 million, or 24.0%, from RMB978.1 million for the same period of 2019. The overseas markets accounted for 51.2% of the Group's total revenue. In the overseas markets, revenue from Iraq was RMB547.6 million, representing a decrease of RMB196.9 million, or 26.4%, compared with RMB744.5 million for the same period in 2019, and accounted for 37.7% of the Group's total revenue. Revenue from the other overseas markets amounted to RMB196.1 million, representing a decrease of RMB37.5 million, or 16.1%, from RMB233.6 million for the same period in 2019, and accounted for 13.5% of the Group's total revenue. Revenue from the domestic market amounted to RMB710.2 million, representing an increase of RMB37.7 million, or 5.6%, from RMB672.5 million for the same period in 2019, and accounted for 48.8% of the Group's total revenue.

Breakdown of Revenue by Market

	6 months ended 30 June			Share of total revenue by market 6 months ended 30 June	
	2020 (RMB'mn)	2019 (RMB'mn)	Change (%)	2020	2019
Overseas	743.7	978.1	-24.0%	51.2%	59.3%
Domestic	710.2	672.5	5.6%	48.8%	40.7%
Total	1,453.9	1,650.6	-11.9%	100.0%	100.0%

Overseas Market

	6 months ended 30 June			Share of total revenue by market 6 months ended 30 June	
	2020 (RMB'mn)	2019 (RMB'mn)	Change (%)	2020	2019
Iraqi market	547.6	744.5	-26.4%	37.7%	45.1%
Other overseas markets	196.1	233.6	-16.1%	13.5%	14.2%
Total	743.7	978.1	-24.0%	51.2%	59.3%

Management Discussion and Analysis

Overseas Markets

Key overseas market - Iraq

In the first half of 2020, as a result of the COVID-19 pandemic, Iraq adopted strict control measures, not only closing customs and cutting off international air traffic, but also restricting movement between provinces. As a result, the Group was unable to mobilize its personnel to Iraq to commence operation of new projects. After prudent evaluation by the management, the Group voluntarily reduced its order backlog in Iraq by RMB1,201.9 million in the first quarter of 2020.

Despite the double whammy of the pandemic and lower oil prices, the large southern oilfield, an important source of fiscal revenue for Iraq, continued its consistent and steady operations. Benefiting from this, revenue and cash flow from the Group's oilfield management project in this oilfield remained stable, partially offset the significant impact of the pandemic on the Group's Iraq operations. Meanwhile, as a result of the Group's excellent management performance in the oilfield over the past two years, the Iraqi customer renewed the oilfield management contract with the Group in the first quarter of 2020, with the new contract valid for one year from 1 July 2020.

In the first half of 2020, the Group received new orders of approximately RMB762.4 million in total from the Iraqi market, representing an increase of 3.0% from RMB740.1 million for the same period last year. In the first half of the year, the Iraqi market recorded revenue of approximately RMB547.6 million, down approximately 26.4% from RMB744.5 million for the same period last year.

Other overseas markets - emerging markets

In the first half of 2020, affected by the COVID-19 pandemic, the Group's development in other overseas markets was affected accordingly. In the first half of the year, the Group's new orders in the other overseas markets amounted to RMB100.9 million in total, representing a decrease of 66.0% as compared to the same period last year. In the first half of 2020, the other overseas markets recorded revenue of approximately RMB196.1 million, a decrease of approximately 16.1% from RMB233.6 million for the same period last year. The decline in business was partially offset by the smooth and continuous operation of the Group's oilfield management project in Chad, which contributed to both the Group's revenue and cash flow, despite a decrease in both new orders and revenue elsewhere.

Chinese market

The Chinese market was the first to be hit by the COVID-19 pandemic in 2020. With the strong and effective preventive measures taken by the Chinese government, the pandemic was quickly brought under control, and work resumed in the second quarter across the country. On the one hand, major oil companies responded to the government's call to actively promote the development of domestic oil and gas resources to ensure national energy security; on the other hand, oil companies also formulated cost control measures to cope with the short-term operating pressure caused by the decline in demand brought about by the pandemic.

Management Discussion and Analysis

Against this backdrop, in the first half of 2020, the Group obtained new orders of approximately RMB1,172.3 million in the Chinese market, representing a decrease of approximately 28.9% as compared to RMB1,648.2 million for the same period of last year. The high-end market of Xinjiang still showed great development, with the drilling tools rental business, which operates mainly in Xinjiang, recording new orders of approximately RMB318.7 million, an increase of 86.4% over the same period last year. At the same time, order backlog in China was quickly brought into operation, and revenue in China for the first half of 2020 was approximately RMB710.2 million, an increase of approximately 5.6% from RMB672.5 million for the same period last year. The Group offered a certain degree of price discounts to customers due to the cost control requirements of customers, and as a result, margins have declined in the short term.

Business Cluster Analysis

During the first half of 2020, the Group's drilling and completion businesses were significantly affected by the COVID-19 pandemic and the subsequent decline in international crude oil prices, resulting in the corresponding cutbacks in capital expenditure by customers in various global markets. During the reporting period, revenue from the Group's drilling technology cluster was RMB595.1 million, representing a decrease of approximately 19.8% compared to the first half of 2019 and accounting for 40.9% of the Group's revenue in the first half of 2020; the Group's well completion business also showed a decline. In the first half of 2020, revenue from the well completion cluster amounted to RMB327.6 million, representing a decrease of approximately 12.3% from the first half of 2019, and accounted for 22.6% of the Group's overall revenue; regarding its production business, during the reporting period, the Group's large-scale integrated oilfield management projects in the Iraqi market and the oilfield management project in Chad operated smoothly, leading the Group's oil production services cluster to achieve revenue of RMB531.2 million, representing a slight decrease of approximately 0.7% as compared to the first half of 2019 and accounting for 36.5% of the Group's overall revenue.

Revenue Breakdown by Cluster

	6 months ended 30 June			% of total revenue	
	First half of 2020 (RMB'mn)	First half of 2019 (RMB'mn)	Change (%)	6 months ended 30 June 2020	2019
Drilling technology cluster	595.1	741.8	-19.8%	40.9%	44.9%
Well completion cluster	327.6	373.7	-12.3%	22.6%	22.6%
Oil production services cluster	531.2	535.1	-0.7%	36.5%	32.5%
Total	1,453.9	1,650.6	-11.9%	100.0%	100.0%

Management Discussion and Analysis

Drilling technology cluster

In the first half of 2020, the revenue of the Group's drilling technology cluster was RMB595.1 million, a decrease of 19.8% from RMB741.8 million for the first half of 2019. The decrease in revenue for the cluster was mainly due to clients cutting back on capital expenditure in response to low oil prices as a result of the COVID-19 pandemic.

Business analysis by product line of the drilling technology cluster:

- 1) Integrated drilling service: During the reporting period, revenue from integrated drilling services amounted to RMB105.7 million, representing a decrease of 33.1% from RMB157.9 million for the corresponding period in 2019 due to the impact of customers' reduction in capital expenditure.
- 2) Directional drilling services: In the first half of the year, the Group provided directional drilling services to its customers mainly in various regional markets such as the northwest China market and the southwest China shale gas market. Directional drilling services recorded revenue of RMB70.3 million during the reporting period, down 24.6% from RMB93.2 million for the same period last year, as the overseas market business was affected by the cease of mobilization of personnel due to the pandemic.
- 3) Drilling rig services: Drilling rig services was significantly affected during the reporting period as customers around the world cut back on capital expenditure for new capacity. During the reporting period, drilling rig services recorded revenue of RMB136.6 million, down 28.1% from RMB190.0 million for the same period last year.
- 4) Oilfield waste management services: The Group is actively developing its business in the area of oilfield waste management in order to fulfill its commitment to sustainable development. In the first half of the year, this product line recorded revenue of RMB78.7 million, down 27.1% from RMB107.9 million for the same period last year due to the decrease in customers' drilling business.

Note: As a result of adjustment of the Group's product lines, the "drilling and completion fluid services" product line was merged into the "oilfield waste management services" product line in 2020, and revenue from this product line included revenue from drilling and completion fluid services in the first half of 2020. Drilling and completion fluid services revenue was accordingly incorporated into the oilfield waste management services product line for the same period in 2019 to allow a same latitude comparison.

- 5) Drilling tool rental and technology services: To secure China's natural gas energy supply, customers continue to increase investment in the natural gas market in Xinjiang and demand for drilling rig rental continues to increase. During the reporting period, the product line recorded revenue of RMB149.2 million, representing an increase of 7.3% from RMB139.1 million for the same period in 2019.
- 6) Oil production facilities inspection and evaluation services: During the first half of the year, the product line continued to gain workload in the northwest China market and the gas storage market. During the reporting period, inspection and evaluation services recorded revenue of RMB54.6 million, up 1.7% from RMB53.7 million in the same period last year.

Management Discussion and Analysis

EBITDA for the drilling technology cluster decreased by 32.0% to RMB204.7 million in the first half of 2020 from RMB301.0 million for the same period last year. In the first half of the year, the EBITDA margin was 34.4%, down 6.2 percentage points from 40.6% for the same period last year, mainly due to lower revenue as customers cut back on capital expenditure and lower unit prices for services which further impacted profits.

Well completion cluster

In the first half of the year, the Group's well completion business was affected by a corresponding decline in capital expenditure cuts by customers. During the reporting period, the revenue of well completion cluster was RMB327.6 million, down 12.3% from RMB373.7 million last year.

Business analysis by product line of the well completion cluster:

- 1) Well completion integration services: In the first half of the year, well completion integration services recorded revenue of RMB83.7 million, down 30.9% from RMB121.1 million for the same period last year.
- 2) Pressure pumping services: In the first half of the year, pressure pumping services recorded revenue of RMB114.7 million, an increase of 13.2% from RMB101.3 million for the same period last year. It mainly benefited from the development of new markets for tight gas and CBM in eastern China.
- 3) Coiled tubing services: In the first half of the year, the product line recorded revenue of RMB79.5 million, down 16.9% from RMB95.7 million for the same period last year, due to a reduction in projects in other overseas emerging markets.
- 4) Fracturing/acidizing technique and chemical materials: During the reporting period, the service recorded revenue of RMB7.3 million, a decrease of 61.0% from RMB18.7 million for the same period last year.
- 5) Gravel packing services: The product line recorded revenue of RMB42.4 million for the first half of the year, up 14.9% from RMB36.9 million for the same period last year.

EBITDA for the well completion cluster decreased to RMB118.9 million in the first half of 2020 from RMB156.3 million for the same period last year, a decrease of 23.9%. In the first half of the year, the EBITDA margin was 36.3%, down 5.5 percentage points from 41.8% for the same period last year, mainly due to lower revenue and price discounts to customers from certain projects of the Group.

Management Discussion and Analysis

Oil production services cluster

In the first half of the year, benefitting mainly from the good performance of the Group's large-scale integrated oilfield management project in Iraq and oilfield management project in Chad, revenue of the oil production services cluster was RMB531.2 million, only slightly down by 0.7% from RMB535.1 million for the same period of last year.

Business analysis by product line of the oil production services cluster:

- 1) Production operation services: In the first half of the year, the Group's integrated oilfield management service project in Iraq's Majnoon oilfield operated efficiently, while the Chad oilfield management project also entered a stable operation period since its launch last year, with daily operation and maintenance income relatively less affected by the pandemic and oil prices. During the reporting period, revenue from production operation services was RMB405.6 million, a slight increase of 3.4% from RMB392.3 million for the same period last year, mainly due to the stable business volume and service price.
- 2) Workover services: During the reporting period, revenue from workover services was RMB100.7 million, a decrease of 11.0% from RMB113.2 million for the same period last year.
- 3) Oil tubing and casing and anti-corrosion technology services: During the reporting period, the business recorded revenue of RMB24.9 million, a decrease of 15.9% from RMB29.6 million for the same period last year.

EBITDA for the oil production services cluster decreased to RMB182.0 million in the first half of 2020 from RMB217.6 million for the same period last year, a decrease of 16.4%. The EBITDA margin for the oil production services cluster was 34.3% in the first half of the year, down 6.4 percentage points from 40.7% for the same period last year. The decline in the EBITDA margin was primarily due to a decrease in customer capital expenditure projects managed by the oilfield management project, and a corresponding decrease in management fees, as well as price discounts offered to customers by the Group for domestic oil production services projects.

Strategic Resources Alignment

In the first half of 2020, in the face of sudden changes to the business environment, the Group further tightened its control over new capital expenditure in accordance with the "asset-light" business model and the comprehensive control requirements with "cash flow" as the core. Capital expenditure in the first half of the year amounted to RMB122.9 million, mainly for the payment of the equipment purchased, representing an increase of RMB53.0 million as compared to RMB69.9 million in the first half of 2019.

Management Discussion and Analysis

Alignment of Investment

In the first half of 2020, the Group's investments were mainly complementary investments in equipment for projects under implementation.

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

In the first half of 2020, the Group focused on the improvement and innovation of relevant technologies or tools, taking into account the practical needs of customers to increase production and reduce costs, and promoted the optimization and upgrading of the Group's products through technical cooperation. In the first half of 2020, the Group invested RMB18.9 million in research and development, an increase of 36.0% from RMB13.9 million for the same period last year. Key research pipelines include:

- Development and application of high-end production completion tools
- High-temperature, high-density, high-performance, environment-friendly water-based drilling fluid system
- Development of volumetric fracturing supporting technologies
- Automatic fluid control process and technology research project – Phase II
- Biosynthetic-based environment-friendly drilling fluid system Ant-Druid indoor research and field application
- Development of new emulsion breakers

Alignment of Human Resources

In the first half of 2020, there was a temporary increase in labor costs as a percentage of revenue due to the COVID-19 pandemic which prevented the Group's overseas personnel from returning home for back-to-back vacations and the decline in overseas business resulting from the pandemic.

The Group promptly adjusted its manpower policy, adopted a minimum paid leave system for product lines with insufficient domestic business workload, optimized redundant personnel and expected to improve its manpower costs in the second half of the year.

As at 30 June 2020, the total number of employees of the Group was 4,089, of which 2,056 were overseas employees, accounting for 50.3% of the total number of employees of the Group.

Management Discussion and Analysis

Outlook

The Group's long-term strategic goal is to become "the world's leading oilfield technology service company," and it will have to overcome various difficulties to achieve this goal. The sudden onset of the COVID-19 pandemic in 2020 disrupted the Group's growth plans set out at the beginning of the year, but did not alter its long-term strategic objectives. In the face of the unexpected impact, the Group will firstly tide over the difficult times with quality business capabilities and sound financial management strategies, while focusing more on the Company's long-term strategy to develop emerging markets for global oil and gas development, provide a full range of products, highlight precision engineering services that combine reservoir geology and engineering, and build a super platform for the oil industry with the support of intelligent and digitalized operations.

In terms of market, in Iraq, the Group will continue to provide integrated management services to our customers in the Majnoon oilfield, helping them to maintain efficient oilfield operations and expand production capacity, while at the same time leveraging the driving effect of the Majnoon project to secure more project opportunities. In addition, the Group will make every effort to replicate similar project opportunities in Iraq; in other overseas markets, the Group will place special emphasis on risk control and providing products and services in a safe manner. As the Chinese market is the safest market relative to the other markets overseas in the face of global pandemics, the Group will make every effort to seize the opportunity to develop domestic oil and gas resources to address energy security issues, and support the Group with the development of the Chinese market to see through the difficult times during the industry downturn.

In terms of product, technology and service capabilities, the Group will make every effort to build comprehensive products and services to help customers achieve their strategic goals with a full range of processes, series and integrated services. At the same time, we will focus on developing precision engineering services that combine reservoir geology and engineering, and global oilfield management services.

In terms of strategic resources alignment, the Group will focus on investing in technology and talent development. In terms of technology, the Group will focus on technical cooperation and independent research and development; in terms of talent, on the one hand, more emphasis will be placed on improving the efficiency of personnel during the downturn, and on the other hand, internal training will be enhanced to prepare for the export of talent to the Group's global business after the end of the pandemic. In respect of capital expenditure, the Group will only complete the payment for past equipment purchases and in principle, will not procure additional equipment. At the same time, the Group will actively and prudently search for investment projects with high returns and good cash flow to prepare for long-term development opportunities.

Management Discussion and Analysis

In terms of finance, the Group will optimize its financial operations by increasing revenue and reducing expenditure, expediting receivables collection and slowing payments, to ensure the generation of safe free cash flow throughout the year, enabling the Group to quickly return to a high-quality development track after the end of the pandemic. At the same time, we will continue to deepen our cooperation with commercial banks and other financial institutions to ensure adequate liquidity for the Group and to obtain support from financial institutions for the Group's overseas development.

In terms of Environment, Society and Governance (ESG), the Group will adhere to its vision of becoming a model of efficient and harmonious development between mankind and the environment, benchmarking the best practices in the industry and improving ESG management, creating an environmental-friendly business model, help talents to grow, promote the development of stakeholders and the progress of communities to achieve the long-term sustainable development.

FINANCIAL REVIEW

Revenue

The Group's revenue for the first half of 2020 amounted to RMB1,453.9 million, representing a decrease of RMB196.7 million, or 11.9%, from RMB1,650.6 million for the same period in 2019. The decrease in the Group's operating revenue was mainly due to the continued spread of the COVID-19 pandemic on a global scale, the closure of borders in the Group's major overseas markets and the inability to carry out normal mobilization of personnel and equipment, which seriously affected the progress of projects.

Cost of Sales

Cost of sales decreased by 5.0% to RMB1,036.5 million in the first half of 2020 from RMB1,091.0 million in the same period of 2019, primarily due to the decrease in revenue.

Other Gains, Net

Other gains increased by 50.9% from RMB5.3 million in the same period of 2019 to RMB8.0 million in the first half of 2020.

Management Discussion and Analysis

Asset Impairment Loss

Asset impairment losses increased by 44.7% from RMB26.4 million in the corresponding period of 2019 to RMB38.2 million in the first half of 2020. The increase was mainly due to impairment provisions made on accounts receivable based on an expected credit loss model.

Selling Expenses

Selling expenses for the first half of 2020 amounted to RMB96.5 million, representing an increase of RMB15.7 million, or 19.4%, compared with RMB80.8 million for the same period in 2019, primarily due to the non-recurring expenditure of the COVID-19 pandemic prevention materials.

Administrative Expenses

Administrative expenses for the first half of 2020 were RMB87.5 million, an increase of RMB16.5 million, or 23.2%, compared to RMB71.0 million for the same period in 2019, primarily due to the impairment of inventories and the increase of operating expenses during the COVID-19 pandemic.

Research and Development Expenses

Research and development expenses in the first half of 2020 amounted to RMB18.9 million, representing an increase of RMB5.0 million, or 36.0%, from RMB13.9 million in the same period of 2019.

Taxes and surcharges

Taxes and surcharges for the first half of 2020 were RMB6.5 million, remained flat compared to RMB6.5 million for the same period in 2019.

Operating Profit

Based on the above, operating profit for the first half of 2020 was RMB177.8 million, representing a decrease of RMB188.5 million, or 51.5%, from RMB366.3 million for the same period in 2019. The operating margin for the first half of 2020 was 12.2%, a decrease of 10.0 percentage points from 22.2% for the same period in 2019, mainly due to the Group's lower-than-expected project progress and lower revenue due to the impact of the COVID-19 pandemic, as well as the impact of fixed costs such as depreciation and labor costs.

Management Discussion and Analysis

Finance Costs, Net

In the first half of 2020, net finance costs amounted to RMB211.3 million, representing an increase of approximately RMB57.4 million, or 37.3%, compared with RMB153.9 million for the same period in 2019, primarily due to the increase in finance interests of long-term bonds as a result of the additional issuance of US\$ senior notes by the Group in December 2019.

Income Tax Expense

In the first half of 2020, income tax expenses amounted to RMB54.5 million, representing a decrease of RMB12.9 million as compared to RMB67.4 million for the same period in 2019, mainly due to the decrease in the Group's revenue from overseas markets.

(Loss)/Profit for the Period

Based on the above, the Group's loss for the first half of 2020 was RMB87.8 million, representing a change of RMB233.1 million, or 160.4%, from the profit of RMB145.3 million for the same period in 2019.

(Loss)/Profit Attributable to the Equity Holders of the Company

In the first half of 2020, the Group's loss attributable to equity holders of the Company amounted to RMB91.0 million, representing a change of RMB236.4 million as compared to a profit of RMB145.4 million for the same period in 2019.

Trade and Notes Receivables

As at 30 June 2020, the Group's net trade and notes receivable amounted to RMB2,381.0 million, representing an increase of RMB180.8 million as compared to 31 December 2019. Average trade receivables turnover days were 261 days in the first half of 2020, an increase of 49 days compared to the same period in 2019, mainly due to the revenue decline impacted by the market situation and customers' adjustment of payment schedule.

Inventories

As at 30 June 2020, the Group's inventory was RMB926.3 million, representing an increase of RMB160.8 million as compared to 31 December 2019, mainly due to the slowdown in inventory turnover as the overseas project schedule was severely affected by the COVID-19 pandemic which continued to spread worldwide.

Management Discussion and Analysis

Liquidity and Capital Resources

As at 30 June 2020, the Group had cash and bank deposits of approximately RMB1,834.2 million (including: restricted bank deposits, and cash and cash equivalents), representing a decrease of RMB957.4 million as compared to 31 December 2019.

The Group's outstanding short-term borrowings as at 30 June 2020 amounted to approximately RMB529.3 million. Approximately RMB1,376.0 million of the credit facilities granted to the Group by domestic banks in the PRC was unused.

As at 30 June 2020, the Group's gearing ratio was 65.4%, a decrease of 1.6 percentage points from the gearing ratio of 67.0% as at 31 December 2019. The gearing ratio is calculated based on the total borrowings divided by the total capital. Total borrowings include borrowings, bonds, lease liabilities, trade payables and notes payable (as shown in the condensed consolidated statement of financial position). Total capital is calculated based on equity (as shown in the condensed consolidated statement of financial position) plus total borrowings.

The equity attributable to equity holders of the Company as at 30 June 2020 was RMB2,820.1 million, representing a decrease of RMB82.0 million from RMB2,902.1 million as at 31 December 2019.

Acquisition and Disposal of Major Subsidiaries, Associates and Joint Ventures

For the six months ended 30 June 2020, the Group has no major acquisition or disposal of subsidiaries, associates and joint ventures.

Exchange Risk

The Group mainly uses RMB and US dollar as its operating currencies 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, long-term bonds and trade receivables denominated in foreign currencies. Any fluctuations in RMB exchange rate against the US dollar may have a negative impact on the Group's operating results and financial position.

Cash Flow from Operating Activities

For the six months ended 30 June 2020, the Group's cash flow from operating activities was a net inflow of RMB95.4 million, representing a decrease of RMB172.6 million as compared to the corresponding period in 2019, which was mainly due to the decrease in the amount of receivables collected as some of the Group's oil company customers prefer to pay in notes and certain delay in receivables collection led by some customers' adjustment on payment schedule.

Management Discussion and Analysis

Capital Expenditure and Investment

The Group's capital expenditure in the first half of 2020 amounted to RMB122.9 million, of which RMB113.4 million was investment in fixed assets and RMB9.5 million was investment in intangible assets.

Contractual Commitments

The Group's contractual commitments mainly include the Group's capital commitments. As at the balance sheet date (i.e. 30 June 2020), the Group's capital commitment (but not yet provisioned on the statement of financial position) amounted to approximately RMB81.8 million.

Contingent Liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2020, the Group's assets pledged for bank financing were buildings and equipment with a net book value of RMB386.3 million, land use rights with a net book value of RMB8.4 million and trade receivable with a net book value of RMB732.1 million.

Off-Balance Sheet Arrangements

As at 30 June 2020, the Group did not have any off-balance sheet arrangements.

OTHER INFORMATION

INTERIM DIVIDEND

The board of directors (the "Board") of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

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

On 25 February 2020, the Group issued an announcement and Offer (the "Offer") to purchase for cash of its outstanding 9.75% senior notes due 2020 up to the maximum acceptance amount ("2020 Notes"). The Group repurchased a total amount of US\$102,737,000 of its 2020 Notes under the offer, and on 9 March 2020, the Group completed the cancellation of such repurchase and another US\$4,000,000 of its 2020 Notes that were previously purchased from the secondary market. After the completion of the repurchase and cancellation, the Group's total remaining outstanding principal of the 2020 notes was US\$193,263,000. The Company had purchased in the secondary market US\$14,000,000 of its 2020 Notes and US\$8,600,000 of its 2022 Notes (7.50% coupon Senior Notes due 2022) respectively in the reporting period of 2020.

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

As at 30 June 2020, the interests and short positions of the directors (the "Directors") and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in the shares of the Company

Name of Director	Notes	Capacity	Number of Shares/ underlying shares	Approximate percentage of shareholding
LUO Lin	1, 2	Founder of a discretionary trust and beneficial owner	727,898,330	24.21%
PI Zhifeng	2	Beneficial owner	11,648,000	0.38%
FAN Yonghong	2	Beneficial owner	20,920,000	0.69%
ZHANG Yongyi	2	Beneficial owner	3,440,000	0.11%
ZHU Xiaoping	2	Beneficial owner	3,000,000	0.09%
WEE Yiau Hin	2	Beneficial owner	2,100,000	0.06%

Notes:

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.
2. These shares includes the share options granted to each directors pursuant to the Company's Share Option Scheme ("Share Option Scheme"). Details of such options of each director were disclosed in the following "SHARE OPTION SCHEME" section.

Other Information

Save as disclosed above, at 30 June 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 26 May 2017, which has a life of 10 years, to replace the share option scheme adopted on 17 November 2007 that had expired on 26 May 2017.

The movements in the share options of the Company during the six months ended 30 June 2020 are set out 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 2020	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Number of share options as at 30 June 2020
Directors										
Luo Lin	2 December 2016	2 December 2017 to 1 December 2022	1.100	1,5	2,216,000	-	-	-	-	2,216,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,6	442,000	-	-	-	-	442,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,7	2,218,000	-	-	-	-	2,218,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,8	784,922	-	-	-	-	784,922
Subtotal:					5,660,922	-	-	-	-	5,660,922
Pi Zhifeng										
Pi Zhifeng	01 April 2016	01 April 2017 to 31 March 2022	0.800	1,4	3,000,000	-	-	-	-	3,000,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,6	3,000,000	-	-	-	-	3,000,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,7	2,600,000	-	-	-	-	2,600,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,8	2,600,000	-	-	-	-	2,600,000
Subtotal:					11,200,000	-	-	-	-	11,200,000
FAN Yonghong										
FAN Yonghong	24 February 2016	24 February 2017-23 February 2022	0.740	1,3	2,700,000	-	-	-	-	2,700,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,6	2,700,000	-	-	-	-	2,700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,7	3,500,000	-	-	-	-	3,500,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,8	4,020,000	-	-	-	-	4,020,000
Subtotal:					12,920,000	-	-	-	-	12,920,000
Zhang Yongyi										
Zhang Yongyi	01 April 2016	01 April 2017 to 31 March 2022	0.800	2,4	900,000	-	-	-	-	900,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	2,6	700,000	-	-	-	-	700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	2,7	700,000	-	-	-	-	700,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	2,8	700,000	-	-	-	-	700,000
Subtotal:					3,000,000	-	-	-	-	3,000,000

Other Information

Grantees	Date of grant Of share options	Exercise period of Share options	Exercise price per share HK\$	Notes	Number of share options as at 1 January 2020	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Number of share options as at 30 June 2020
Zhu Xiaoping	01 April 2016	01 April 2017 to 31 March 2022	0.800	2,4	900,000	-	-	-	-	900,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	2,6	700,000	-	-	-	-	700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	2,7	700,000	-	-	-	-	700,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	2,8	700,000	-	-	-	-	700,000
				Subtotal:	3,000,000	-	-	-	-	3,000,000
Wee Yvaw Hin	23 May 2017	23 May 2018 to 22 May 2023			700,000	-	-	-	-	700,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	2,7	700,000	-	-	-	-	700,000
	07 January 2019	07 January 2020 to 06 January 2025	0.790	2,8	700,000	-	-	-	-	700,000
				Subtotal:	2,100,000	-	-	-	-	2,100,000
Employees in aggregate	24 February 2016	24 February 2017-23 February 2022	0.740	1,3	80,557,334	-	8,000	-	3,724,000	76,825,334
	01 April 2016	01 April 2017 to 31 March 2022	0.800	1,4	1,500,000	-	-	-	-	1,500,000
	23 May 2017	23 May 2018 to 22 May 2023	0.810	1,6	86,958,000	-	-	-	3,240,000	83,718,000
	03 April 2018	03 April 2019 to 02 April 2024	1.020	1,7	56,395,333	-	-	-	2,830,000	53,565,333
	07 January 2019	07 January 2020 to 06 January 2025	0.790	1,8	82,895,078	-	-	-	4,666,000	78,229,078
	01 April 2020	01 April 2021 to 31 March 2026	0.495	1,9	-	113,439,592	-	-	-	113,439,592
				Subtotal	308,305,745	113,439,592	8,000	-	14,460,000	407,227,337
				Total:	346,186,667	113,439,592	8,000	-	14,460,000	445,158,259

Notes:

- The option period for the share options granted above commences on the date of grant and ends on the last day of seventy-two months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to one-third of their share options during the option period commencing from each of the first, second and third anniversary of the date of grant.
- The option period for the share options granted above commences on the date of grant and ends on the last day of seventy-two months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to 50% of their share options during the option period commencing from each of the first and second anniversary of the date of grant.
- The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.77.*
- The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.81.*
- The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.12.*
- The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.84.*
- The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.97.*
- The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.84.*
- The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.495.*
- As at 30 June 2020, the total outstanding options that has been granted under the Share Option Scheme is 445,158,259.

* Closing price source from Hong Kong Stock Exchange Website

Other Information

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

As at 30 June 2020, so far as is known to any Director or the chief executive of the Company, 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/Short 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	420,444,000	13.98%
Nomura Holdings, Inc	2	Interest of controlled corporation	Short Position	277,734,000	9.23%
China Oil HBP Science & Technology Co., Ltd.	3	Interest of controlled corporation	Long position	239,544,452	7.96%
China Oil HBP Science & Technology Co., Ltd.	3	Interest of controlled corporation	Short position	114,444,452	3.80%

Note:

1. Pro Development Holdings Corp., which holds 664,140,740 shares in the Company, is wholly owned by Avalon Assets Limited. Avalon Assets Limited is owned as to 50% by Serangoon Limited and as to 50% by Seletar 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, which holds 420,444,000 shares of the Company and has a short position of 277,734,000 shares of the Company, 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 holds 239,544,452 shares of the Company and has a short position of 114,444,452 shares of the Company, is wholly owned by China Oil HBP Science & Technology Co., Ltd. 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.

Save as disclosed above, as at 30 June 2020, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register which is required to be kept by the Company under Section 336 of the SFO.

Other Information

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. Following specific enquiries by the Company, all Directors have confirmed that they complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

CHANGE IN DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the biographical details of the Directors of the Company since publication of its 2019 Annual Report are set out as follows:

- (a) Mr. John William Chisholm resigned as a non-executive Director of the Company with effect from 21 May 2020.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") under Appendix 14 to the Listing Rules during the six months ended 30 June 2020.

AUDIT COMMITTEE

Pursuant to the requirements of the CG Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely, Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Mr. Wee Yiau Hin. The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 and confirms that the applicable accounting principals, standards and requirements have been complied with, and that adequate disclosures have been made.

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

Hong Kong, 28 August 2020

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF ANTON OILFIELD SERVICES GROUP

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Anton Oilfield Services Group (the "Company") and its subsidiaries set out on pages 24 to 56, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

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

	Notes	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,138,954	2,137,866
Right-of-use assets	8	169,797	189,901
Goodwill		242,004	242,004
Intangible assets	9	256,149	259,986
Interest in a joint venture		3,929	3,808
Interest in an associate		2,000	2,000
Prepayments and other receivables	14	163,069	155,696
Deferred income tax assets	10	30,309	34,637
		3,006,211	3,025,898
Current assets			
Inventories	11	926,302	765,496
Trade and notes receivables	12	2,381,029	2,200,247
Contract assets	13	78,581	75,519
Prepayments and other receivables	14	636,384	648,048
Restricted bank deposits	15	421,944	368,730
Cash and cash equivalents	15	1,412,254	2,422,874
		5,856,494	6,480,914
Total assets		8,862,705	9,506,812
EQUITY			
Equity attributable to the owners of the Company			
Share capital	16	276,273	276,273
Reserves		2,543,852	2,625,865
		2,820,125	2,902,138
Non-controlling interests		58,743	55,525
Total equity		2,878,868	2,957,663

Condensed Consolidated Statement of Financial Position – continued

As at 30 June 2020

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

	Notes	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
LIABILITIES			
Non-current liabilities			
Long-term bonds	17	2,014,454	2,028,423
Long-term borrowings	18	106,249	202,426
Lease liabilities		55,360	69,259
Deferred income tax liabilities	10	10,109	10,219
		2,186,172	2,310,327
Current liabilities			
Short-term borrowings	18	529,313	497,749
Current portion of long-term bonds	17	1,311,546	2,116,445
Current portion of long-term borrowings	18	241,566	92,174
Trade and notes payables	19	1,144,547	957,406
Accruals and other payables	20	389,819	404,528
Lease liabilities		43,068	45,834
Contract liabilities		14,005	13,976
Current income tax liabilities		123,801	110,710
		3,797,665	4,238,822
Total liabilities		5,983,837	6,549,149
Total equity and liabilities		8,862,705	9,506,812

The condensed consolidated financial statements on pages 24 to 56 were approved and authorised for issue by the Board of Directors on 28 August 2020 and were signed on its behalf by:

Chairman

Executive Director

The notes on pages 31 to 56 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

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

	Notes	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Revenue			
Contracts with customers	21	1,302,813	1,556,302
Rental	21	151,125	94,286
Total revenue	21	1,453,938	1,650,588
Cost of sales	22	(1,036,455)	(1,090,951)
Gross profit		417,483	559,637
Other gains, net	23	8,003	5,331
Impairment losses under expected credit loss model, net of reversal	22	(38,194)	(26,356)
Selling expenses	22	(96,459)	(80,836)
Administrative expenses	22	(87,496)	(70,964)
Research and development expenses	22	(18,894)	(13,913)
Sales tax and surcharges		(6,638)	(6,637)
Operating profit		177,805	366,262
Interest income		7,217	456
Finance expenses		(218,498)	(154,391)
Finance costs, net	24	(211,281)	(153,935)
Share of profit of a joint venture		121	356
(Loss)/profit before income tax		(33,355)	212,683
Income tax expense	25	(54,473)	(67,403)
(Loss)/profit for the period		(87,828)	145,280
(Loss)/profit attributable to:			
Owners of the Company		(91,046)	145,357
Non-controlling interests		3,218	(77)
		(87,828)	145,280
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company (expressed in RMB per share)			
– Basic	26	(0.0303)	0.0484
– Diluted	26	(0.0303)	0.0480

The notes on pages 31 to 56 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	(87,828)	145,280
Other comprehensive (expense)/income, net of tax:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net investment hedge	(29,176)	(3,055)
Currency translation differences	31,879	6,031
Other comprehensive income for the period, net of tax	2,703	2,976
Total comprehensive (expense)/income for the period	(85,125)	148,256
Total comprehensive (expense)/income attributable to:		
Owners of the Company	(88,343)	148,333
Non-controlling interests	3,218	(77)
	(85,125)	148,256

The notes on pages 31 to 56 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

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

	Note	Attributable to the owners of the Company						Subtotal	Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserve	Statutory reserve	Retained earnings	Other reserves			
Balance at 1 January 2020		276,273	1,049,570	444,191	76,900	1,088,379	(33,175)	2,902,138	55,525	2,957,663
Loss for the period		-	-	-	-	(91,046)	-	(91,046)	3,218	(87,828)
Other comprehensive (expense)/income										
- Net investment hedge		-	-	-	-	-	(29,176)	(29,176)	-	(29,176)
- Currency translation differences		-	-	-	-	-	31,879	31,879	-	31,879
Total comprehensive income		-	-	-	-	(91,046)	2,703	(88,343)	3,218	(85,125)
- Share option scheme	16(b)	-	-	6,330	-	-	-	6,330	-	6,330
Total transactions with owners, recognised directly in equity		-	-	6,330	-	-	-	6,330	-	6,330
Balance at 30 June 2020		276,273	1,049,570	450,521	76,900	997,333	(30,472)	2,820,125	58,743	2,878,868

Condensed Consolidated Statement of Changes in Equity – continued

For the six months ended 30 June 2019

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

	Notes	Attributable to the owners of the Company						Subtotal	Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserve	Statutory reserve	Retained earnings	Other reserves			
Balance at 1 January 2019		275,959	1,076,529	416,485	76,900	819,796	(19,795)	2,645,874	48,688	2,694,562
Profit for the period		-	-	-	-	145,357	-	145,357	(77)	145,280
Other comprehensive (expense)/income										
- Net investment hedge		-	-	-	-	-	(3,055)	(3,055)	-	(3,055)
- Currency translation differences		-	-	-	-	-	6,031	6,031	-	6,031
Total comprehensive income		-	-	-	-	145,357	2,976	148,333	(77)	148,256
- Share option scheme	16(b)	-	-	16,741	-	-	-	16,741	-	16,741
- Share option exercised	16(a)	261	2,834	(1,200)	-	-	-	1,895	-	1,895
- Dividends		-	-	-	-	(30,107)	-	(30,107)	-	(30,107)
Total transactions with owners, recognised directly in equity		261	2,834	15,541	-	(30,107)	-	(11,471)	-	(11,471)
Balance at 30 June 2019		276,220	1,079,363	432,026	76,900	935,046	(16,819)	2,782,736	48,611	2,831,347

The notes on pages 31 to 56 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

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

	Notes	Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
Net cash generated from operating activities	28	95,385	267,981
Net cash used in investing activities	28	(122,874)	(69,944)
Net cash used in financing activities	28	(991,486)	(251,293)
Net decrease in cash and cash equivalents		(1,018,975)	(53,256)
Cash and cash equivalents at beginning of the period	15	2,422,874	686,636
Exchange gain/(loss) on cash and cash equivalents		8,355	(1,680)
Cash and cash equivalents at end of the period	15	1,412,254	631,700

The notes on pages 31 to 56 form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"), as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. SIGNIFICANT EVENTS IN THE CURRENT INTERIM PERIOD

The outbreak of novel coronavirus ("COVID-19") and the subsequent quarantine measures as well as the plunge in oil price have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. 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 impact to its businesses. As such, the financial position and performance of the Group were affected in different aspects, including reduction in revenue as disclosed in the relevant notes.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

4. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

5. ESTIMATES

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

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group's consolidated financial statements for the year ended 31 December 2019 except for the impairment of property, plant and equipment under the circumstances of outbreak of COVID-19 and oil price plunge, which became a key assumption concerning the future, and a key source of estimation uncertainty at the end of the current interim period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

5. ESTIMATES *(continued)*

Impairment of property, plant and equipment

Property, plant and equipment is stated at cost less subsequent accumulated depreciation and impairment losses, if any. The carrying amount is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In estimating the recoverable amount, management is required to consider all relevant factors with reasonable and supportable assumptions to make significant accounting estimations. In estimating the recoverable amounts of assets, major assumptions, including future cash flow projections associated with forecast revenue, forecast gross margin and a discount rate, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's financial position and results of operations.

The aggregate carrying amount of property, plant and equipment as at 30 June 2020 was RMB2,138,954,000 (31 December 2019: RMB2,137,866,000). Details of the impairment assessment are set out in Note 7.

6. SEGMENT INFORMATION

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

6. SEGMENT INFORMATION *(continued)*

The measurement of profit or loss, assets and liabilities of the operating segments are the same as those described in the summary of significant accounting policies in the Group's consolidated financial statements for the year ended 31 December 2019. The CODM evaluate the performance of the operating segments based on profit or loss before income tax expense, certain depreciation and amortisation, interest income, finance expenses, share of profit of a joint venture, asset impairment provisions and corporate overheads ("EBITDA"). The corporate overheads and corporate assets are the general management expenses incurred and assets held by the headquarters of the Group.

	Drilling technology	Well completion	Oil production services	Total
Six months ended 30 June 2020				
(Unaudited)				
Revenue (Note)	595,088	327,592	531,258	1,453,938
EBITDA	204,669	118,881	182,030	505,580
Depreciation and amortisation	(92,028)	(58,153)	(14,016)	(164,197)
Impairment provision of				
- Trade receivables	(9,510)	(13,877)	(13,162)	(36,549)
- Other receivables	(1,645)	-	-	(1,645)
- Inventories	(5,174)	(4,694)	(1,619)	(11,487)
Interest income	811	1,103	689	2,603
Finance expenses	(4,714)	(1,914)	(3,061)	(9,689)
Share of profit of a joint venture	121	-	-	121
Income tax expense	(18,923)	(7,191)	(28,359)	(54,473)
	Drilling technology	Well completion	Oil production services	Total
Six months ended 30 June 2019				
(Unaudited)				
Revenue (Note)	741,849	373,657	535,082	1,650,588
EBITDA	301,005	156,271	217,627	674,903
Depreciation and amortisation	(80,329)	(51,062)	(13,030)	(144,421)
Impairment provision of				
- Trade receivables	(4,295)	(7,178)	(8,425)	(19,898)
- Other receivables	(5,022)	(1,429)	(7)	(6,458)
- Inventories	(1,244)	(891)	(3,066)	(5,201)
Interest income	60	128	13	201
Finance expenses	(2,914)	(2,107)	(2,119)	(7,140)
Share of profit of a joint venture	356	-	-	356
Income tax expense	(18,688)	(12,130)	(36,585)	(67,403)

Note:

Sales between segments, with details set out in Note 21, are carried out at terms mutually agreed between relevant group entities. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the condensed consolidated statement of profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

6. SEGMENT INFORMATION *(continued)*

	Drilling technology	Well completion	Oil production services	Total
As at 30 June 2020 (Unaudited)				
Total assets	2,764,921	3,174,460	1,044,404	6,983,785
Total assets include:				
Capital expenditures	74,585	40,802	19,853	135,240
As at 31 December 2019 (Audited)				
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

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

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

	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
EBITDA for reportable segments	505,580	674,903
Corporate overheads	(318,092)	(279,659)
Depreciation of		
– Property, plant and equipment	(123,349)	(118,668)
– Right-of-use assets	(26,165)	(13,470)
Amortisation	(14,683)	(12,283)
Asset impairment provision	(49,681)	(31,557)
Interest income	2,603	201
Finance expenses	(9,689)	(7,140)
Share of profit of a joint venture	121	356
(Loss)/profit before income tax	(33,355)	212,683

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

6. SEGMENT INFORMATION *(continued)*

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

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Assets for reportable segments	6,983,785	5,803,342
Corporate assets for general management (Note)	1,878,920	3,703,470
Total assets	8,862,705	9,506,812

Note:

During the current interim period, certain buildings previously occupied for corporate management were allocated to operating segments for business use, and the management of deposits to large state-owned oil company customers was delegated to operating segments.

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

Geographical Information

	Revenue		Non-current assets	
	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
PRC	710,178	672,534	2,007,677	2,069,023
Republic of Iraq ("Iraq")	547,604	744,452	746,376	741,214
Other countries	196,156	233,602	208,349	167,524
Total	1,453,938	1,650,588	2,962,402	2,977,761

Client information

During the period, revenues of approximately RMB701,525,000 (six months ended 30 June 2019: RMB535,375,000) were derived from two (six months ended 30 June 2019: two) external customers, which contributed 32.38% and 15.87% to the total revenue, respectively (six months ended 30 June 2019: 16.82% and 15.62%). These revenues were mainly attributable to drilling technology and oil production services segments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Opening carrying amount	2,137,866	2,255,805
Additions	123,854	80,858
Depreciation	(133,471)	(140,871)
Disposals	(2,196)	(20,121)
Currency translation differences	12,901	1,236
Closing carrying amount	2,138,954	2,176,907

As at 30 June 2020, certain borrowings were secured by certain buildings and equipment with carrying amount of RMB386,348,000 (31 December 2019: RMB388,101,000) (Note 18(a) and (b)).

As a result of the changes in the current economic environment related to the COVID-19 pandemic and the plunge in oil price, the Group is experiencing negative conditions including decreased revenues that indicate that certain property, plant and equipment of well completion services may be impaired. During the current interim period, the Group performed impairment testing and no impairment loss was recognised related to the certain property, plant and equipment of well completion services.

8. RIGHT-OF-USE ASSETS

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Opening carrying amount	189,901	106,030
Additions	5,273	91,978
Depreciation	(25,377)	(15,044)
Closing carrying amount	169,797	182,964

During the current interim period, the Group entered into new lease agreements for the use of buildings and equipment for 3 years. The Group is required to make fixed quarterly, semi-annually or annually payments during the contract periods. On lease commencement, the Group recognised right-of-use assets of RMB5,273,000 (six months ended 30 June 2019: RMB91,978,000) and lease liabilities of RMB5,273,000 (six months ended 30 June 2019: RMB91,978,000).

As at 30 June 2020, right-of-use assets (leasehold lands) with carrying amount of RMB8,373,000 (31 December 2019: RMB5,704,000) were pledged as guarantee for certain borrowings (Note 18(a) and (b)).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

9. INTANGIBLE ASSETS

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Opening carrying amount	259,986	252,714
Additions	11,386	20,312
Amortisation	(15,223)	(16,583)
Closing carrying amount	256,149	256,443

10. DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Deferred income tax assets	Deferred income tax liabilities
(Unaudited)		
At 1 January 2020	34,637	(10,219)
(Charged)/credited to the statement of profit or loss	(4,328)	110
At 30 June 2020	30,309	(10,109)
(Unaudited)		
At 1 January 2019	52,076	(10,440)
(Charged)/credited to the statement of profit or loss	(10,596)	110
At 30 June 2019	41,480	(10,330)

11. INVENTORIES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Project materials, spare parts and other materials	659,580	478,679
Project-in-progress	266,722	286,817
Total	926,302	765,496

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

12. TRADE AND NOTES RECEIVABLES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Trade receivables, net (a)		
– goods and services	2,070,080	1,944,361
– leases	119,514	75,671
	2,189,594	2,020,032
Notes receivable (c)	191,435	180,215
	2,381,029	2,200,247

Notes:

(a) Ageing analysis based on the invoice date:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
1 – 6 months	1,134,068	1,233,147
6 months – 1 year	522,141	362,996
1 – 2 years	482,558	390,047
2 – 3 years	50,827	33,842
	2,189,594	2,020,032

- (b) 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 receivables.
- (c) As at 30 June 2020, total notes received amounting to RMB191,435,000 (31 December 2019: RMB180,215,000) are held by the Group for settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All notes received by the Group are with a maturity period of less than one year.
- (d) As at 30 June 2020, trade receivables of RMB732,077,000 (31 December 2019: RMB548,406,000) were pledged as security for short-term borrowings of RMB148,961,000 (31 December 2019: RMB128,263,000) and long-term borrowings of RMB98,000,000 (31 December 2019: 99,217,000) (Note 18(a) and (b)).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

12. TRADE AND NOTES RECEIVABLES *(continued)*

Notes: *(continued)*

- (e) Allowance for impairment of trade receivables

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
As at 1 January	185,053	122,120
Addition	36,549	19,898
As at 30 June	221,602	142,018

For impairment assessment on trade receivables subject to expected credit loss model, the basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

13. CONTRACT ASSETS

	As at	As at
	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
Retention money receivables relating to revenue from services	78,581	75,519

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Current		
Advances to suppliers	266,048	262,148
Other receivables	362,794	375,200
Value-added tax recoverable	7,542	10,700
	636,384	648,048
Non-current		
Value-added tax recoverable	31,451	30,051
Advances to engineering equipment suppliers	118,118	112,145
Other receivables	13,500	13,500
	163,069	155,696

15. CASH AND BANK DEPOSITS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Restricted bank deposits (a)	421,944	368,730
Cash and cash equivalents		
- Cash on hand	30,912	19,743
- Deposits in bank	1,381,342	2,403,131
	1,834,198	2,791,604

Notes:

- (a) As at 30 June 2020, bank deposits amounting to RMB421,944,000 (31 December 2019: RMB368,730,000) were held as securities for letter of guarantee, issuance of notes payable and certain short-term bank borrowings (Note 18(b)).
- (b) Cash and bank deposits were denominated in the following currencies:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
RMB	925,661	750,915
United States dollar ("US\$")	823,033	1,980,611
Hong Kong dollar ("HK\$")	48,701	20,392
Others	36,803	39,686
	1,834,198	2,791,604

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

16. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	Number of ordinary shares issued and fully paid of HK\$0.1 each (thousands)	Share capital	
		HK\$' 000	RMB' 000
(Unaudited) As at 30 June 2020 and 1 January 2020	3,006,563	300,656	276,273
(Unaudited) As at 1 January 2019	3,002,923	300,292	275,959
Exercise of share options	2,994	299	261
As at 30 June 2019	3,005,917	300,591	276,220

(b) Share options

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

	Average exercise price in HK\$ per share	Number of share options (thousands)
As at 1 January 2020		346,187
Granted (on 01 April 2020)	0.495	113,440
Forfeited	0.828	(14,060)
As at 30 June 2020 (Unaudited)		445,567
As at 1 January 2019		264,168
Granted (on 07 January 2019)	0.790	95,000
Forfeited	0.895	(2,327)
Exercised	0.756	(2,994)
Expired	5.733	(1,358)
As at 30 June 2019 (Unaudited)		352,489

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

16. SHARE CAPITAL AND SHARE OPTIONS *(continued)*

(b) Share options *(continued)*

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

Expiry date	Exercise price (HK\$ per share)	Number of share options (thousands)
23 February 2022	0.740	79,284
31 March 2022	0.800	6,300
1 December 2022	1.100	2,216
22 May 2023	0.810	91,960
2 April 2024	1.020	63,883
6 January 2025	0.790	88,484
31 March 2026	0.495	113,440
		445,567

The fair value of the options granted during the six months ended 30 June 2020 was determined using the Binomial Option Pricing Model. The major assumptions used in the pricing model for options granted on 01 April 2020 were the exercise prices shown above and the other parameters are shown below:

Parameters	Options granted during the six months ended 30 June	
	2020	2019
Share price as of the valuation date (HK\$)	0.495	0.790
Expected dividend yield	-	-
Forfeiture rate	0.30%	0.34%
Exercise multiples	3.33	3.38-3.39
Maturity years	6.0	6.0
Risk free rate	0.61%	1.79%
Annualised volatility	57.24%	59.54%

The total expense recognised in the condensed consolidated statement of profit or loss for the six months ended 30 June 2020 for share options amounted to RMB6,330,000 (for the six months ended 30 June 2019: RMB16,741,000), with a corresponding amount credited in capital reserve.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

17. LONG-TERM BONDS

Issued date:	Par value	Coupon rate	As at 30 June 2020	As at 31 December 2019	Effective interest rate
5 December 2017 (a)	US\$59.7 million	9.75%	424,461	1,247,484	8.31%
5 December 2017 (a)	US\$123.6 million	9.75%	875,546	856,725	11.62%
2 December 2019 (b)	US\$291.4 million	7.50%	2,025,993	2,040,659	8.91%
Subtotal			3,326,000	4,144,868	
Less: Current portion			(1,311,546)	(2,116,445)	
			2,014,454	2,028,423	

Notes:

- (a) The Company issued US\$300 million senior notes with the coupon rate of 9.75% 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 was accounted as a non-substantial modification of financial liabilities. During the period ended 30 June 2020, US\$116.7 million were repurchased out of US\$176.4 million. The notes mature in 3 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 30 June 2020, interest payable amounted to approximately RMB9.1 million (31 December 2019: RMB15.0 million).
- (b) The Company issued US\$300 million senior notes with the coupon rate of 7.50% at discount of par value on 2 December 2019 with direct transaction costs amounting to RMB45,359,000, in which US\$8.6 million were repurchased during the period ended 30 June 2020. The notes mature in 3 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 30 June 2020, interest payable amounted to approximately RMB11.5 million (31 December 2019: RMB12.2 million).

18. BORROWINGS

	As at 30 June 2020 (Unaudited)		As at 31 December 2019 (Audited)	
	Amount	Interest rate	Amount	Interest rate
Long-term borrowings				
- Secured or guaranteed				
- RMB denominated (a)	347,815	5.15%-9.70%	294,600	7.10%-9.70%
Less: Current portion	(241,566)		(92,174)	
	106,249		202,426	
Short-term bank borrowings				
- Unsecured and unguaranteed				
- RMB denominated	50,000	5.60%	80,406	5.44%-6.09%
- Secured or guaranteed				
- RMB denominated (b)	479,313	4.79%-6.65%	329,600	4.70%-6.79%
- US\$ denominated (b)	-		87,743	4.70%-4.77%
	529,313		497,749	

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

18. BORROWINGS (continued)

Notes:

- (a) As at 30 June 2020, secured long-term borrowings of RMB102,424,000 (31 December 2019: RMB146,341,000) represented borrowings from China Railway Construction Financial Leasing Co., Ltd., a third party, which will mature in July 2021 (31 December 2019: July 2021), and secured by the Group's equipment with a carrying value of RMB250,849,000 (31 December 2019: RMB277,924,000) (Note 7). Secured long-term bank borrowings of RMB97,000,000 (31 December 2019: RMB49,042,000) were secured by the Group's buildings with a carrying value of RMB89,381,000 (31 December 2019: RMB63,362,000) (Note 7) and right-of-use assets (leasehold lands) with a carrying value of RMB5,626,000 (31 December 2019: RMB3,281,000) respectively (Note 8). Secured long-term bank borrowings of RMB98,000,000 (31 December 2019: RMB99,217,000) were secured by the Group's trade receivables amounting to RMB282,420,000 (31 December 2019: RMB282,420,000) (Note 12(d)).

Long-term bank borrowings of RMB50,391,000 (31 December 2019: Nil) 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.

- (b) As at 30 June 2020, secured short-term bank borrowings of RMB148,961,000 (31 December 2019: RMB128,263,000) were secured by the Group's trade receivables amounting to RMB449,657,000 (31 December 2019: RMB265,986,000) (Note 12(d)). Short-term bank borrowings of RMB290,352,000 (31 December 2019: RMB50,575,000) were guaranteed by Mr. Luo Lin, the Company's ultimate controlling shareholder (Note 31(b)). Secured short-term bank borrowings of RMB40,000,000 (31 December 2019: RMB40,021,000) were secured by the Group's buildings with a carrying value of RMB46,118,000 (31 December 2019: RMB46,815,000) (Note 7) and right-of-use assets (leasehold lands) with a carrying value of RMB2,747,000 (31 December 2019: RMB2,423,000) (Note 8) respectively.

As at 31 December 2019, short-term bank borrowings of RMB100,741,000 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.

As at 31 December 2019, US\$ denominated short-term bank borrowings of RMB87,743,000 were guaranteed by Mr. Luo Lin, the Company's ultimate controlling shareholder (Note 31(b)).

As at 31 December 2019, secured short-term bank borrowings of RMB10,000,000 were secured by the bank deposits amounting to RMB10,260,000 (Note 15(a)).

- (c) As at 30 June 2020, the undrawn bank borrowing facilities of the Group of approximately RMB1,376 million (31 December 2019: RMB706 million), with maturity dates up to 8 July 2022 (31 December 2019: 8 July 2022), were unsecured (31 December 2019: unsecured).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

19. TRADE AND NOTES PAYABLES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Trade payables	631,791	546,945
Notes payable	512,756	410,461
	1,144,547	957,406

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

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Less than 1 year	896,149	790,866
1 – 2 years	158,379	77,348
2 – 3 years	25,937	30,371
Over 3 years	64,082	58,821
	1,144,547	957,406

20. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Payroll and welfare payables	36,974	28,125
Taxes other than income taxes payable	8,430	22,364
Payables to equipment vendors	217,203	220,353
Others	127,212	133,686
	389,819	404,528

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For the six months ended 30 June 2020

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

21. REVENUE

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Sales of goods	116,346	150,263
Provision of services	1,186,467	1,406,039
Rental	151,125	94,286
Total	1,453,938	1,650,588

Disaggregation of revenue

Segments	For the six months ended 30 June 2020		
	Drilling technology	Well completion	Oil production services
Types of goods or service			
Sales of goods	24,725	90,325	1,296
Provision of services	420,386	236,119	529,962
Total	445,111	326,444	531,258
Geographical markets			
PRC	266,062	229,306	63,685
Iraq	110,763	71,962	364,879
Other countries	68,286	25,176	102,694
Total	445,111	326,444	531,258
Timing of revenue recognition			
A point in time	445,111	326,444	117,629
Over time	-	-	413,629
Total	445,111	326,444	531,258

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

21. REVENUE (continued)

Disaggregation of revenue (continued)

	For the six months ended 30 June 2020		
	Drilling technology	Well completion	Oil production services
Revenue disclosed in segment information			
External customers	595,088	327,592	531,258
Inter-segment	466,879	250,659	346,636
Inter-segment eliminations	(466,879)	(250,659)	(346,636)
Rental income	(149,977)	(1,148)	-
Revenue from contracts with customers	445,111	326,444	531,258
	For the six months ended 30 June 2019		
Segments	Drilling technology	Well completion	Oil production services
Types of goods or service			
Sales of goods	40,641	89,740	19,882
Provision of services	608,116	282,723	515,200
Total	648,757	372,463	535,082
Geographical markets			
PRC	335,533	195,613	47,102
Iraq	181,028	127,853	435,571
Other countries	132,196	48,997	52,409
Total	648,757	372,463	535,082
Timing of revenue recognition			
A point in time	648,757	372,463	154,390
Over time	-	-	380,692
Total	648,757	372,463	535,082

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

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For the six months ended 30 June 2020

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

21. REVENUE (continued)

Disaggregation of revenue (continued)

	For the six months ended 30 June 2019		
	Drilling technology	Well completion	Oil production services
Revenue disclosed in segment information			
External customers	741,849	373,657	535,082
Inter-segment	451,759	162,374	339,769
Inter-segment eliminations	(451,759)	(162,374)	(339,769)
Rental income	(93,092)	(1,194)	-
Revenue from contracts with customers	648,757	372,463	535,082

22. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Materials and services purchased	389,284	518,182
Staff costs	385,235	363,706
In which:		
- Salaries and other staff expenses	378,905	346,965
- Share-based compensation	6,330	16,741
Depreciation	157,826	152,815
In which:		
- Property, plant and equipment	131,661	139,345
- Right-of-use assets	26,165	13,470
Amortisation of intangible assets	18,814	19,575
Less: Capitalised in inventories	1,973	2,052
	16,841	17,523
In which:		
- Cost of sales	15,454	16,142
- Administrative expenses	346	535
- Selling expenses	10	9
- Research and development expenses	1,031	837
Other operating expenses	328,312	230,794
In which:		
- Increase in impairment of receivables	38,194	26,356
- Increase in impairment of inventories	11,487	5,201

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

23. OTHER GAINS, NET

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Government grants and subsidies (Note)	1,900	464
Loss on disposal of property, plant and equipment	(1,671)	(1,388)
Gains on repurchase of long-term bonds (Note 17) (Note 28)	7,897	-
Others	(123)	6,255
	8,003	5,331

Note:

Government grants and subsidies of RMB1,900,000 (2019: RMB464,000) were received in the current period towards awarding of research and development expenditures.

24. FINANCE COSTS, NET

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Interest expenses		
- on borrowings	(25,084)	(40,061)
- on bonds	(169,580)	(101,098)
- on lease liabilities	(4,477)	(2,911)
	(199,141)	(144,070)
Exchange loss, net	(7,257)	(1,843)
Others	(12,100)	(8,478)
Finance expenses	(218,498)	(154,391)
Interest income	7,217	456
	(211,281)	(153,935)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

25. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Current income tax		
- PRC enterprise income tax	8,646	2,566
- Iraq corporate income tax	38,702	52,249
- Others	2,907	2,102
Deferred income tax (Note 10)	4,218	10,486
	54,473	67,403

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

For the Company's PRC subsidiaries, enterprise income tax is provided on estimated taxation profits at applicable tax rate of 25% (2019: 25%), except that certain subsidiaries which have applied preferential tax rates of 15%.

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

26. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to the owners of the Company (RMB' 000)	(91,046)	145,357
Weighted average number of ordinary shares in issue (thousands of shares)	3,006,563	3,004,051
Basic (loss)/earnings per share (expressed in RMB per share)	(0.0303)	0.0484

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

26. (LOSS)/EARNINGS PER SHARE *(continued)*

(b) Diluted

Diluted (loss)/earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the six months ended 30 June 2020 and 2019, the only dilutive factor of the Company was the outstanding share options.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to the owners of the Company (RMB' 000)	(91,046)	145,357
Weighted average number of ordinary shares in issue (thousands of shares)	3,006,563	3,004,051
Adjustments for assumed conversion of share options (thousands of shares)	-	24,642
Weighted average number of ordinary shares for computation of diluted (loss)/earnings per share (thousands of shares)	3,006,563	3,028,693
Diluted (loss)/earnings per share (expressed in RMB per share)	(0.0303)	0.0480

27. DIVIDENDS

The Directors have determined that no dividend will be paid in respect of the current interim period (Six months ended 30 June 2019: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

28. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June	
		2020 (Unaudited)	2019 (Unaudited)
Operating activities:			
(Loss)/profit before income tax		(33,355)	212,683
Adjustments for:			
Property, plant and equipment			
– Depreciation charge		131,661	139,345
– Net loss on disposals		1,671	1,388
Depreciation of right-of-use assets		26,165	13,470
Amortisation of intangible assets		16,841	17,523
Amortisation of long-term deferred and prepaid expenses		-	3,598
Addition of impairment of receivables		38,194	26,356
Addition of impairment of inventories		11,487	5,201
Charge of share option scheme		6,330	16,741
Share of profit of a joint venture		(121)	(356)
Net foreign exchange loss		7,257	1,843
Interest income		(7,217)	(456)
Interest expenses		199,141	144,070
Gains on repurchase of long-term bonds	23	(7,897)	-
Changes in working capital:			
Inventories		(172,889)	33,436
Trade and notes receivables		(199,291)	(94,480)
Contract assets		(3,062)	(10,857)
Prepayments and other receivables		8,619	(219,493)
Trade and notes payables		176,802	102,795
Accruals and other payables		(11,559)	(30,169)
Contract liabilities		29	26,183
Restricted bank deposits		(63,474)	(75,501)
Net cash inflows from operations		125,332	313,320
Interest received		7,217	456
Income tax paid		(37,164)	(45,795)
Net cash generated from operating activities		95,385	267,981

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

28. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Investing activities:		
Purchases of property, plant and equipment	(113,944)	(56,912)
Purchases of intangible assets	(9,455)	(17,671)
Proceeds from disposal of property, plant and equipment	525	4,639
Net cash used in investing activities	(122,874)	(69,944)
Financing activities:		
Proceeds from short-term borrowings	543,498	568,591
Repayments of short-term borrowings	(511,600)	(678,536)
Repayments of lease liabilities	(26,415)	(15,776)
Proceeds from long-term borrowings	98,000	100,000
Repayments of long-term borrowings	(44,917)	(41,465)
Repurchase of long-term bonds	(877,837)	-
Proceeds from share options exercised	-	1,895
Interest paid	(182,475)	(134,975)
Net cash paid to non-controlling interests for additional interest in subsidiaries	-	(920)
Dividends distribution	-	(50,107)
Withdraw of restricted bank deposits	10,260	-
Net cash used in financing activities	(991,486)	(251,293)

29. COMMITMENTS

Capital commitments

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

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Contracted but not provided for	81,761	71,142

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

30. FINANCIAL RISK MANAGEMENT

Fair value relevant estimation

Fair value of the financial assets and liabilities that are not measured at fair value on a recurring basis

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

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

31. RELATED PARTY TRANSACTIONS

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

(a) The following person is related party of the Group during the six months period ended 30 June 2020:

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 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Short-term borrowings Mr. Luo Lin (Note 18(b))	290,352	138,318

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

31. RELATED PARTY TRANSACTIONS *(continued)*

(c) Notes payable guaranteed by related party

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Notes payable Mr. Luo Lin	-	50,000

(d) Key management compensation

	Six months ended 30 June 2020 (Unaudited)	2019 (Unaudited)
Salaries and other short-term employee benefits	4,907	9,740
Pension scheme	136	192
Share-based payments	728	1,943
	5,771	11,875

32. EVENT AFTER THE REPORTING PERIOD

The Group has no significant subsequent events needed to be disclosed in these condensed consolidated interim financial information.