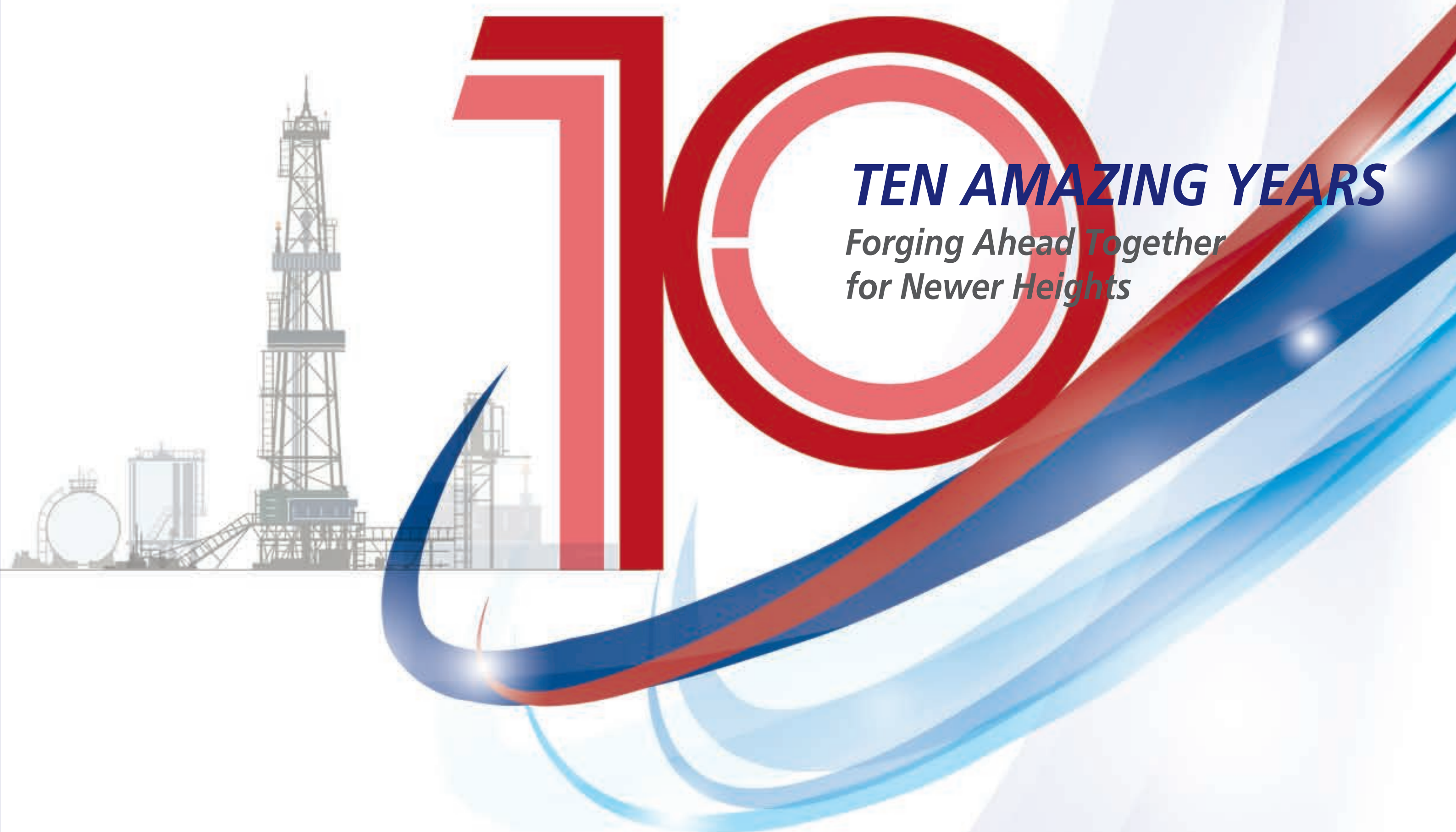
ANTON 安東

安 東 油 田 服 務 集 團

# Anton Oilfield Services Group

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3337)




2017 ANNUAL REPORT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# ABOUT ANTONOIL

Anton Oilfield Services Group ("Antonoil" or the "Company" and, together with its subsidiaries, the "Group") is a leading independent integrated oilfield services provider. The Group provides products and services for the entire process of oil and gas development and production, including reservoir management, drilling technology, well completion, down-hole operations, oil production as well as tubular service. With its comprehensive product lines and integrated service capacity, the Group is empowered to help oil companies solve the challenges they encounter in oil and gas fields such as increasing production, improving drilling efficiency, lowering costs and optimizing waste management. Its fast growth benefits from the accelerating development of natural gas in China and the Group's increased presence in the overseas markets. The Group's strategic objective is to become a leading global oilfield services provider with a solid foothold in China.

The Group is headquartered in Beijing and has established an international network across the global markets. In China, the markets cover the Tarim area, Erdos area, Southwest area and other areas of China, whereas, the overseas markets include Iraq and other Middle East market, Central Asia and Africa market and the Americas market. Antonoil is the best independent Chinese oilfield services partner, the best Chinese partner worldwide.

## BUSINESS

The main business of the Group is oil and gas field development technical services. Oil and gas field development technical services refer to the solutions provided to and implemented for oil companies to help them complete oil and gas field development and enhance production and reduce costs against various technical problems in the wellbore during the drilling, completion and production stages of field development.

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

## DRILLING TECHNOLOGY CLUSTER

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

### Integrated Services Management

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

### Integrated Drilling Services

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

### Directional Drilling

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

### Drilling and Completion Fluid Service

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

### Drilling Tool Rental and Technical Service

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

### Land Drilling Service

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


### Oilfield Waste Management

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

### Oil and Gas Production Facilities Inspection and Assessment Technology

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

## WELL COMPLETION CLUSTER

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

### Integrated Completion Services

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

### Completion Tools

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

### Sand Screen and Water Control services

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

## Fracturing/Acidizing Technique and Chemical materials

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

## Fracturing and Pumping

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

## Coiled Tubing Services

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

## Proppant

It is an important material in oil development process when applying fracturing to stimulate oil and gas production. Its role is to support the fractures and keep oil and gas passage in order to increase production

# OIL PRODUCTION CLUSTER

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

## Production Operation Management

It provides production operation management services for oilfield ground stations, including power engineering construction, operation, inspection and maintenance, artificial life technology design, management, optimization operation support, water injection, profile control, ground equipment maintenance and rehabilitation, re-engineering, installation overhaul and oil and gas field ground construction projects.

## Workover Services

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

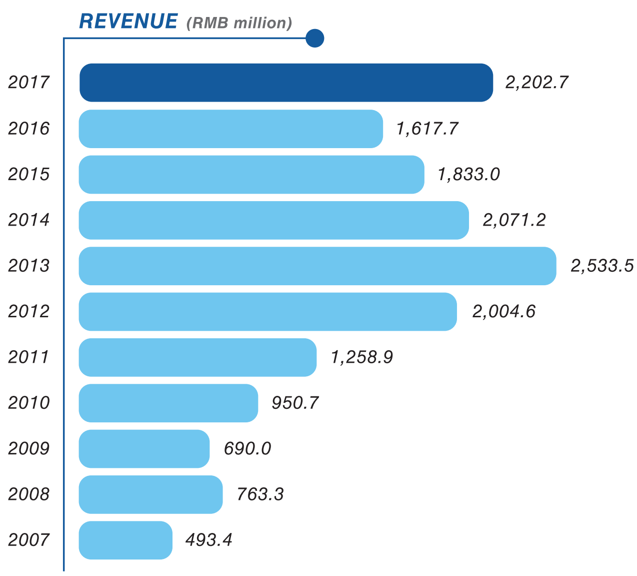
## Tubing/Casing Repair and Anti-corrosion Service

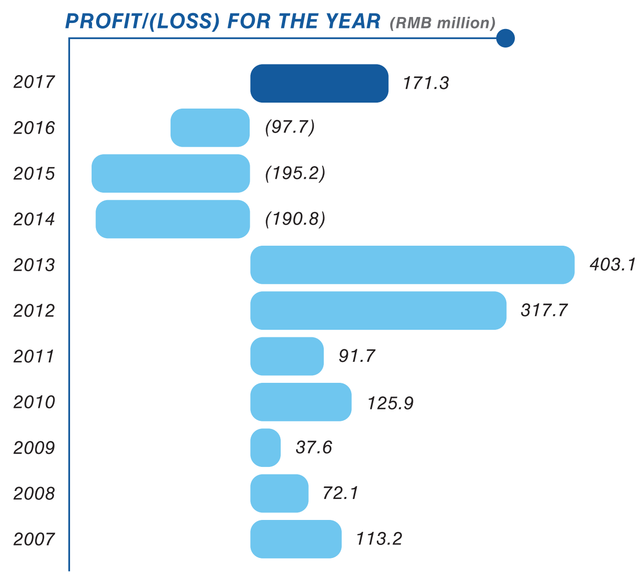
It provides featured tubing and casing technical services with Premium Thread Design as the core offering; a reputable supplier of specialized tubes and casings for Chinese and overseas customers.

# FINANCIAL SUMMARY

## CONDENSED CONSOLIDATED INCOME STATEMENTS

| RMB ('000) | 2013 | 2014 | 2015 | 2016 | **2017** |
|---|---|---|---|---|---|
| | For the year ended 31 December | | | | |
| Revenue | 2,533,536 | 2,071,205 | 1,833,006 | 1,617,675 | **2,202,702** |
| Other gains/(losses), net | 19,950 | (1,839) | 20,689 | 68,967 | **9,674** |
| Operating costs | (1,981,130) | (2,031,392) | (1,761,221) | (1,543,446) | **(1,738,682)** |
| Operating profit | 572,356 | 37,974 | 92,474 | 143,196 | **473,694** |
| Finance costs, net | (72,678) | (178,464) | (254,770) | (173,379) | **(267,872)** |
| Profit/(Loss) before income tax | 489,977 | (159,550) | (163,338) | (30,591) | **204,921** |
| Profit/(Loss) for the year | 403,138 | (190,805) | (195,248) | (97,672) | **171,274** |
| Attributable to:<br>Equity holders of the Company | 382,568 | (198,213) | (194,731) | (160,450) | **54,495** |
| Non-controlling interests | 20,570 | 7,408 | (517) | 62,778 | **116,779** |
| Dividends | 119,953 | — | — | — | **—** |
| *Earnings*/(loss) *per share for profit/(loss)attributable to the equity holders of the Company during the year* (expressed in RMB per share) | | | | | |
| Basic | 0.1779 | (0.0902) | (0.0878) | (0.0720) | **0.0206** |
| Diluted | 0.1733 | (0.0902) | (0.0878) | (0.0720) | **0.0205** |



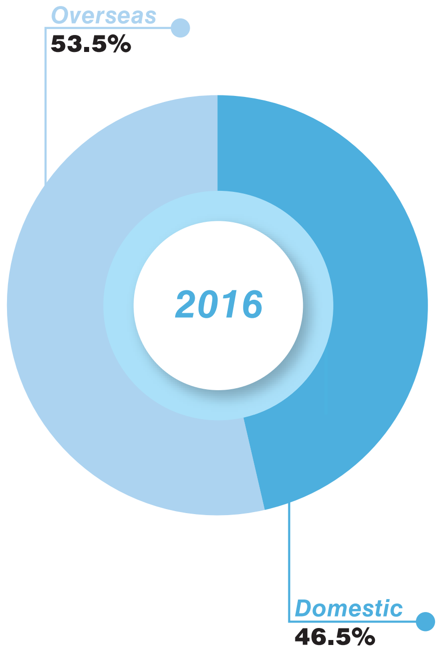



## CONDENSED CONSOLIDATED FINANCIAL POSITION

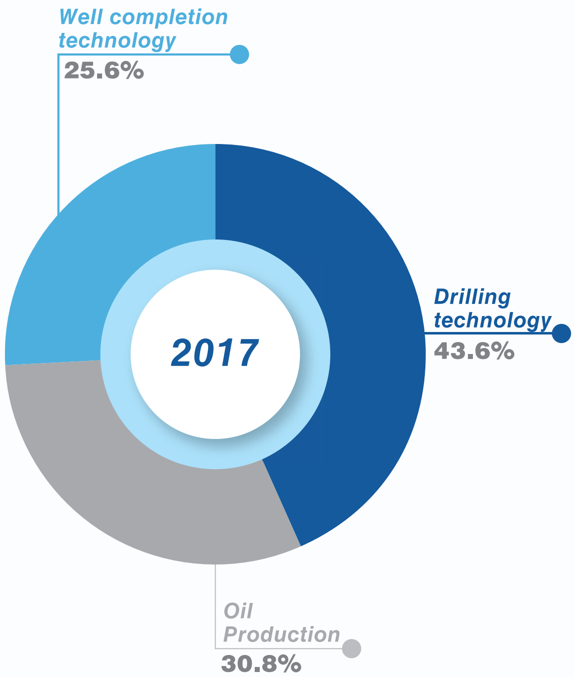
| RMB ('000) | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | **2017** |
| **Assets** | | | | | |
| Non-current assets | 2,100,954 | 2,934,952 | 3,063,576 | 3,004,012 | **3,367,768** |
| Current assets | 3,866,898 | 3,556,215 | 3,119,584 | 3,657,269 | **4,379,707** |
| Total Assets | 5,967,852 | 6,491,167 | 6,183,160 | 6,661,281 | **7,747,475** |
| Total Equity | 2,375,297 | 2,148,756 | 1,959,612 | 1,976,897 | **2,946,992** |
| **Liabilities** | | | | | |
| Non-current liabilities | 1,984,305 | 1,700,487 | 1,589,010 | 2,504,217 | **1,932,702** |
| Current liabilities | 1,608,250 | 2,641,924 | 2,634,538 | 2,180,167 | **2,867,781** |
| Total liabilities | 3,592,555 | 4,342,411 | 4,223,548 | 4,684,384 | **4,800,483** |
| Total equity and liabilities | 5,967,852 | 6,491,167 | 6,183,160 | 6,661,281 | **7,747,475** |
| Net current assets | 2,258,648 | 914,291 | 485,046 | 1,477,102 | **1,511,926** |
| Total assets less current liabilities | 4,359,602 | 3,849,243 | 3,548,622 | 4,481,114 | **4,879,694** |

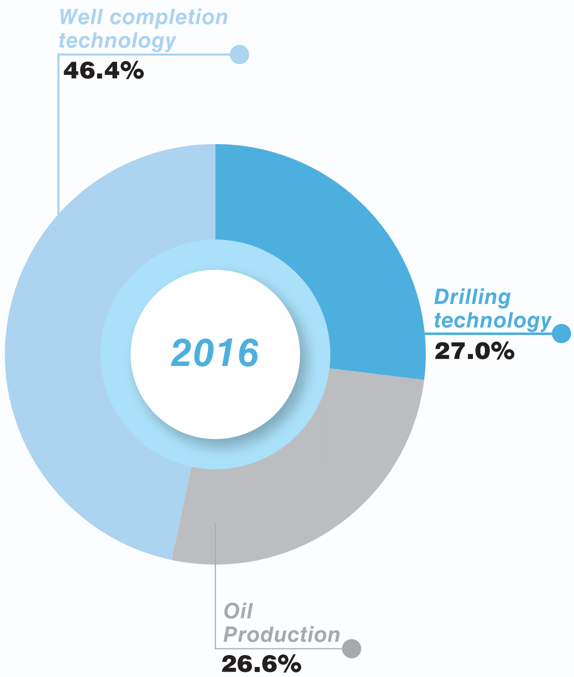
# FINANCIAL HIGHLIGHT

## REVENUE BREAKDOWN BY REGION

## REVENUE BREAKDOWN BY BUSINESS CLUSTERS



# CHAIRMAN'S STATEMENT

Dear Shareholders,

2017 marks the beginning of rapid recovery and restart of high-speed growth for the Group. The Group has recorded revenue of RMB2,202.7 million, an increase of about 36.2%, while regaining profitability and recording net profit of RMB171.8 million, growing over 2.8 times. Net profit attributable to equity holders after distributing minority interest was RMB54.5 million, growing about 1.3 times. Overseas businesses have grown rapidly, with ever-increasing scale of cooperation with international oil companies and overseas Chinese independent oil companies and continued optimizing of customer base. Benefiting from full utilization of existing equipment and personnel as well as highly effective internal cost-reducing efficiency-increasing measures, profitability has also been improved dramatically. Refinancing of the USD bond and financing support from domestic commercial banks and national policy financial institutions provided safeguard for the Group's finance. Buyback of equity interest of Iraq business has raised net profit attributable to shareholders in the future.

## REVIEW

During 2017, market wise, the Group captured the recovery of domestic market, and focused on exploring Sichuan shale gas market based on its advantages in natural gas and unconventional projects. During the year, the Group successfully won the turnkey services project for the Sichuan shale gas market, which was the first time the customer allowed a private oil services company to operate turnkey shale gas projects. Being one of the first private service companies to have won an integrated turnkey project, the Group will have first-mover advantages in a market with rapidly increasing demand. In Iraq, the Group focused on exploring international oil company clients and integrated oilfield turnkey projects. It continued to deepen the friendly relationship with local Iraqi government, and gradually established the Group's leading position in Iraq as a Chinese private oil services company. In other overseas markets, the Group emphasized on enhancing risk control, and continuously expand its cooperation with Chinese private oil companies by relying on its technological advantages of production-increasing cost-saving and integration. By actively solving difficult problems in oil and gas production for customers, it solidified and deepened cooperation and has become long-term partners of these customers. Operation-wise, with the full commencing of operations for orders on hand, equipment and personnel of the Group were fully utilized, operating efficiency improved continuously, especially drilling and oil production businesses. The Group spares no effort in promoting technological advancements, with its heavily-promoted chemical stimulation technology and biosynthesis-based environmental protecting mud gaining impressive results in regional markets with large potential for growth in the future. Regarding capital, the Group has successfully completed refinancing of the USD bond, solving short-term liquidity problems and achieving an upgrade of its credit rating. It signed agreement with China HBP to buy back 40% of equity interest of, and subsequently regained total control on, the Group's Iraq business.

## OUTLOOK

In 2018, the Group will heavily enforce cashflow management, continuously improve project operations and achieve the goal of operations with high efficiency. It will return to a healthy growth track of cash flow by strengthening working capital management. With the recovery of the market, the Group will continue to promote across-the-board global development with a focus on business model upgrade to light-asset turnkey integration, by utilizing its advantages of being a Chinese leading integrated technology services company. It will continue to explore NOC and IOC customers to lay solid foundation for its full internationalization as well as copying Iraq model of development in other markets. With the market rapidly recovering, the Group will pay more attention to project and market opportunity selection. It will further promote combination of production and finance, deepen its cooperation with national policy financial institutions as well as with 'Belt and Road' financial institutions and overseas financial institutions to provide a friendly financing environment for its safe and stable growth. Regarding human resources, the Group will focus on introducing leading oilfield management and technology service talents, and improve its international management level as well as localization of overseas business under the premise of controlling headcount growth to the maximum extent. It will optimize management process, fully utilize current staff, fully promote performance and incentive culture, improve operating management efficiency and safety and quality management level, and form a low-input high-efficiency operating system.

## ACKNOWLEDGEMENTS

On behalf of the board of directors (the "Board"), I would like to express my heartfelt thanks to our customers, employees, partners and shareholders. It is with your long-term trust and support that we are able to overcome difficulties and achieve higher results. At the turn of a decade since listing, as a leading technological service company in global O&G emerging markets, the Group will continue to uphold our mission of "help others succeed and make oil production easier", stay true to our soul and temper forward despite difficulties, in order to achieve its long-term strategic goal of becoming a leading oilfield technological service company in the world.

*Chairman*
**LUO Lin**

26 March 2018

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. LUO Lin (Chairman)
Mr. WU Di
Mr. PI Zhifeng (Chief Executive Officer)

### Non-executive Director

Mr. John William CHISHOLM

### Independent Non-executive Directors

Mr. ZHANG Yongyi
Mr. ZHU Xiaoping
Dato Wee Yiaw Hin (appointed on 19 April 2017)

## AUDIT COMMITTEE

Mr. ZHU Xiaoping (Committee Chairman)
Mr. ZHANG Yongyi
Dato Wee Yiaw Hin (appointed on 19 April 2017)

## REMUNERATION COMMITTEE

Dato Wee Yiaw Hin
(Committee Chairman, appointed on 19 April 2017)
Mr. ZHU Xiaoping
Mr. LUO Lin

## NOMINATION COMMITTEE

Mr. ZHANG Yongyi (Committee Chairman)
Dato Wee Yiaw Hin (appointed on 19 April 2017)
Mr. LUO Lin

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

Mr. PI Zhifeng (Committee Chairman)
Mr. LUO Lin

## AUTHORIZED REPRESENTATIVES

Mr. LUO Lin
Dr. NGAI Wai Fung

## COMPANY SECRETARY

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

## COMPANY'S WEBSITE

www.antonoil.com

## INVESTOR RELATIONS HOTLINE

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Email: ir@antonoil.com

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Tesbury Centre
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Wanchai
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## PRINCIPAL PLACE OF BUSINESS IN PRC

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Chaoyang District
Beijing, China 100102

## REGISTERED OFFICE

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

## LEGAL ADVISERS

**as to Hong Kong and U.S. law:**
Sidley Austin

**as to PRC law:**

RRDS LAW OFFICES

**as to Cayman Islands law:**

Maples and Calder

## PRINCIPAL BANKS

SPD 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 DISCUSSIONS AND ANALYSIS

## BUSINESS REVIEW

In 2017, the global oil and gas market ended a three-year-long slump, international oil price bounced back, and the industry began to recover. Oil companies increased capital expenditure, and upstream exploration and development entered recovery stage. During the year, service workload in domestic and overseas oilfields increased with project execution fully picked up pace. Thanks to thorough adjustments of market and business structure during the trough, as well as the continuous and strictly executed cost control measures, the Group quickly returned to high-speed growth and achieved significant growth on both revenue and profit. The Group also realized remarkable achievement regarding market exploration and new projects winning, with new orders increasing largely as compared with 2016.

In terms of corporate governance, the Group captured the opportunity of the recovering industry and its own business and successfully completed the issue of USD300.0 million of new bond on 5 December 2017. The new bonds comprise new issue and issue for exchanging the USD bond previously issued by the Company due in 2018, thus eliminated one year ahead of time the repayment risk of its previous 2018 USD bond, improved its liquidity, realized credit rating improvement, and removed the greatest hurdle at this stage to the Group's business development. Besides, on 22 December of the year, the Group signed an equity repurchase agreement with China Oil HBP to repurchase 40% of the Group's Iraqi business for a consideration of RMB735.0 million, regaining full control over the business in its key market of Iraq. This transaction is still pending for the approval from the Group's extraordinary general's meeting.

In terms of financial management, the Group continued to execute strict cash flow control measures, comprehensively strengthened its accounts receivable recovery, strictly restricted the prepayment ratio in procurement, and focused on reducing working capital occupation of overseas projects, and realized a relatively good operating cash flow level for the year. Besides, during the year, the Group actively broadened its financing channels. Supporting by the Belt and Road initiative, it focused on seeking cooperation with national policy financial institutions to reduce overseas risk exposure during its rapid overseas business expansion, and simultaneously improve its offshore financing capability. In the fourth quarter of 2017, material progress was made regarding the Group's cooperation with national policy financial institutions, obtained the Group a specific insurance and corresponding financing of about USD15.0 million value for projects in Kazakhstan.

## Results and Performance

In 2017, total revenue of the Group was RMB2,202.7 million, an increase of RMB585.0 million from RMB1,617.7 million or 36.2% from last year. Operating profit was RMB473.7 million, an increase of RMB330.5 million or 230.8% from last year's RMB143.2 million. Net profit was RMB171.3 million, an increase of 269.0 million or 275.3% from net loss of RMB97.7 million last year. Profit attributable to equity holders was RMB54.5 million, an increase of RMB215.0 million or 134.0% from net loss of RMB160.5 million last year. Net margin attributable to equity holders was 2.5%, an increase of 12.4 percentage points from -9.9% last year.

As at 31 December 2017, average accounts receivable turnover days were 227 days, a decrease of 36 days as compared with last year. The average inventory turnover days were 181 days, a decrease of 90 days as compared with last year. Average accounts payable turnover days was 136 days, a decrease of 6 days as compared with last year. Cash flow from operating activities was RMB195.6 million, an increase of RMB80.0 million from RMB115.6 million last year.

## Geographical Market Analysis

In 2017, overseas market has recorded revenue of RMB1,408.8 million, an increase of RMB542.6 million from last year's RMB866.2 million, or 62.6%. Overseas revenue takes up an increased proportion of 64.0% of the total revenue of the Group. In the overseas markets, Iraq has recorded revenue of RMB855.3 million, an increase of RMB227.1 million from last year's RMB628.2 million, or 36.2%, and takes up 38.8% of the total revenue of the Group. Other overseas markets recorded revenue of RMB553.5 million, an increase of RMB315.5 million from last year's RMB238.0 million, or 132.6%, and take up 25.2% of the total revenue of the Group. The domestic market has recorded revenue of RMB793.9 million, an increase of RMB42.4 million from last year's RMB751.5 million, or 5.6%, and takes up 36.0% of the total revenue of the Group.

### Breakdown of Revenue by Market

| | **Year ended 31 December** | | | **Share of total revenue of the Group Change Year ended 31 December** | |
|---|---|---|---|---|---|
| | **2017 (RMB'mn)** | 2016 (RMB'mn) | Growth (%) | **2017** | 2016 |
| Overseas | **1,408.8** | 866.2 | 62.6% | **64.0%** | 53.5% |
| Domestic | **793.9** | 751.5 | 5.6% | **36.0%** | 46.5% |
| Total | **2,202.7** | 1,617.7 | 36.2% | **100.0%** | 100.0% |

### Overseas Market

| | **Year ended 31 December** | | | **Share of total revenue of the Group Change Year ended 31 December** | |
|---|---|---|---|---|---|
| | **2017 (RMB'mn)** | 2016 (RMB'mn) | Growth (%) | **2017** | 2016 |
| Iraq | **855.3** | 628.2 | 36.2% | **38.8%** | 38.8% |
| Other overseas markets | **553.5** | 238.0 | 132.6% | **25.2%** | 14.7% |
| Total | **1,408.8** | 866.2 | 62.6% | **64.0%** | 53.5% |

### Overseas Market

In 2017, overseas market of the Group maintained high-speed growth, taking up an even higher 64.0% of total revenue. With its broad market space and high-quality orders, it helps the Group to achieve scaled-growth, optimized customer base structure, increased overall margin as well as improved cash flow situation.

### Key overseas market - Iraq

With the increased oil price and improved financing capability of the Iraqi government, in 2017, the market maintained liveliness of growth and capacity building. Upstream E&P projects commenced operations across the board, with overall oilfield services workload experiencing significant growth as compared with 2016. The Group, with its premium services for international oil company projects in this market, has experienced further expanding brand influence and continued growth in market scale. Currently, the Group provides drilling operations, directional drilling,coiled tubing, completion tools, integrated workover and completion services and general oil production and maintenance services in multiple oilfields in mid- and southern Iraq for both Chinese and international oil company clients. The cementing operations and waste management product lines have also entered Iraq for the first time in 2017, further expanding overall service capacity of the Group in Iraq.

On the aspect of operation, the Group's orders on hand have fully commenced operations. The integrated drilling project commenced drilling and operations officially in the first quarter of 2017 after a two-year standby, and completed 8 wells in 2017. Other key large-scale projects including the integrated workover and completion project and the production operations project have maintained ample workload, with some projects picked up pace of execution as per request of clients. In 2017, the Group has recorded revenue of about RMB855.3 million in Iraq, an increase of about 36.2% as compared with last year's RMB628.2 million.

In the fourth quarter of 2017, the Group signed an equity repurchase agreement with China Oil HBP to repurchase 40% of the Group's Iraqi business for a consideration of RMB735.0 million, among which RMB450.0 million will be paid in installments (with the first installment of RMB300.0 million paid in 2017, the second installment of RMB75.0 million will be paid after the transaction has been approved by the shareholders at an extraordinary general meeting to be convened in 2018 for approving the transaction, with the remaining RMB75.0 million to be paid in 2019). For the remaining RMB285.0 million, the Group will issue 334,224,599 new shares to HBP at the issue price of HKD1.014/share, subject to approval by shareholders at an the extraordinary general meeting and the Stock Exchange granting listing approval for such shares. The two parties will further deepen the overall cooperation in global markets through the issuing of new shares.

## Other overseas markets - emerging markets

Other overseas markets are mainly emerging markets in Belt and Road countries where the Group provides services, which include Ethiopia, Kazakhstan, Pakistan, Canada and South America. Core clients of the Group are independent Chinese oil companies investing and developing oil and gas resources in these emerging markets. Since beginning cooperation with independent oil companies in 2015, the Group has expanded cooperation with them, and established long-term strategic partnerships with key clients. As a leader in independent Chinese oil services companies, the Group becomes a go-to partner of independent Chinese oil companies thanks to its excellent technical strength and integrated service capabilities covering the entire life cycle of oil and gas field services. In 2017, benefitting from the recovery in international crude price, oil companies significantly increased capital expenditure in upstream E&P. The Group further strengthens its cooperation with clients and expanded its market share. During the year, the Group has recorded in other overseas markets in total about RMB459.9 million of new orders, an increase of about 304.8% from last year's RMB113.6 million. In Kazakhstan, the Group further strengthened its cooperation with strategic partner Geo-Jade, obtaining about RMB250.0 million of new orders during the year for services including turn-key drilling operation services and pressure pumping projects. Other than cooperation with business partners, the Group has obtained remarkable growth regarding directional drilling and completion tool services in Kazakhstan. In Ethiopia, the Group has established strong and friendly partnerships with clients, and its business continued to maintain steady growth, with three major product lines of workover, cementing and drilling fluids winning annual service orders. In Albania, the Group initiated substantive cooperation with strategic partners, beginning to sell multiple batches of completion tools. At present, the market development process is smooth, and large room for growth is expected in this market. In Pakistan, the Group cooperates with clients mainly with experimental projects. Pressure pumping service project has achieved impressive results of increasing production more than ten times for a single well, created high value for the client. It established branding of the Group while laying a solid foundation for scaled promotion of the business. The Americas market has began to recover slowly, with orders increased as compared with last year.

Operation-wise, the Group provided premium high-efficient operations in emerging markets during the year, and achieved significant production-increasing cost-reducing effects in multiple projects, thanks to its integrated service capability and its relative technical advantages in such markets. It helped the clients to realize value-adding and was highly accoladed, laid a solid foundation for establishing overseas branding influence of the Group. During the year, the Group has recorded in other overseas markets in total about RMB553.5 million of revenue, a dramatic increase of about 132.6% from last year's RMB238.0 million.

With the rapid development of global business, especially in the emerging Belt and Road markets supported by national policy, the Group began actively seeking cooperation with national policy financial institutions, in order to manage possible political/ commercial risks when developing overseas business as well as obtaining necessary capital support for overseas business development. In the fourth quarter of 2017, material progress was made regarding the Group's cooperation with national policy financial institutions, obtained the Group a specific insurance of about USD15.0 million for a project in Kazakhstan. Such insurance could provide protection against political and commercial risks. On such basis, the Group could work with overseas commercial banks to retrieve capital earlier. The Group is actively promoting cooperation with this institution on a larger scale with more diversified modes in order to relieve the Group from overseas risk exposure and capital occupation problem of performance bond required in overseas business.

## Domestic market

In domestic market, the industry began to recover from a three-year-long trough, and upstream E&P development was becoming more active. Domestic oil&gas consumption reached a new height, with an increasingly larger demand gap. Investment in natural gas E&P, including shale gas, CBM and other unconventional resources, significantly increased along with demand for new techniques to reduce cost and increase efficiency. At the same time, domestic cooperation projects with international oil companies were going on smoothly, market players diversifying.

Market-wise, domestically, the Group is selective regarding projects, avoiding conventional projects with fierce competition and focusing on unconventional and new technology service projects on which the Group has an advantage over other players. The Group had gave up certain projects with lower-than-ideal profitability and long working capital occupation period. Accelerated development of shale gas in Southwest China provides new opportunities for domestic business growth of the Group. It won integrated service project for Sichuan shale gas platform drilling and turn-key project for ultra-long shale gas horizontal well in the fourth quarter of 2017, with a combined value of about RMB150.0 million. The first project is the first attempt of the customer to allow independent oil service companies to independently take on integrated shale gas development projects. The Company became one of the first independent oil service companies to enter mainstream shale gas development market in China, thanks to its leading advantages in unconventional resources development technology which is well received by customers. The latter project is a new technique project, with which the Company becomes the premium partner of the customer thanks to its outstanding technological capabilities and operating track record. This project's equipment is provided by customer, the Group is providing technical service, which made the project more profitable. In Erdos, large equipment of the Company including drilling rigs, pressure pumping equipment and coiled tubing equipment all won long-term service orders. In Xinjiang, conventional product lines with an advantage began to recover, with workover services, drilling and completion fluid services and inspection services all obtaining large order increases than last year. During 2017, the Company won new orders of about RMB1,150.9 million in the domestic market, an increase of about 22.4% from last year's RMB940.2 million, with a significant increase in order quality.

Operation-wise, in 2017, orders on hand in the domestic market started its commenced of operations. Utilization rate of large equipment, including drilling rigs and pressure pumping trucks, improved dramatically. By emphasizing operation quality and increasing efficiency, multiple drilling rig service teams of the Group became leading teams approved by regional market clients, and the Company's branding is further solidified.

Regarding promotion of new technologies, the Group has been working on research, introduction and promotion of new technologies and know-hows aimed at developing different geological reservoirs for the clients, especially the practical demand of "increasing production and lowering cost" in developing unconventional oil and gas resources. During the year, biosynthesis-based drilling fluid introduced from abroad achieved success in the Sichuan shale gas market. This new product can replace ordinary oil-based drilling fluid with higher drilling efficiency and better environmental protection. The high performance and lower price of the product is beneficial for large-scale development of shale gas, and the Group expects large room for business development of such product in the fast-growing shale gas market. The nano-chemical material developed through cooperation between the Group and FLOTEK in North America has achieved remarkable production-increasing results in trial wells, winning recognition from more clients, and is being promoting for a larger scale.

## Business Cluster Analysis

In 2017, the market began to recover from a three-year-long trough, and oil companies began to increase Capex, especially expenditure aimed at new-well development of oilfield, directly benefitting drilling services of the Group, and allowed its drilling services to benefit directly, recording a significantly higher revenue than last year. Drilling technology cluster recorded revenue of RMB959.2 million, a dramatic increase of about 119.2% than last year, amounting to 43.6% of the total revenue of the Group. Completion business suffered from large decreases in investment in new wells especially the demand for high-technical-requirement production-increasing operations lead by the past three years depressed market, it still needs time to recover. In 2017, well completion cluster recorded revenue of RMB564.4 million, a decrease of 24.9% as compared with last year, and 25.6% of total revenue. For oil production services, the Group's overseas production projects have fully commenced operations, with some projects picking up pace as per clients' demand, and workload has experienced large increases as compared with 2016. The oil production services cluster has recorded revenue of RMB679.1 million, an increase of 58.3% as compared with 2016, and 30.8% of total revenue.

### Revenue Breakdown by Cluster

| | **Year ended 31 December** | | | **% of total revenue Change Year ended 31 December** | |
|---|---|---|---|---|---|
| | **2017 (RMB'mn)** | 2016 (RMB'mn) | Growth (%) | **2017** | 2016 |
| Drilling technology cluster | **959.2** | 437.5 | 119.2% | **43.6%** | 27.1% |
| Well completion cluster | **564.4** | 751.1 | -24.9% | **25.6%** | 46.4% |
| Oil production services cluster | **679.1** | 429.1 | 58.3% | **30.8%** | 26.5% |
| Total | **2,202.7** | 1,617.7 | 36.2% | **100.0%** | 100.0% |

## Drilling technology cluster

In 2017, drilling technology cluster has recorded revenue of RMB959.2 million, a huge increase from last year's RMB437.5 million, or 119.2%. It was mainly attributable to the significant increase of Capex by customers on new well development, and the market for new well construction has recovered in terms of workload. Several drilling projects previously delayed in multiple domestic and overseas markets have fully commenced operation and have recorded full workload for the year.

Analysis of product lines in this cluster:

1) Integrated drilling services: during the year, the Group has expanded its cooperation with strategic partner Geo-Jade. This product line has recorded a growth on both workload and revenue in Kazakhstan during the year. The cementing services in Ethiopia have both recorded growth as compared with last year. During the reporting period, this product line recorded revenue of RMB318.9 million, a dramatic increase from last year's RMB26.5 million.

2) Directional drilling: with its solid technical capabilities, this product line has deeply tapped the existing market and recorded large revenue increase in Kazakhstan. In Iraq, this product line maintained stable revenue scale. In the domestic market, the Company maintained stable cooperation with an international oilfield services company in the Southwest market with joint operations on shale gas projects, high-quality service got high recognition from customers. Proprietary rotary geological direction services applied in Northeast China has gradually obtained recognition from customers and exhibited large potential for promotion. During the reporting period, this product line recorded revenue of RMB191.5 million, an increase of 51.0% from last year's RMB126.8 million.

3) Drilling fluid service: stable development was maintained in Ethiopia, while slight decrease year-on-year was experienced in Xinjiang, China. In 2017, this product line recorded revenue of RMB103.6 million, a decrease of 2.6% from last year's RMB106.4 million.

4) Land drilling service: with higher Capex on new wells by oil companies, integrated drilling service projects previously won in Iraq by the Company has fully commenced operations after a two-year standby period, and initiated drilling in the first quarter of 2017 while keeping full workload throughout the year. In Erdos, China, drilling rigs of the Group has maintained ample workload on multiple projects, and became leading teams locally thanks to their outstanding operation quality, got highly accoladed by customers. It further solidified the Group's branding position, and has won good reputation for the Group to stand firm in the core domestic market and further expansion in overseas markets. During the reporting period, this product line recorded revenue of RMB214.2 million, a surge of 505.1% from last year's RMB35.4 million.

5) Oilfield waste management service: this product line successfully achieved breakthrough in Ethiopia and Iraq in 2017, recording a higher year-on-year revenue of RMB30.5 million, or a 36.2% increase compared to last year's RMB22.4 million.

6) Drilling tool rental and technology service: with the recovery in drilling services market and higher demand from customers, this product line has achieved growth in workload in Xinjiang, China. During the reporting period, this product line recorded revenue of RMB39.9 million, an increase of 75.8% from last year's RMB22.7 million.

7) Oil production facilities inspection and evaluation service: benefitting from the gradual recovery of the Xinjiang market, this product line experienced significant growth in workload in the second half of 2017, and achieved breakthrough of order in Kazakhstan, further expanding its business. During the reporting period, this product line recorded revenue of RMB60.6 million, an increase of 5.9% from last year's RMB57.2 million.

EBITDA of the drilling technology cluster dramatically increased from last year's RMB141.7 million to RMB400.5 million, an increase of 182.6%. EBITDA margin for 2017 was 41.8%, an increase of approximately 9.4% percentage points from last year's 32.4%, mainly due to the large growth in the high-gross-margin drilling business in Iraq.

## Well completion cluster

In 2017, well completion cluster recorded revenue of RMB564.4 million, a decrease of 24.9% from last year's RMB751.1 million. Due to the large decrease in Capex, and severely shank on market demand especially those targeting higher technical needed unconventional projects' stimulation demand from oil companies in the past few years. Even though E&P expenditure upstream has begun recovery during the year, completion business lags behind the drilling sector, and coupled with a highly competitive market revenue of well completion cluster has dropped as compared with last year. The Group has been selective in choosing projects, avoiding certain low-margin projects which take up working capital for a relatively long time, while actively promoting the research, introduction and market promotion of new know-hows and techniques. Proprietary completion tools of the Company has been applied in the domestic market, South America and Iraq, while the nano-chemical stimulation technology developed in cooperation with the North America strategic partner has achieved preliminary results in trial projects of regional markets, and could become a new growth point for the cluster.

Analysis of product lines in this cluster:

1) Well completion integration: due to low demand and high level of competition in the domestic market, the scale of this product line experienced large decreased. During the reporting period, this product line recorded revenue of RMB136.8 million, a decrease of 40.9% from last year's RMB231.5 million. Proprietary sand control tools still achieved healthy sales results in South America, Ethiopia and Iraq.

2) Pressure pumping service: considering the relatively low demand in China, the Company has transferred part of its pressure pumping equipment to the overseas market, including Iraq, Pakistan and Ethiopia. It has increased utilization and revenue for the product line. Relatively higher gross margin overseas also improved the overall profitability of the product line. In Pakistan, pressure pumping project has achieved the impressive result of increasing production more than ten times for a single well, created higher value for the client, soliditied branding position of the Group as well as its large-scale promotion. During the reporting period, this product line recorded revenue of RMB143.7 million, an increase of 16.7% from last year's RMB123.1 million.

3) Coiled tubing service: in 2017, lower domestic demand and high level of competition led to a decreased on work load. Performance in the overseas markets including Iraq remained stable. In 2017, this product line recorded revenue of RMB196.7 million, a decrease of 40.6% from last year's RMB331.0 million.

4) Fracturing/acidizing technique and chemical materials: despite the fact that domestic demand is yet to recover, the Group has promoted this product line to multiple new overseas markets, thanks to its outstanding process design capability and chemical stimulation technical capability. In Kazakhstan, Ethiopia and Pakistan, it has achieved growth in both orders and revenue. During the reporting period, this product line recorded revenue of RMB36.7 million, an increase of 92.1% from last year's RMB19.1 million.

5) Gravel packing service: through effective market development and cost-reducing efficiency-increasing measures, this product line has maintained healthy order growth in the fiercely competitive domestic market. During the reporting period, this product line recorded revenue of RMB45.0 million, an increase of 17.5% from last year's RMB38.3 million.

EBITDA of the well completion cluster decreased from last year's RMB303.5 million to RMB262.9 million, a decrease of 13.4%. EBITDA margin for 2017 was 46.6%, an increase of 6.2 percentage points from last year's 40.4%. Reason for the growth on EBITDA margin is that under the backdrop of a highly competitive market and a yet to recover market situation in China, the Group turned its focus to overseas market, the growth of overseas completion business with higher margin has improved the margin of the sector.

## Production services cluster

In 2017, the oil production cluster has recorded revenue of RMB679.1 million, a significant increase of 58.3% from last year's RMB429.1 million. This cluster has maintained its growth momentum. In Iraq, the workover and completion turn-key project from an international oil company has successfully commenced operations, while the production operation and maintenance service has maintained sustainable workload since commencing operation in the second half of 2016, while obtaining substantial new workload on the basis of existing contracts, dramatically increase overall revenue. Workover service in Xinjiang maintained stable workload. Production services in Ethiopia has also recorded good results during the year.

Analysis of product lines in this cluster:

1) Production operation services: Iraq is the major market for this product line. The production operation services in Halfaya oilfield has maintained stable workload, and the project from an international oil company has maintained continuous and stable workload since commencing operation, and has once again won additional high-value orders from the client thanks to the high service quality of the Group. The production operation and maintenance capability of the Group has been recognized in Iraq by more customers, and there is still room for further growth in the future. During the reporting period, this product line recorded revenue of RMB414.0 million, a significant increase of 123.7% from last year's RMB185.1 million.

2) Workover service:the workover and completion turn-key project has officially kicked-of in March this year, with two teams currently on-site operating, providing sizable revenue for the Group. One workover team in Ethiopia has maintained steady workload. Domestically, our self-used workover rigs in Tarim area recorded higher workload than last year. In the Turpan-Hami region, 12 workover teams managed by the Group continued operation. During the reporting period, this product line recorded revenue of RMB231.6 million, a dramatic increase of 90.3% from last year's RMB121.7 million.

3) Oil tubing and casing and anti-corrosion technology: the Company actively seek opportunities and obtained growing orders. During the reporting period, this product line recorded revenue of RMB33.5 million, an increase of 8.1% from last year's RMB31.0 million.

EBITDA of the production services cluster increased from last year's RMB198.0 million to RMB310.7 million, an increase of 56.9%. EBITDA margin for 2017 was 45.8%, a decrease of 0.3 percentage points from last year's 46.1%, mainly due to higher percentage of revenue from workover service, which exhibits a slightly lower gross margin as compared with production operation services which is more engineeer service oriented.

## Strategic Resources Alignment

In 2017, the Group continued to strictly control new capital expenditure, with full-year Capex of RMB417.9 million, or an decrease of 19.0% from last year's RMB515.7 million. It was mainly attributable to payment of investment projects from previous years and new investments for overseas projects.

## Alignment of Investment

In 2017, investment of the Group mainly includes supplementary investment in equipment for orders under execution in Iraq, including turn-key workover and completion project, coiled tubing and inspection tool projects.

## Significant Investments and Material Acquisition

On 22 December 2017, the Group signed an equity repurchase agreement with China Oil HBP to repurchase 40% of the Group's Iraqi business for a consideration of RMB735.0 million, among which RMB450.0 million will be paid in cash in installments (with the first installment of RMB300.0 million paid in 2017, the second installment of RMB75.0 million will be paid after the transaction has been approved by shareholders at the extraordinary general meeting to be held in 2018, with the remaining RMB75.0 million to be paid in 2019). For the remaining RMB285.0 million, the Group will issue 334,224,599 new shares to HBP at a price of HKD1.014/share, pending approval by the extraordinary general meeting and the Stock Exchange. The Group will also deepen the overall cooperation with HBP in global markets through issuing of new shares.

## Alignment of R&D

In 2017, the Group focused on improvement and innovation of techniques or tools related to the practical needs from customers around production-increasing and cost-reducing, as well as promoting optimization and upgrade of products through technological cooperation. In 2017, R&D expense of the Group amounted to RMB26.5 million, an increase of 60.6% from last year's RMB16.5 million.

Key research and development pipelines include:

— High-temp high-density high-performance environment-friendly water-based drilling fluid system

— In-door research and on-site application of biosynthesis-based environment-friendly drilling fluid system

— Automatic fluid control technique and technologies

— Horizontal cement-injecting multistage fracturing technology

## Alignment of Capital Operations

On 5 December 2017, the Company has completed issuance of USD300.0 million new bond at 9.75% coupon rate due on 5 December 2020. Among the newly issued USD300.0 million bond, about USD176 million was issued in exchange for the existing bond due on 6 November 2018, with the rest of about USD124 million subscribed by new investors. The successful issuance of the bond eliminates short-term debt risks for the Group, improves its liquidity, achieves improved credit rating, eliminates the biggest hurdle in business development, and provides strong support for the Group on the occasion of business recovery. On 12 January 2018, the Company has redeemed an aggregate principal amount of USD71.0 million of all the outstanding old notes that due on 5 November 2018.

## Alignment of Human Resources

In 2017, in response to its strategic development goal and to support rapid development of its overseas business, the Group focused on improving internationalization of its workforce, adjusted talent distribution, raised proportion of internationalized talents, and introduced high-end internationalized talents. Major adjustments in 2017 include:

— In order to support overseas development, the Group added new overseas employees, resulting in a small increase in total headcount. As at the date of the announcement, total headcount of the Group is 2,591, an increase of 28.2% from 2016, while the number of overseas employees increased 72.8% to 1,040, accounted to 40.1% of the total workforce. Meanwhile, the Company strengthened its training programme to improve overall internationalization and provide talents for the rapid growth overseas.

— Remuneration structure was refined further during the year. The Group adjusted its incentive mechanism to increase floating incentives linked to performance assessment and enhanced employee motivation. Labour cost amounted to a smaller percentage of revenue despite an increase in headcount. In 2017, Labour cost amounted to 17.1% of total revenue, down 5.9 percentage points from 23.0% in 2016.

— The Company has continued to adopt long-term incentive mechanism with share options to encourage employees to work with the Group in the long run. During the year, the Group has issued 100,000,000 ordinary share options of the Company to about 150 key employees and directors at an exercise price of HKD0.81/share. One third of the options is vested each year, commencing from the first anniversary after issuance.

## Outlook

In 2018, it is expected that major oil producing countries in the Middle East will maintain their restrictions on oil production, global oil and gas market will achieve a supply-demand balance, and the industry will face full recovery. Upstream E&P Capex from oil companies in major domestic and overseas markets of the Group will continue to grow significantly, with large amount of market opportunities appearing. Meanwhile, benefitting from the full commencment of operation and the abundant orders on hand, the Group is fully confident with the growth in 2018. Regarding management, the Group will focus on cash flow management, recover strong net operating cash flow generating capability, improve operating quality, increase its level of internationalization, and promote healthy growth of revenue and profit under the premise of cash flow growth.

Market-wise, with the strong market recovery, the Group expects to see a very active overall market with large growth opportunities in 2018. The Group will focus on a further customer highgrade, and aim for long-term orders with strong cash flow generating ability, high margin and larger scale per operation, in order to lay a solid foundation of orders for the rapid growth in 2019 and onwards. New breakthroughs and explosive growth are likely to appear in overseas markets. In Iraq, the Group is actively pursuing market share from first-tier international oil companies and enter a higher level platform with limitless room for growth. In the first quarter of 2018, the Group obtained a general drilling project with a value of 16.0 million USD from an International Oil Company. As at this moment, total value of projects under bidding procedures by the Company in Iraq is about several hundreds of million of US dollars. Besides, the long-term partner of the Group Geo-Jade has obtained operation qualification for Iraqi oil and gas fields in January 2018. The Group will continue to utilize the alliance with HBP and Geo-Jade to push forward scaled development in Iraq. In other overseas markets, the Group further strengthens its cooperation with existing strategic partners. In the first quarter of 2018, new orders from Geo-Jade increased RMB130.0 million. Besides it is currently contending for multiple large-scale turn-key projects in Kazakhstan and Albania. Apart from that, supported by the Belt and Road policy and financing from national policy financial institutions, the Group "combines industry with financing", and is in discussion with some other independent Chinese oil companies along the Belt and Road countries, including Ethiopia, Pakistan and other Southeast Asia and African markets, regarding multiple turn-key projects. The market has great potential for growth. In Ethopian market, the Group has renewed it's contract with a value of RMB140.0 million from it's existing business line. Regarding the domestic market, in 2018, major domestic customers of the Group will push the pedal to the metal in the natural gas market, and especially development of Southwest shale gas, providing incremental opportunities for the Group's domestic growth. The Group will leverage its technical advantages in domestic unconventional resource development as well as outstanding track record, and further contend for more unconventional development services projects. In the first quarter of 2018, the Group obtained projects from shale gas market with a value of RMB180.0 million.

Regarding project execution, as at 31 December 2017, order on hand of the Group amounted to about RMB3,508.7 million, with about 80% of projects already commencing operations. In Iraq, multiple large projects of the Group, including the general production operation maintenance project, integrated drilling project and general workover and completion project, continue to maintain full work. In the case of the Group winning bids as expected in multiple large projects, higher growth in workload will be further witnessed. Domestically, projects won near the end of 2017 in Sichuan shale gas market are beginning to commence implementation. The Group will continue to strictly control operating quality to guarantee high-quality high-efficiency execution of all domestic and overseas projects.

In terms of product and technology, the Group will focus on practical application demands during the development of oil and gas fields, strengthen researching, introducing, promoting and application of new technology. It will enhance cooperation with industry-leading technological companies, and in particular, new technologies emphasizing on production promoting and reducing cost. It will further improve its integrated production-increasing and cost-saving service capability. In 2018, the Company will focus on promoting biosynthesis-based mud technology in shale gas market in southwest China, and the nano-chemical material stimulation technology.

In terms of strategic resources alignment, the Group will continue to strictly control incremental Capex, reallocate existing equipment, strengthen inventory management and cooperation with suppliers, increase resource utilization efficiency, increase integration of resources from partners, and reduce capital occupation from alignment of resources.

Regarding human resources, the Group will focus on internationalization of its talent structure, promote internationalization of management team and localization of international businesses, increase the percentage of local employees in overseas market, and achieve a majority of local employees on conventional services and operations posts. It will take the view of introducing leading talents in the industry, leaping development of outstanding talents and training management. In terms of remuneration, the Group will continue to strengthen its incentive measures, and establish and continue to refine a salary system that fits the industry characteristics and global development.

In terms of financial management, in 2018, the Group will take cash flow management as its core task, and put cash flow growth requirement above revenue and profit growth. It will increase the effort of combining industry and financing, speed up deepened cooperation with national policy financial institutions, collaborate with clients and national policy financial institutions to reduce risks, lower working capital pressure, and use it as the leverage for grabbing market share from international oil services companies in the overseas market.

Overall, through the sufficient adjustment and preparations during the industry trough, the Group now possesses a much more optimized market, client and cost structure. Its operation is more versatile to swiftly seize opportunities as the industry recovers to achieve growth. In 2017, the Group has successfully returned to a fast track of growth. It will continue to welcome 2018 with profound confidence basing on a great start and continue to expand new markets while enhancing internal management. It will be more focused on managing cash flow, optimizing debt structure, and make the Group back to healthy and high speed growth, and steadily step forward to its long-term strategic goal of becoming a "world-leading oilfield technical services company with a strong foot-hold in China".

## FINANCIAL REVIEW

### Revenue

The Group's revenue in 2017 amounted to RMB2,202.7 million, representing an increase of RMB585.0 million or 36.2% as compared to RMB1,617.7 million in 2016. The increase in the Group's revenue was mainly attributable to the recovering of both domestic and overseas markets, and the full commencing of operation of ample orders on hand.

### Costs of Sales

The costs of sales in 2017 increased to RMB1,373.0 million, representing an increase of 27.9%, from RMB1,073.8 million in 2016. The increase was mainly attributable to increased revenue.

### Other Gains

Other gains in 2017 decreased to RMB9.7 million from RMB69.0 million in 2016, which was mainly due to lack of substantial disposal of subsidiaries.

### Selling Expenses

Selling expenses in 2017 amounted to RMB152.6 million, representing an increase of RMB41.8 million or 37.7% as compared to RMB110.8 million in 2016. This was mainly attributable to increase of revenue.

### Administrative Expenses

Administrative expenses in 2017 amounted to RMB175.5 million, representing a decrease of RMB162.3 million or 48.0% as compared to RMB337.8 million in 2016. This was mainly attributable to the downsizing and adjustment of human resources of the Group and comprehensive cost control.

### Research and Development Expenses

Research and Development expenses in 2017 amounted to RMB26.5 million, representing an increase of RMB10.0 million or 60.6% as compared to RMB16.5 million in 2016. This was mainly attributable to that the Group strengthening technological innovation and increasing R&D expenses.

### Sales Tax and Surcharges

Sales tax and surcharge in 2017 amounted to RMB11.1 million, representing an increase of RMB6.5 million or 141.3% as compared to RMB4.6 million in 2016. This was mainly attributable to the increase of taxable income of the Group.

### Operating Profit

As a result of the foregoing, the operating profit of the Group in 2017 amounted to RMB473.7 million, representing an increase of RMB330.5 million or 230.8% as compared to RMB143.2 million in 2016. The operating profit margin for 2017 was 21.5%, representing an increase of 12.6 percentage points from 8.9% in 2016.

### Finance Costs (Net)

Net finance costs in 2017 was RMB267.9 million, an increase of approximately RMB94.5 million as compared to RMB173.4 million in 2016. The increase was mainly due to the appreciation of RMB in the current year leading to currency translation loss.

### Share of Loss of A Joint Venture

The share of loss of a joint venture in 2017 amounted to RMB0.9 million.

### Income Tax Expense

Income tax expense in 2017 amounted to RMB33.6 million, representing a decrease of RMB33.5 million from RMB67.1 million in 2016. This was mainly due to better tax planning of profiting entities of the Group resulting in less additional income tax occurred, as well as utilization of deferred tax asset by entities at a loss due to recovery of the market.

### Profit for the Year

As a result of the foregoing, the Group's profit of 2017 was RMB171.3 million, representing an increase of RMB269.0 million, or 275.3%, compared to 2016.

### Profit Attributable to Equity Holders of the Company

The Group's profit attributable to equity holders of the Company in 2017 amounted to RMB54.5 million, an increase of RMB215.0 million, or 134.0% as compared to 2016.

### Trade and Notes Receivables

As at 31 December 2017, the Group's net trade and notes receivables were RMB1,760.4 million, representing an increase of RMB462.4 million as compared to 31 December 2016. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in 2017 were 227 days, representing a decrease of 36 days as compared to 2016. This was mainly attributable to strengthened trade receivables recovery management by the Group.

### Inventories

As at 31 December 2017, the Group's inventories were RMB597.2 million, representing a decrease of RMB184.0 million as compared to 31 December 2016, mainly due to optimized product line structure of the Group using up inventories.

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2017, the Group's cash and bank deposits amounted to approximately RMB1,548.2 million (including: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing an increase of RMB648.6 million as compared to 31 December 2016.

As at 31 December 2017, the Group's outstanding short-term loans amounted to RMB880.3 million. Credit facilities granted to the Group by banks amounted to RMB1,380.0 million, of which approximately RMB261.0 million were not used.

As at 31 December 2017, the liability-to-asset ratio (total liabilities divided by total assets) of the Group was 62.0%, representing a decrease of 8.3 percentage points from the liability-to-asset ratio of 70.3% as at 31 December 2016. As at 31 December 2017, the gearing ratio of the Group was 58.1%, representing a decrease of 5.0 percentage points from the gearing ratio of 63.1% of last year. The gearing ratio is calculated as total borrowings divided by total capital. Total borrowings include borrowings, bonds and trade and notes payables, as shown in the consolidated statement of financial position. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus total borrowings.

The equity attributable to equity holders of the Company increase from RMB1,544.9 million as at 31 December 2016 to RMB2,558.0 million as at 31 December 2017.

## MATERIAL ACQUISITION AND DISPOSAL

On December 22, 2017, the Company, Anton International and DMCC reached agreement with Huihua and HBP regarding purchasing 40% of issued share capital of DMCC from Huihua with a consideration of RMB735,000,000. DMCC is a non-wholly-owned subsidiary of the Group. The Group owns 60% of DMCC while the rest 40% owned by Huihua. DMCC mainly provides oilfield services in Iraq. After the acquisition, DMCC will become a wholly-owned subsidiary of the Group.

## EXCHANGE RISK

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

## CASH FLOW FROM OPERATING ACTIVITIES

For the year ended 31 December 2017, net cash inflow from operating activities of the Group amounted to RMB195.6 million, representing an increase of RMB80.0 million compared to 2016. This was mainly because of the strengthen of the Group's account receivables management.

## CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for 2017 was RMB417.9 million, of which, investments in fixed assets were RMB313.6 million, investments in intangible assets (including land use rights) were RMB66.3 million. The Group's net cash used in investing activities was RMB399.5 million, which included an RMB7.4 million recouping investments capital.

## CONTRACTUAL LIABILITY

The Group's contractual commitments mainly consist of payment obligations under the Group's operating lease arrangements and capital commitments. The Group leases offices and certain equipment and machinery through operating leases. As at 31 December 2017, the Group's operating lease commitments amounted to approximately RMB31.4 million. As at the balance sheet date (31 December 2017), the Group had capital commitments of approximately RMB23.5 million, which was not provided for in the statement of financial position.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities or guarantees.

## PLEDGE OF ASSETS

As at 31 December 2017, the Group's pledge of assets including building, property, plant and equipment with a net book value of RMB465.7 million, and land use rights with a net book value of RMB18.7 million.

## OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2017, the Group did not have any off-balance sheet arrangement.

# DIRECTORS' REPORT

The Board of the Company is pleased to present the Directors' Report together with the audited financial statements of the Group for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

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

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

## RESULTS OF OPERATIONS

The financial results of the Group for 2017 are set out on pages 79 to 162 of this Annual Report.

## FIVE YEAR FINANCIAL SUMMARY

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

## FINAL DIVIDEND

At the Board meeting held on 26 March 2018, the Board did not recommend a payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

## BUSINESS REVIEW

### Overview

The fair review of the Group's business is detailed in the Management Discussion and Analysis on pages 14 to 23 of this annual report. The discussion constitutes a part of this Director's Report.

### Principal Risks and Uncertainties

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

### Important Events

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

### Future Development

The future business development of the Group is detailed in the Management Discussion and Analysis on pages 24 to 25 of this annual report. The discussion constitutes a part of this Director's Report.

## Key Performance Indicators

The key performance indicators are detailed in the financial review set out in the Management Discussion and Analysis on pages 26 to 28 of this annual report. This discussion constitutes a part of this Directors' Report.

## Environmental Policies and Performance

The Group pays close attention to the environment protection. An oilfield waste management services unit was set under the Group's business lines to minimize the affection of the environment from oil and gas development activities. The Group has also set a QHSE (Quality, Health, Safety, Environment) committee under the Board to emphasize the environment protection as well as ensure the services quality.

## Compliance with Laws and Regulations

To the best of the knowledge of the Board and the management, the Group complied with the relevant laws and regulations which constitutes material impact on the business and operation of the Company and its subsidiaries in all material respects.

## Relationships with Employees

The relationships with employees is detailed in the Employee Relations on page 70 to 72 of this annual report. The discussion constitutes a part of this Director's Report.

## Relationships with Customers and Suppliers

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

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

# MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group accounted for approximately 21.84% and 68.08% respectively of the Group's revenues for the year ended 31 December 2017.

For the year ended 31 December 2017, the total amount of purchases made by the Group from its five largest suppliers amounted to RMB291.48 million, and accounted for 29.99% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB130.09 million, and accounted for 13.38% of the total purchases for the year. One of the five largest suppliers of the Group is an affiliate of Schlumberger NV, a substantial shareholder of the Company. Save as disclosed above, as far as the Company is aware, none of the Directors,their associates and shareholders who are interested in more than 5% of the share capital of the Company has any interest in the five largest suppliers and customers.

## SUBSIDIARIES

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

## PROPERTIES, PLANT AND EQUIPMENT

Additions to the property, plant and equipment of the Group for the year ended 31 December 2017 totaled RMB194.8 million. Details of movements are shown under Note 6 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 16 to the consolidated financial statements.

Shares were issued during the year on subscription of new shares. Details about the issue of shares are also set out in Note 16 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

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

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

On 5 December 2017, the Company issued 9.75% senior notes due 2020 (the "2020 Notes") in the aggregate principal amount of US$300 million, of which US$123.58 million was new issue and US$176.42 million was issued pursuant to an exchange offer for the 7.5% senior notes of the Company due 2018. The 2020 Notes are listed on the Stock Exchange under the stock code: 5052.

Save as disclosed, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2017 are set out in Notes 17 and 39 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution amounted to RMB813.2 million.

## BOND AND SENIOR NOTES

Details of the bonds and senior notes are set out in Note 18 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company disclosed in this Directors' Report on pages 36 to 39, and Note 16 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the year.

## DIRECTORS

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

| | |
|---|---|
| **Executive Directors** | |
| Mr. Luo Lin | (appointed on 3 August 2007) |
| Mr. Wu Di | (appointed on 22 March 2010) |
| Mr. Pi Zhifeng | (appointed on 25 March 2015) |
| **Non-executive Director** | |
| Mr. John William Chisholm | (appointed on 2 November 2016) |
| **Independent Non-executive Directors** | |
| Mr. Zhang Yongyi | (appointed on 17 November 2007) |
| Mr. Zhu Xiaoping | (appointed on 17 November 2007) |
| Dato Wee Yiaw Hin | (appointed on 19 April 2017) |
| Mr. Wang Mingcai | (resigned on 19 April 2017) |

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

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

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

## DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Mr. Luo Lin, being the Executive Director, has entered into a service contract with the Company for a term of three years commencing from 4 June 2016, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Wu Di, being the Executive Director, has entered into a service contract with the Company for a term of three years commencing from 1 April 2016, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Pi Zhifeng, being the Executive Director, has entered into a service agreement with the Company for a term of three years commencing from 26 May 2015, which may be terminated by not less than three months' notice in writing served by either party on the other.

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

The letter of appointment of each of Mr. Zhang Yongyi and Mr. Zhu Xiaoping, being the Independent Non-executive Directors, has been renewed by the Company for a term of one year commencing from 9 January 2017, which may be terminated by not less than three months' notice in writing served by either party on the other.

Dato Wee Yiaw Hin, being the Independent Non-executive Director, has entered into a letter of appointment with the Company under which he will act as an independent Non-executive Director for a period of 3 years with effect from 19 April 2017, which may be terminated by not less than three months' notice in writing served by either party on the other.

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

## DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

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

## PERMITTED INDEMNITY PROVISION

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

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

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

## REMUNERATION OF DIRECTORS

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

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

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

| Name of Director | Note | Capacity | Number of ordinary shares held | Approximate percentage of shareholding |
|---|---|---|---|---|
| Luo Lin | 1 | Founder of a discretionary trust and beneficial owner | 610,635,408 | 23.0% |
| Pi Zhifeng | | Beneficial owner | 448,000 | 0.02% |
| Zhang Yongyi | | Beneficial owner | 440,000 | 0.02% |

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 601,580,740 shares of the Company. Mr. Luo Lin and his family members are the beneficiaries of the Loles Trust. Mr. Luo Lin also holds 9,054,668 shares of the Company in the capacity of a beneficial owner.

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

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

Save as disclosed above, at no time during the year ended 31 December 2017, the Directors and chief executive (including their spouses and children under the age of 18 years) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, so far was known to any Director or the chief executive, the substantial shareholders, other than the Directors or the chief executive of the Company, who had an interest or short position in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

| Name of substantial shareholder | Notes | Capacity | Long position/ short position | Number of ordinary shares held | Approximate percentage of shareholding |
|---|---|---|---|---|---|
| Credit Suisse Trust Limited | 1 | Trustee | Long position | 601,580,740 | 22.61% |
| Seletar Limited | 1 | Trustee | Long position | 601,580,740 | 22.61% |
| Serangoon Limited | 1 | Trustee | Long position | 601,580,740 | 22.61% |
| Avalon Assets Limited | 1 | Trustee | Long position | 601,580,740 | 22.61% |
| Pro Development Holdings Corp. | 1 | Beneficial owner | Long position | 601,580,740 | 22.61% |
| Schlumberger NV | 2 | Interest of controlled corporation | Long position | 423,361,944 | 15.91% |
| Hong Kong De Rui Energy Development Company Limited | | Beneficial owner | Long position | 221,619,604 | 8.33% |

Notes:

1. The 601,580,740 shares referred to the same batch of shares.
2. Schlumberger Far East, Inc. directly holds 423,361,944 shares of the Company. Schlumberger Far East, Inc. is a wholly-owned subsidiary of Schlumberger Holding Limited. Schlumberger Holding Limited is a wholly-owned subsidiary of Schlumberger Oilfield Holding Limited. Schlumberger Oilfield Holding Limited is a wholly-owned subsidiary of Schlumberger NV.

Save as disclosed above, as at 31 December 2017, so far was known to the Directors, no other persons (other than the Directors or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company conditionally adopted its share option scheme on 17 November 2007 and amended its terms on 27 May 2010 (the "Old Share Option Scheme"). The Old Share Option Scheme has a term of 10 years from 17 November 2007, subject to early termination by the Company in a general meeting or by the Board. The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 26 May 2017 and the Old Share Option Scheme was terminated on the same date. No share option has been granted under the Share Option Scheme during the year ended 31 December 2017. The purpose of the Share Option Scheme is to grant option to the eligible participants in recognition and acknowledgement of their contributions made or to be made to the Group. Under the Share Option Scheme, the Board may offer to grant an option to any director or employee, or any advisor, consultant, suppliers, customers or agents.

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

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

As at the date of this Annual Report, the total number of shares available for issue which includes share options available to be granted and outstanding options under the Share Option Scheme was 469,306,925 shares, representing 17.63% of the issued share capital of the Company.

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

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

As at 31 December 2017, the Directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company under the Old Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company of HK$0.10 each. Details of the movements in the number of share options during the year ended 31 December 2017 under the Old Share Option Scheme are as follows:

| Grantees | Date of grant of share options | Exercise period of share options | Exercise price per share HK$ | Notes | Number of share options as at 1 January 2017 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options cancelled during the year | Number of share options lapsed during the year | Number of share options as at 31 December 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Zhang Yongyi | 1 April 2016 | 1 April 2017 to 31 March 2022 | 0.800 | 3,9 | 900,000 | – | – | – | – | 900,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 3,11 | – | 700,000 | – | – | – | 700,000 |
| | | | | Subtotal: | 900,000 | 700,000 | – | – | – | 1,600,000 |
| Zhu Xiaoping | 1 April 2016 | 1 April 2017 to 31 March 2022 | 0.800 | 3,9 | 900,000 | – | – | – | – | 900,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 3,11 | – | 700,000 | – | – | – | 700,000 |
| | | | | Subtotal: | 900,000 | 700,000 | – | – | – | 1,600,000 |
| Wang Mingcai* | 1 April 2016 | 1 April 2017 to 31 March 2022 | 0.800 | 3,9 | 900,000 | – | – | – | 900,000 | – |
| | | | | Subtotal: | 900,000 | – | – | – | 900,000 | – |
| Luo Lin | 10 January 2013 | 10 January 2014 to 9 January 2017 | 3.878 | 1,4 | 86,667 | – | – | – | 86,667 | – |
| | 21 June 2013 | 21 June 2014 to 20 June 2019 | 5.742 | 2,5 | 796,000 | – | – | – | – | 796,000 |
| | 2 December 2016 | 2 December 2017 to 1 December 2022 | 1.100 | 2,10 | 2,216,000 | – | – | – | – | 2,216,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,11 | – | 442,000 | – | – | – | 442,000 |
| | | | | Subtotal: | 3,098,667 | 442,000 | – | – | 86,667 | 3,454,000 |

| Grantees | Date of grant of share options | Exercise period of share options | Exercise price per share HK$ | Notes | Number of share options as at 1 January 2017 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options cancelled during the year | Number of share options lapsed during the year | Number of share options as at 31 December 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Wu Di | 10 January 2013 | 10 January 2014 to 9 January 2017 | 3.878 | 1,4 | 400,000 | – | – | – | 400,000 | – |
| | 1 April 2016 | 1 April 2017 to 31 March 2022 | 0.800 | 2,9 | 1,500,000 | – | – | – | – | 1,500,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,11 | – | 1,000,000 | – | – | – | 1,000,000 |
| | | | | Subtotal: | 1,900,000 | 1,000,000 | – | – | 400,000 | 2,500,000 |
| Pi Zhifeng | 10 January 2013 | 10 January 2014 to 9 January 2017 | 3.878 | 1,4 | 1,000,000 | – | – | – | 1,000,000 | – |
| | 1 April 2016 | 1 April 2017 to 31 March 2022 | 0.800 | 2,9 | 3,000,000 | – | – | – | – | 3,000,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,11 | – | 3,000,000 | – | – | – | 3,000,000 |
| | | | | Subtotal: | 4,000,000 | 3,000,000 | – | – | 1,000,000 | 6,000,000 |
| John William Chisholm | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,11 | – | 700,000 | – | – | – | 700,000 |
| | | | | Subtotal: | – | 700,000 | – | – | – | 700,000 |
| Dato Wee Yiaw Hin | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 3,11 | – | 700,000 | – | – | – | 700,000 |
| | | | | Subtotal: | – | 700,000 | – | – | – | 700,000 |
| Employees in aggregate | 10 January 2013 | 10 January 2014 to 9 January 2017 | 3.878 | 1,4 | 15,536,549 | – | – | – | 15,536,549 | – |
| | 21 June 2013 | 21 June 2014 to 20 June 2019 | 5.742 | 2,5 | 480,000 | – | – | – | – | 480,000 |
| | 28 June 2013 | 28 June 2014 to 27 June 2019 | 5.600 | 2,6 | 298,000 | – | – | – | 216,000 | 82,000 |
| | 20 November 2013 | 20 November 2014 to 19 November 2019 | 4.960 | 2,7 | 190,000 | – | – | – | 114,000 | 76,000 |
| | 24 February 2016 | 24 February 2017 to 23 February 2022 | 0.740 | 2,8 | 104,440,000 | – | 798,000 | – | 8,620,000 | 95,022,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,11 | – | 92,758,000 | – | – | – | 92,758,000 |
| | | | | Subtotal: | 120,944,549 | 92,758,000 | 798,000 | – | 24,486,549 | 188,418,000 |
| | | | | Total: | 132,643,216 | 100,000,000 | 798,000 | – | 26,873,216 | 204,972,000 |

* Resigned as the Independent non-executive director on 19 April 2017

Notes:

1. The option period for the share options granted above commences on the date of grant and ends on the last day of forty-eight 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 first, second and third anniversaries of the date of grant.

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

3. The option period for the share options granted above commences on the date 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 first and second anniversaries of the date of grant.

4. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$3.54*.

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

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

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

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

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

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

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

* Source from Bloomberg

## SUFFICIENCY OF PUBLIC FLOAT

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

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

## TAXATION

For the year ended 31 December 2017, no foreign shareholder who is not resident of the PRC is liable for individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owing and disposing of the Company's shares.

## RELATED PARTY/CONTINUING CONNECTED TRANSACTIONS

The related party transactions for the year ended 31 December 2017 are set out in Note 36 to the Financial Statements of this Annual Report.

On 24 April 2013, the Company entered into a master mutual supply and purchase agreement (the "Master Agreement") with Schlumberger NV ("Schlumberger"), pursuant to which the Group agreed to supply products and services to Schlumberger and Schlumberger agreed to supply and procure its affiliates to supply to the Group products and services for a period of three financial years until 31 December 2016. Please refer to the announcement of the Company dated 24 April 2013 and the circular of the Company dated 16 May 2013 for further details.

On 23 December 2015, the Company and Schlumberger entered into the 2015 Master Agreement to renew the Master Agreement. The 2015 Master Agreement has a fixed term of three years commencing from 1 January 2016 to 31 December 2018. Please refer to the announcement of the Company dated 23 December 2015 for further details.

On 13 April 2016, the Company and Schlumberger entered into the Supplemental Agreement to revise the annual caps of the continuing connected transactions under the 2015 Master Agreement. Please refer to the announcement of the Company dated 13 April 2016 for further details.

Schlumberger is a substantial shareholder of the Company interested in approximately 15.91% of the issued share capital of the Company as at 31 December 2017. Accordingly, Schlumberger is a connected person of the Company for the purpose of the Listing Rules and the entering into of the 2015 Master Agreement between the Company and Schlumberger constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the revised annual caps under the Supplemental Agreement on an annual basis will exceed 5%, the revision to the annual caps is subject to the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Supplemental Agreement to revise the annual caps was approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 26 May 2016.

The transaction amounts pursuant to the Master Agreement during the financial year of 2017 were as follows:

| | *RMB'000* | *US'000* |
|---|---|---|
| Supply of Products and Services by the Group to Schlumberger or Affiliates | 8,603 | 1,276 |
| Supply of Products and Services by Schlumberger or Affiliates to the Group | 56,320 | 8,354 |

* The translation of Renminbi amounts into US dollar amounts has been made at rate of RMB6.7420 to US$1.00. The exchange rate is the average closing rate of each month end released by Bank of China in 2017.

The Independent Non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that they were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Deloitte Touche Tohmatsu, the Company's auditors, were engaged to report on the Company's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Company in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

## AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

There had been no change to the Company's constitutional documents during the year ended 31 December 2017.

## AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely, Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Dato Wee Yiaw Hin. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2017.

## AUDITORS

The consolidated financial statements for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu, who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution for the reappointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the Board

**Luo Lin**
*Chairman*

26 March 2018

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**LUO Lin (羅林)**, aged 51, is the Chairman and the founder of the Group. Prior to establishing the Group, Mr. Luo worked at the Tarim Basin and was the Deputy General Manager of a subsidiary of the Southwest Petroleum Bureau (西南石油局) responsible for marketing from 1992 to 1999. Mr. Luo has 25 years of experience in the petroleum industry. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院). Mr. Luo is also a certified lawyer and a chartered accountant in the PRC.

**WU Di (吳迪)**, aged 51, is the Executive Director of the Company. Mr. Wu joined the Group in 2010. Prior to joining the Group, Mr. Wu was employed by China National Petroleum Corporation (CNPC) between 1990 and 2010 and was appointed as the Chief Geologist of the Development Business Department of Tarim Oilfield Company (塔里木油田分公司) and the Director of its Development Department. He has more than 27 years of experience in the petroleum industry. Mr. Wu has a master's degree in oil and gas field development engineering from China University of Petroleum, Beijing and a bachelor's degree in oil reservoir engineering from Southwest Petroleum Institute (西南石油學院), and is also a senior engineer with professorship.

**PI Zhifeng (皮至峰)**, aged 40, is the Executive Director and Chief Executive Officer of the Company, in charge of the overall business of the Group. Mr. Pi joined the Group in 2004, and was responsible for the management of strategies, business establishment and capital market. Prior to joining the Group, Mr. Pi was responsible for investment in China Chengxin Financial Consultancy Co., Ltd (中誠信財務顧問有限公司). Mr. Pi has a Master of Business Administration degree from the University of Chicago Booth School of Business in the U.S.

## NON-EXECUTIVE DIRECTOR

**John William Chisholm**, aged 63, is a Non-executive Director of the Company. Mr. Chisholm is currently the chairman of the board of directors, president and chief executive officer of Flotek Industries, Inc. ("Flotek") (NYSE:FTK), Mr. Chisholm has served on the board of directors of NGSG, Inc. (NYSE:NGS) since December 2006. He serves on both the Compensation and Governance Committees of NGSG, Inc. Mr. Chisholm has also been selected to be on the editorial advisory board of Middle East Technology by the Oil and Gas Journal.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**ZHANG Yongyi (張永一)**, aged 82, is the Independent Non-executive Director of the Company. Mr. Zhang has extensive experience in the petroleum industry. Mr. Zhang was appointed as the Deputy General Manager of CNPC in 1992. Prior to this, he had taught in the Southwest Petroleum Institute (西南石油學院) for more than 32 years. Mr. Zhang was appointed as Chairman of the Supervisory Committee for State-owned Large and Medium Enterprises (國有大中型企業監事會主席) in 2000 and appointed by the State Council of the PRC as inspector (國務院稽察特派員) in 1998.

**ZHU Xiaoping (朱小平)**, aged 69, is the Independent Non-executive Director. Mr. Zhu has extensive experience in corporate finance and is currently an Accounting Professor of the Renmin University of China (中國人民大學). He served as the Director of the China Accounting Society (中國會計學會理事) and Director of the China Audit Society (中國審計學會理事). Mr. Zhu is also a Director of Linzhou Heavy Machinery Group Co., Ltd. (林州重機集團股份有限公司) list on the Shenzhen Stock Exchange and China Resources Double-crane Pharmaceutical Co., Ltd. (華潤雙鶴藥業股份有限公司) listed on the Shanghai Stock Exchange.

**Wee Yiaw Hin**, aged 59, is the Independent Non-executive Director. Dato Wee He is an independent non-executive director of ENRA Group Berhad, a company listed on the Main Board of Bursa Malaysia Securities Berhad. He has more than 30 years of experience in the Oil & Gas Industry across the Exploration & Production and Gas & LNG value chain. His experience spans the Technical/Operational functions and Senior Management and Board Positions. He spent 21 years in Shell in Malaysia and Overseas, and joined PETRONAS as Executive Vice President and Chief Executive Officer of Upstream Business in May 2010. Dato Wee was Executive Director and Executive Committee member of the board of PETRONAS Group. Dato Wee graduated as a Civil Engineer and holds a Masters of Science Degree from Imperial College, UK.

## SENIOR MANAGEMENT

**FAN Yonghong (范永洪)**, aged 47, is the President of the Company, and is responsible for daily operations of the Company and its technical construction. Mr. Fan joined the Group in 2004, and was responsible for the setup of the well service business and the management of business clusters of the Group. Prior to joining the Group, Mr. Fan was employed by PetroChina Tarim Oilfield Company (中石油塔里木油田分公司) between 1991 and 2004. He has 25 years of experience in the petroleum industry. Mr. Fan has an Executive Master of Business Administration (EMBA) degree from China Europe International Business School (CEIBS) and graduated from China University of Petroleum, majoring in petroleum engineering.

**SHEN Haihong (沈海洪)**, aged 49, is an Executive Vice President of the Company, and is in charge of operation, and QHSE management. Mr. Shen joined the Group in 2007, and was in charge of the tubular service cluster as well as operational management of the Group. Prior to joining the Group, Mr. Shen was employed by CNPC between 1991 and 2006 and was appointed as the deputy general manager of Toha Oilfield Drilling Company (吐哈石油鑽井公司), and as the deputy director of the Enterprises Department of Toha Directorate (吐哈指揮部企管處). He has more than 25 years of experience in the petroleum industry. Mr. Shen has a Master of Business Administration degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院), and is also a senior engineer in well bore engineering.

**Yan Yonggang (嚴永剛)**, aged 35, is an Executive Vice President of the Company, and is in charge of the well completion cluster. Mr. Yan joined the Group in 2007, Used to be in charge of the Group's marketing and human resources work. Mr. Yan has a bachelor's degree in Petroleum Engineering from Jianghan Petroleum Institute (江漢石油學院).

**MA Jian (馬健)**, aged 50, is an Executive Vice President of the Company, and is in charge of the Middle East market. Mr. Ma joined the Group in 2002, and was responsible for business development of the Group in the early stage, marketing in the domestic market and various management operations. Prior to joining the Group, Mr. Ma worked at Halliburton China from 2000 to 2002 as a Well Bore Projects Manager. From 1991 to 1999, he worked as a Petroleum Engineer at the drilling company in Jianghan Oilfield (江漢油田鑽井工程處), and has 25 years of experience in the petroleum industry. Mr. Ma has a doctoral degree from China University of Petroleum and is a guest professor at Yangtze University (長江大學). Mr. Ma has a master's degree in business administration from Huazhong University of Science and Technology (華中科技大學) and a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

**XU Hongjian (徐宏劍)**, aged 36, The financial controller of the company, is in charge of the Group's financial accounting, financial management, asset and capital management work. Mr. Xu joined the Group in 2006 and was responsible for the financial work, risk control and marketing of the Group. Prior to joining the Group, from 2003 to 2006, Mr. Xu worked at Deloitte & Touche LLP and was engaged in financial audit. Mr. Xu holds a bachelor's degree in finance from Fudan University.

## COMPANY SECRETARY

**Dr. NGAI Wai Fung (魏偉峰)**, aged 56, is the Company Secretary of the Company. Dr. Ngai currently is the director and chief executive officer of SW Corporate Services Group Limited. Dr. Ngai has over 26 years' experience and knowledge in senior management and professional matters in listed companies, including IPO, Merger and Acquisition, corporate financing, internal control, governance and company secretary etc. Dr. Ngai is a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom. He also is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Dr. Ngai obtained a Doctorate in Finance from the Shanghai University of Finance and Economics, a Master's degree in Corporate Finance from the Hong Kong Polytechnic University, a Master's degree in Business Administration (MBA) from Andrews University of the United States and a Bachelor's degree (Honours) in Law from the University of Wolverhampton, the United Kingdom.

# CORPORATE GOVERNANCE REPORT

Since the listing of its shares on the Stock Exchange on 14 December 2007, the Company is committed to maintaining a high standard of corporate governance and has adopted the code provisions (the "Code Provision(s)") under Appendix 14 to the Listing Rules as its own code. The Company has been in compliance with all the applicable Code Provisions for the year ended 31 December 2017.

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

## CORPORATE GOVERNANCE STRUCTURE

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

- formulating long term strategies of the Group and supervising their execution, its subsidiaries and associated companies;
- approval of operational plan and financial budget;
- approval of the relevant annual and interim results;
- reviewing and monitoring the risk management and internal control of the Group; and
- ensuring good corporate governance and compliance.

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

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

## BOARD OF DIRECTORS

### Board Composition

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

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

## Board Diversity

The Board recognised the benefits of diversity in the Board in enhancing the Board's effectiveness. In this regard, the Board has adopted a Board Diversity Policy (the "Board Diversity Policy") in August 2013 which sets out the approach to achieve diversity on the Board. The Nomination Committee will give consideration to a number of factors as set out in the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service. The Board is considered well balanced and of a diverse mix appropriate for the needs of the Company. The Company will also take into account its own business model and specific needs from time to time to determine the optimal composition of the Board. The Nomination Committee will review the Board Diversity Policy on a regular basis to ensure its continued effectiveness.

## Chairman and Chief Executive Officer

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

## Independence of Independent Non-Executive Directors

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

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

Mr. Zhang Yongyi and Mr. Zhu Xiaoping have served the Board since 17 November 2007. They will serve as an Independent Non-executive Director for more than 9 years in November 2016 after re-election as a Director in the forthcoming annual general meeting of the Company. During their years of appointment, Mr. Zhang Yongyi and Mr. Zhu Xiaoping have demonstrated their ability to provide an independent view to the Company's matters. Notwithstanding their years of service as Independent Non-executive Directors, the Board is of the view that they are able to continue to fulfill their role as required and thus recommends them for re-election at the annual general meeting of the Company.

## Appointment And Re-Election of The Directors

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

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

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

## Corporate Governance Functions

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

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

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

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

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

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

The following is a summary of the work performed by the Board on corporate governance functions during 2017:

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

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

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

(d) Reviewed the Board composition.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## CONTINUOUS PROFESSIONAL DEVELOPMENT

During the year ended 31 December 2017, the Directors confirmed that they have complied with the Code Provision A.6.5 on Directors' training. During the year, all the Directors have participated in continuous professional development by attending seminars and/or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company.

| Name of Directors | Topics on training covered (Notes) | Hours spent |
|---|---|---|
| Mr. Luo Lin | C, L, R | 7 |
| Mr. Wu Di | C, L, R | 7 |
| Mr. Pi Zhifeng | C, L, R | 7 |
| Mr. John William Chisholm | C, L, R | 2 |
| Mr. Zhang Yongyi | C, L, R | 7 |
| Mr. Zhu Xiaoping | C, L, R | 7 |
| Dato Wee Yiaw Hin | C, L, R | 7 |

Notes:

C: Corporate governance

L: Listing Rules updates

R: Other relevant regulatory updates

## BOARD/BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

The Company has set up the Audit Committee, Remuneration Committee and Nomination Committee on 17 November 2007 and set up QHSE (Quality, Health, Safety, Environment) committee on 21 January 2013. During the reporting year, the Company had convened 13 Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee meetings, 1 Nomination Committee meeting and 1 QHSE committee meeting. Also, the Company had convened an Annual General Meeting during the reporting year.

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

| | Meeting attendance/number of meetings | | | | | |
|---|---|---|---|---|---|---|
| **Directors** | **Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **QHSE Committee Meeting** | **Annual General Meeting** |
| **Executive Directors** | | | | | | |
| Mr. Luo Lin (Chairman of the Board) | 13/13 | N/A | 1/1 | 1/1 | 1/1 | 1/1 |
| Mr. Wu Di | 13/13 | N/A | N/A | N/A | N/A | 1/1 |
| Mr. Pi Zhifeng (Chief Executive Officer) | 13/13 | N/A | N/A | N/A | 1/1 | 1/1 |
| **Non-executive Director** | | | | | | |
| Mr. John William Chisholm | 13/13 | N/A | N/A | N/A | N/A | 1/1 |
| **Independent Non-executive Directors** | | | | | | |
| Mr. Zhang Yongyi | 13/13 | 2/2 | N/A | 1/1 | N/A | 1/1 |
| Mr. Zhu Xiaoping | 13/13 | 2/2 | 1/1 | N/A | N/A | 1/1 |
| Dato Wee Yiaw Hin (appointed on 19 April 2017) | 6/13 | 1/2 | 1/1 | 0/1 | N/A | 1/1 |

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

| | **1st Quarterly Meeting** | **2nd Quarterly Meeting** | **3rd Quarterly Meeting** | **4th Quarterly Meeting** |
|---|---|---|---|---|
| Date | 17 January 2017 | 16 April 2017 | 8 July 2017 | 19 October 2017 |

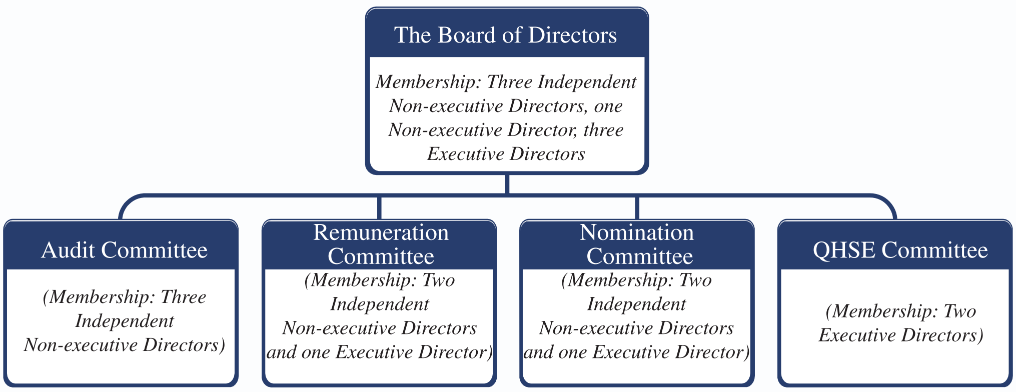
## MONTHLY MANAGEMENT REPORT

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

## BOARD COMMITTEES

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

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




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

## Audit Committee

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

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

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

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

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

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

The Audit Committee held 2 meetings during 2017 and the following major matters were reviewed and discussed in the meetings:

(a) Reviewed the Group's annual results of 2016 and the interim results of 2017 and made recommendations to the Board for approval;

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

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

## Remuneration Committee

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

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

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

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

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

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

The Remuneration Committee held 1 meeting during 2017 and reviewed overall remuneration structure adjustment of the Group.

## Nomination Committee

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

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

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

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

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

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

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

The Nomination Committee held 1 meeting during 2017 and made recommendation to the board for the appointment of an Independent Non-executive Director.

## QHSE (QUALITY, HEALTH, SAFETY, ENVIRONMENT) COMMITTEE

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

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

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

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

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

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

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

## REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to Code B.1.5 of the Code Provisions, the remuneration of the members of the senior management by band for the year ended 31 December 2017 was set out below:

| Remuneration band | Number of individuals |
|---|---|
| HK$1,500,001 - HK$2,000,000 | 1 |
| HK$2,000,001 - HK$2,500,000 | 0 |
| HK$2,500,001 - HK$3,000,000 | 3 |
| HK$3,000,001 - HK$3,500,000 | 1 |

## ACCOUNTABILITY AND AUDIT

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

The declaration of duties by the Auditors of the Group on the Group's financial statements is contained on pages 77 and 78 of the Independent Auditor's Report.

## AUDITOR'S REMUNERATION

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

| | 2017<br>RMB '000 |
|---|---|
| Audit services | **3,900** |
| Non-audit services | **500** |
| Total: | **4,400** |

## COMPANY SECRETARY

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

Dr. Ngai has taken no less than 15 hours of relevant professional training during the year ended 31 December 2017 in compliance with Rule 3.29 of the Listing Rules.

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

## SHAREHOLDERS' RIGHTS

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

In 2017, the Company had convened one annual general meeting (the "2017 AGM"). The 2017 AGM provided an ideal chance for communication between the Board and the shareholders. The Chairmen of the Board, Audit Committee, Remuneration Committee and Nomination Committee and the Company's external auditor were all present at the AGM held on 26 May 2017, to answer shareholders' inquiries.

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

Pursuant to the Article 79 of the Articles of Association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee (s)) holding at the date of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company shall deposit the written requisition at the principal office of the Company in Hong Kong, which is presently situated at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, specifying the objects of the meeting and signed by the requisitionist(s) (the "Requisitionist(s)").

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

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

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

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

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

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

## CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year ended 31 December 2017.

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

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

Computershare Hong Kong Investor Services Limited

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

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

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

## DISCLAIMERS

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

## FINANCIAL CALENDAR 2018

### Announcement of 2017 Results

26 March 2018

### Last Day to Register for Attending 2018 Annual General Meeting

23 May 2018

### 2018 Annual General Meeting

28 May 2018

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

Anton Oilfield Services Group (hereinafter referred to as "Anton", "the Company" or "the Group") wishes to summarize and share its practices and results regarding social responsibilities of the Company in the form of the *Environmental, Social and Governance Report* ("ESG report"), in order to strengthen trust and cooperation, and jointly promote the sustainable development of the Company and society.

Anton Oilfield Services Group is responsible for the integrity and authenticity of the information and data in the report and promises that its content does not contain any false records, misleading statements or major omissions.

### Scope of reported organizations

Anton Oilfield Services Group's business operations in China and worldwide.

### Time period of the report

1January 2017 to 31 December 2017 in other part of the annual report with certain content outside of this range.

### Basis of compiling

This report is mainly based on the relevant requirements of the "Environmental, Social and Governance (ESG) Reporting Guidelines" of the Stock Exchange of Hong Kong.

### Reporting language

This report is published in Chinese Traditional and English versions. If there is any ambiguity, the Chinese Traditional version shall prevail.

### Form of release

This report is published in both print and electronic formats. The electronic version can be found on the website of the Stock Exchange of Hong Kong (www.hkexnews.hk) and the website of the company (www.antonoil.com).

### Contact information

Office of the Board of Directors, Anton Oilfield Services Group

| | |
|---|---|
| Address: | No. 8, Pingcui West Road, Donghuqu, Chaoyang District, Beijing, China (Postal Code: 100102) |
| Phone: | 0086-10-57397788 |
| Fax: | 0086-10-57397799 |
| E-mail: | group@antonoil.com |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## TEMPER FORWARD THROUGH THE DECADE, STAY TRUE TO OUR SOUL

There is an awesome group of animals in nature which are small and in obscurity, and yet they can adapt to any changes in environment with united cooperation, diligent work and persistent spirit no matter how severe the environment is, demonstrating a perennial spiritual motivation. This group is the ants, and "Ant on Oil" is where the name of Anton Oilfield Services Group comes from.

On 14 December 2007, Anton successfully went public on the HKEX main board, setting a precedent for Chinese private oilfield technical services companies listing on the HKEX main board. Time flies, and a decade has passed, during which Anton waded through numerous challenges including global economic recession, major changes and a deep winter period of the industry. It has always been arduous and indomitable with the spirit of ants, completing the entrepreneurial history of a "Lion".

During the decade, Anton has always embraced its strategic vision of "becoming the best private oilfield engineering technology partner in China and the best Chinese partner in the world", and has grown from a domestic private company to an international company with operations spanning more than 10 countries. While its business scale continues to grow, Anton deeply understands the more complex and rigorous challenges it faces in areas including environmental protection, social security and corporate governance. It continuously explores, summarizes, optimizes, and innovates in social responsibility management concepts, systems, and technologies. It actively understands the concerns of all stakeholders and makes every effort to create a better future for the harmonious development of the Company, society and nature. We have tempered forwarded through the decade, while staying true to our soul.

## 1. ESG MANAGEMENT SYSTEM

### 1.1 ESG Concept and Management

Based on the corporate vision of "becoming a world's leading oilfield technology service company in China", Anton adheres to the concept of sustainable development, attaches great importance to environmental protection, energy conservation, ecological harmony and staff caring, actively listens to the appeals of interested parties from all circles and positively gives feedback. While pursuing the goal of being in the lead in performance, services and technology, it also aspires to become a model in the performance of enterprise social responsibility among peer companies and make the greatest contribution to the promotion of harmonious development of the enterprise, society and nature.

### 1.2 ESG Management Organization Structure

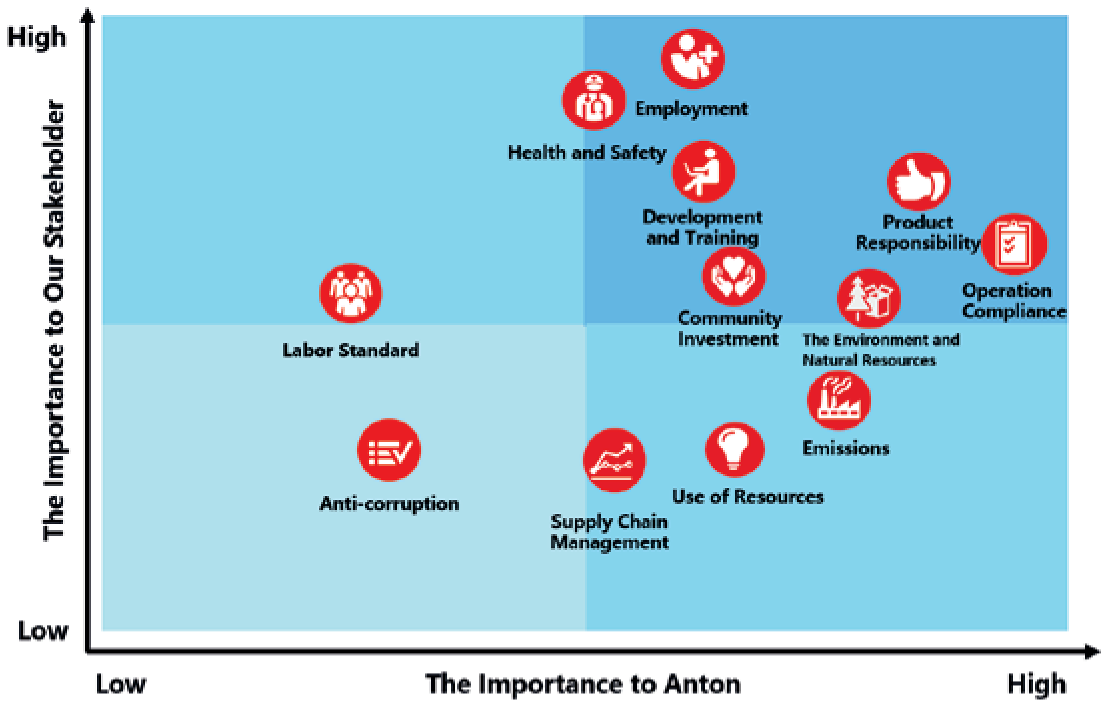
Anton establishes the ESG management committee at the Group level, sets up QHSE (Quality, Health, Safety and Environment) management center, human resources center, supply chain center, audit and supervision center, as well as branding and policy headquarters, in order to conduct targeted management of ESG-related fields of the Company. At the same time, within the scope of global business, each regional business segment has set up a corresponding ESG management department to link with the management of the Group, to ensure the full and effective management of ESG. In 2017, Anton's ESG management system maintained a sound operation, and has made continued efforts to implement the concept of "sustainable development".

### 1.3 Participation of Stakeholders

Anton commits itself to keeping good communication with stakeholders from all circles to promote the sustainable development of the Company in aspects of marketing operation, environmental protection, resource conservation, staff care, and community participation, etc. through participation of all stakeholders.

| Stakeholders | Description | Communication method |
|---|---|---|
| Government and regulatory authorities | Tax administration, environmental protection, safety and other departments, local government, CSRC and other direct management and regulatory authorities with permission to execute national or local laws and regulations | Major conference, policy consultation, case report, organization investigation, document exchanges, information disclosure, etc. |
| Investors and shareholders | Natural person with certain shares of Anton | Annual general meeting, annual report, announcement and press release etc. |
| Employees | Personnel who have duly signed labor contract with Anton and served for the businesses of Anton for a long time | Employee satisfaction survey, employee activities, employee training, employee manual and corporate internal publications, etc. |
| Media | Newspapers, TV stations, network companies and other related media institutes which have established with legal cooperative relationship with Anton Oilfield Services | Business operation interviews, enterprise culture propaganda, special subject activities and other activities attended or participated in based on invitation |
| Suppliers | Enterprises, shops or self-employed businessmen legally supplying production materials, auxiliary materials and office necessities to Anton | Supplier investigation, public tendering & bidding meetings, strategic cooperation talks, exchanges and visits, etc. |
| Customers | Organizations/persons that have duly signed contract with Anton and acquired services from Anton | Contract signing, business transaction, letter exchange, etc. |
| Surrounding communities of operation site | Communities of operation location, public society and non-profit organizations | Charity activities, community activities, volunteer activities, social undertaking support projects, etc. |

Anton understands the concerns and expectations of internal and external stakeholders through communication with all parties by above means. The topics to which internal stakeholders concern most are employment, occupational health and safety, and employee training and benefits, while external stakeholders concern most about compliance in operations, product liability, environmental protection and investment in communities.




**Matrix of Significance Assessment for ESG Key Topics of Anton**

## 2. QHSE MANAGEMENT

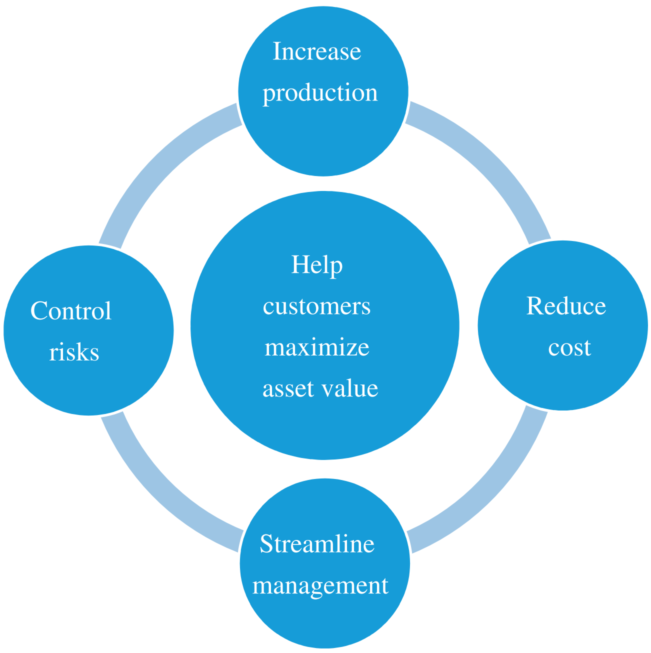
Anton always adheres to the corporate core value of QHSE and operation principle of "QHSE before Anton". With service quality as operating basis and HSE as development premise, Anton regards "zero casualty, zero pollution, zero complaint and zero loss" as the vision of its global business QHSE and strives to become a model in the industry.

### 2.1 Product Liability

#### Improve service capability

Anton is a modern service group with the characteristics of a typical new energy industry company. To increase output, reduce costs, prevent risks, streamline management, and help customers maximize the value of their assets, the Group leverages the asset-light model to provide technology services to the world, ensuring a unique competitive advantage in the emerging markets of global oil and gas development. At the same time, the employees of Anton headquarters are mainly high-end internationalized talents who have mastered the key service processes and quality control standards, and provide customers with world-class oilfield services.

- State-certified high-tech groups;
- Post-doctoral workstations and institutes and recognized as a "Group Technology Centre" by Beijing Municipality;
- Led and participated in the formulation of 2 international standards and 11 revision projects for petroleum industry standards;
- Established seven technology centres worldwide;
- Accumulated more than 600 authorized patents;
- Maintained long-term cooperation with global leading oil and gas technology groups and research institutes; and
- Established technical innovation centre and international exchange centre in Beijing; etc.




Anton relies on China's logistics and commerce groups to create a global logistics and logistic support system. It also has a global information technology centre and a global logistics centre in Beijing. It has internationalized high-end talents and powerful globalization information management technology, and has established a QHSE management system that meets international standards.

Under the leadership of the "QHSE before Anton" values, the Group has, regarding product liability:

- Obtained ISO9001:2015 quality management system certificate;
- Passed US API Spec Q1, API Spec Q2 audit and obtained certification;
- Received API Spec 5CT, API Spec 11D1 and API-7-1 certificates for its products;
- At the same time, became a member of the IADC International Association; etc.

Anton borrowed from Eastern traditional culture, and upholds Ren, Yi, Li, Zhi, Xin (kindness, justice, good manners, wisdom and honesty), the traditional virtues of China. It is committed to building a trustworthy, personalized, culturally inclusive group and actively undertakes social responsibilities. At present, Anton has become a well-known global brand in China's oil industry and has a number of long-term customers and partners in the market.

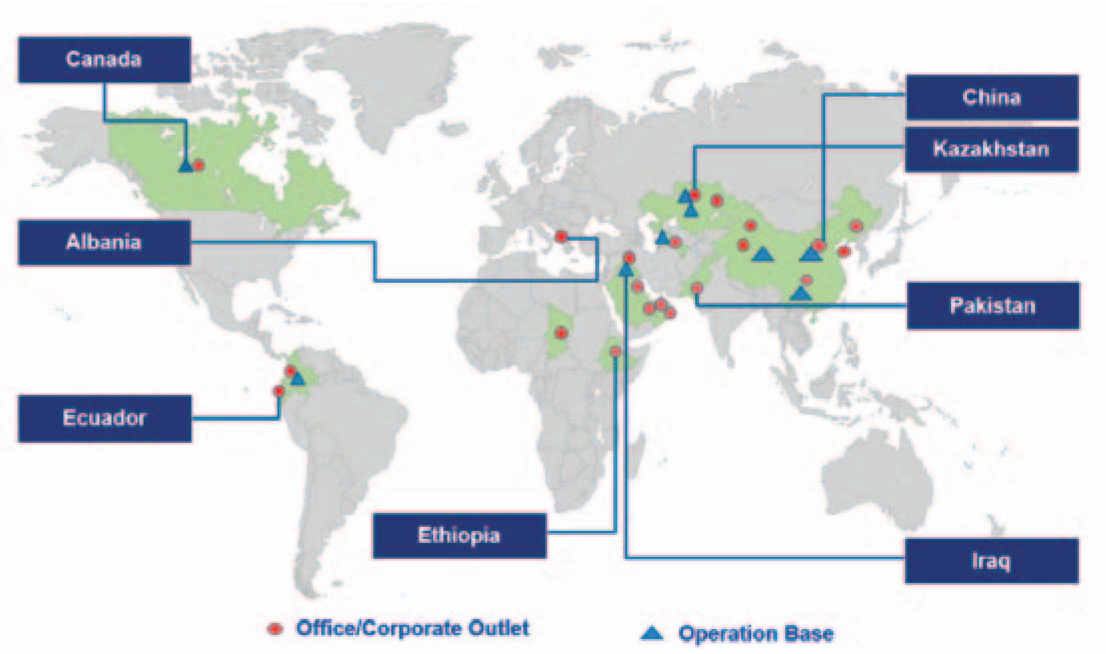
## Assure service quality

Anton attaches great importance to the active management and control of service quality, actively develops innovative services, comprehensively enhances work standards, vigorously promotes integrated turn-key services, reduces customer costs, improves service quality, improves customer satisfaction, and conducts customer satisfaction surveys from time to time to analyse the inadequacies, monitor the quality of products and technical services, as well as to formulate preventive measures and supervise their implementation.

At the same time, the Group established and improved the quality management system, formulated and implemented requirements for the relevant quality management systems, namely, the Management Measures for Group Companies' Operational Quality and the Management Procedures for the Whole Process of Project Management, and passed the internal/external audit and management review of the system on an annual basis to ensure the suitability, effectiveness and operability of the system.

## Establish brand image

Anton combines the advantages of China's oil services industry and formed a considerate global business layout. Its main business covers the Africa, Middle East, Central Asia - Russia, Southeast Asia - Australia, Latin America, North America, Europe and other regions. At the same time, the Group actively responded to the "Belt and Road" development policy, and actively expanded businesses in "Belt and Road" countries.



In order to adapt to the competitive environment of the countries along the "Belt and Road" market and reduce risks, Anton and its partners, including Geo-Jade Petroleum, United Energy, GCL-Poly, MI Energy, HBP, Honghua, and other listed groups, to establish a complete industrial chain for the oil and gas industry, form an integrated oil and gas industry alliance, and build its integrated service capacity including oil and gas investment and comprehensive development and construction of oil and gas fields. Based on the existing market foundation, Anton will continue to enter key oil and gas resources countries along the "Belt and Road" initiative. While realizing a scale development, it will also comprehensively promote the introduction of talents and partners, and further enhance its international business capabilities.

## 2.2 Occupational Health and Safety

### Vision for health and safety

The Company has its vision for safety of becoming an industry leader with zero casualties, zero pollution, zero complaints and zero loss. It always insists that QHSE is the core value of the Company: "QHSE before Anton", insisting, on any moment, under any circumstances, to protect the health and safety employees (including contractors). Each operation must take into consideration the protection of the environment and minimizing the impact of the Company's business on the environment. It actively cultivates the QHSE culture of leader demonstrations, full participation, intervention by everyone, and seeking excellence.

### Policy guidance

The Company implements the QHSE policy goal of "life, environment, customer, and excellence" (that is, protection of life is the most important in any situation, in each operation we must consider protecting the environment, do our best to satisfy customers, and always strive for excellence), In accordance with the latest version of ISO14001 and OHSAS18001 requirements, we established a comprehensive and effective occupational health and safety and environmental management system.

The Company has formulated Risk Management Procedures and Occupational Health Management Procedures to identify the sources of danger and carry out risk analysis and assessment on the aspects that may affect health and safety during the production and operation process, and also classify them according to the probability of risks and severity of consequences into different risk levels, formulate control measures and emergency plans to reduce and avoid employee health and safety incidents.

The Group headquarters organized all units to formulate technical standards, equipment operating procedures and standard operating procedures, totalling more than 300 items, formulating preventive measures and risk warnings for all types of risks in the operation process, and requiring on-site staff to check and operate according to the work flow and work standard requirements. It strengthened the control and management of operational processes to ensure the safety of employees, and reduced the risk of environmental pollution due to improper operation.

In 2017, 14 standard operating procedures were formulated or modified, and the Group participated in the formulation of 2 national standards of the "oil and gas industry downhole tool and completion tool accessories" (GB/T 35148-2017), and have been officially approved for release.

### Implementation of administration


In 2017, the Company continued to promote 12 "Life Saving Rules", established 'red-line' awareness, implemented safety production responsibility systems from top to bottom, strengthened management and control of high-risk projects, and organized a number of special tasks, including "first-time operations management and technical support" and "active quality management and control". The Company issued Guidance on Regulating and Strengthening Management of On-Site Shutdown and Correction Campaign, and conducted Quarterly QHSE Hidden Trouble Checking to reduce the incidence of security accidents. During the year, no major or above safety accident happened, and the number of occupational diseases victim was zero.

The Company strictly organizes employee health checks as required and conducts occupational health checks on employees exposed to occupational hazards. The completion rate of occupational health checks in 2017 was 100%. The coverage rate of regular medical examinations for employees was also 100%.

The Company attaches importance to the training of employees' health and safety awareness, and it regularly conducts the treatment of environmental hazards of product line operational sites, recognises occupational hazard elements, and conducts occupational risks awareness campaign and risk management. In addition, experts are invited to give lectures on health and first-aid knowledge, and internal QHSE instructors are regularly organized to carry out Health Management training on-site to popularize health knowledge in terms of mental health, dietary health, and physical health.

## 2.3 Pollution Reduction

### Promise on compliance

With the development of the company, Anton has been operating in various oil production areas in the country as well as in some overseas oil-producing countries. The Company has established on-site service bases in major oil-producing regions in China. At the same time, overseas business has formed an international business network for major oil-producing regions in the Middle East, Central Asia, and Africa. Opportunities and challenges coexist, and the Company deeply understands the development of its global business comes with the responsibilities in the field of environmental protection. Based on the principle of "priority of protection, priority of prevention, and comprehensive treatment", it promises to cooperate in the global business scope in compliance with environment protection regulations.

As the basis for compliance operations, Anton strictly complies with the laws, regulations, industry standards, international conventions and other requirements of the countries and regions in which its business operates. It ensures the full compliance of sewage, noise, gas, solid waste, and environmental protection during operations. In 2017, during the operation of Anton's global business, there were no major incident of environmental pollution or violations, and the Company's environmental social responsibility was well performed.

### Policy guidance

As a guide for compliance operations, Anton has developed management procedures such as the Environmental Protection Management Procedures, Emergency Management Procedures, and Employee Position Manual, and regulates the management of pollutant emissions, recycling, and emergency pollution prevention during operations, and enhances environmental protection work requirements for on-site operations. At the same time, it regularly reviews and updates the environmental protection management system to ensure that the system is practical, feasible and effective, and provides a compliance operation basis for operations worldwide.

### Support from the system

As a guarantee of compliance operations, Anton established a QHSE management system that complies with international standards in accordance with the requirements of ISO14001 and OHSAS18001. QHSE and management optimization headquarters have been established by the Group's management to conduct comprehensive supervision and systematic control of QHSE work during the Company's overall operations. In response to the Company's global business scope, and in order to overcome the impact of complex product line structure on the implementation of QHSE management, the Company has set up corresponding QHSE management departments at project locations both at home and abroad, where it coordinates with QHSE and management optimization headquarters to strictly control pollutant levels, comprehensively carry out environmental protection inspections, and ensures compliance the Company's global business.

## Implementation of administration

At the beginning of 2017, all units carried out environmental factor identification and risk assessment activities in accordance with the QHSE Risk Management Procedures to ensure that the identification activities covered all operational activities and operation processes, and that effective risk control measures were formulated and implemented for the risks. For the important environmental factors determined by the evaluation, strict review of the relevant operating procedures, management systems, HSE operating instructions and environmental protection facilities are listed as key management and control items, and special environmental emergency preparedness plans or special risk control requirements in related emergency plans are made. The risk correction rate of 100%.

Anton conducted a comprehensive analysis within its global businesses, and identified exhaust emission sources that are mainly composed of diesel-consuming machinery. In order to further reduce air pollutant emission, the Company strictly stipulates the use of fuel-using equipment and diesel fuel that meet international standards, installs effective diesel filter devices, strengthens the maintenance of equipment, and strives to control atmospheric pollutants, including greenhouse gases, nitrogen oxides and sulphur oxides, on the basis of ensuring basic operational requirements.

Regarding management of hazardous wastes, domestic and industrial wastes are strictly classified and stored at each site. Hazardous wastes are stored in designated areas in accordance with the standard design specifications for them. At the same time, anti-seepage films are installed in well areas to prevent pollutants such as waste drilling liquid from affecting the soil and groundwater. Hazardous wastes generated in the work area are all entrusted to a qualified professional processing unit for processing in accordance with compliance. In 2017, the compliance treatment rate for Anton's Hazardous waste was 100%.

## Technical innovations

Anton deeply understands that technical innovation is the core driving force of energy conservation and environmental protection management, and combined with its global business advantage, it continues to pay attention to and actively introduces leading international energy saving and environmental protection technologies.

- In 2017, Anton took the lead in adopting bio-degradable bio-based mud in China to significantly reduce the production and emission of oil-containing waste during the operation process, while increasing the mechanical percussion speed by 50%.
- Full use of Mud-off-the-Ground technology during drilling operations to ensure that on-site drilling fluid does not reach the ground surface from production to transfer.
- Take the lead in using biosynthetic-based drilling fluids in shale gas field to increase the degradation rate of waste drilling fluids and reduce environmental pollution.
- Diesel consumption of on-site operation equipment is controlled, with some of the equipment connected to the grid to convert the original diesel power generation into clean energy, which reduces carbon emissions by about 50%.
- Through optimization of drilling design and the management of well-control risks, the environmental risks caused by overflow of drilling fluids are reduced, such as preventing the drilling fluid from leaking through the wells before drilling, and ensuring that the wells can be killed immediately when the overflow is discovered. The use of four-layered casing cementing completely isolates the borehole working environment from shallow groundwater systems to prevent contamination of water sources. Drilling fluids and fracturing fluids have a waste water reuse rate of 100%.

### 2.4 Energy Conservation Management

Anton attaches great importance to energy saving, and actively improves energy efficiency. According to the requirements of local regulations and actual operating characteristics, each business location has carried out a number of energy-saving renovation projects and has continuously implemented and improved energy efficiency improvement work. At the same time, the Company has increased investment in energy saving, and continuously innovated in systems, technologies, and behaviour management. It encouraged employees to implement measures such as water saving, electricity saving, paper saving, and low-carbon travel to further reduce unnecessary resource use. Anton believes in that the accumulation of small efforts will eventually lead to qualitative change.

| | | |
|---|---|---|
| **Measures** | Green office<br>Green travel | Promote paperless office, reduce the use of paper version of the Group's meeting materials, and use instant messaging such as WeChat, QQ, and e-mail.<br><br>Assign special personnel to control the air conditioning temperature in all regions to avoid energy waste<br><br>Use sub-meetings or video conferences for large-scale meetings of the Group to reduce travel cost and practice green travel.<br><br>Actively promote green office and green travel for all employees<br><br>Strictly follow the Company's car use management, implement travel plan management to lower travel cost and reduce fuel consumption |
| | Optimization of operation procedure | Under the premise that the production is ensured, reasonably plan operation procedure and minimize the use time of equipment and vehicles for unnecessary operation to reduce the use of fuel and energy. |
| | Energy-saving plan | The Company strengthened project management, and raised awareness of total cost control and awareness of energy conservation. In 2017, the operating team spontaneously carried out transformation of drilling rig equipment, and used idling energy from drilling rigs to generate electricity to reduce energy consumption. |

## 2.5 Key Environmental Performance Indicators

Unless specified otherwise, all environmental performance indicators of Anton cover all domestic businesses directly managed by the Group, while data from overseas businesses is planned to be disclosed in the future as appropriate.

### Key environmental performance indicators

| | |
|---|---|
| **Total Greenhouse Gas Emission(1) (Scope 1 and Scope 2)(2) (Tons)** | **21,016.12** |
| **Greenhouse Gas Emission per Million Yuan of Revenue (Tons/Million Yuan)** | **9.54** |
| **Total Integrated Energy Consumption(3) (MWh)** | **72,017.9** |
| **Total Energy Consumption per Million Yuan of Revenue (MWh/Million Yuan)** | **32.7** |
| Electricity (MWh) | 4,991.9 |
| Gasoline/diesel (MWh) | 67,026 |
| **Total Water Used ($m^3$)** | **274,172.3** |
| **Total Water Used per Million Yuan of Revenue (m3/Million Yuan)** | **124.47** |
| Total office water consumption ($m^3$) | 36,454.5 |
| Total production water consumption ($m^3$) | 237,717.8 |
| **Total hazardous wastes(4) (Tons)** | **40,558** |
| **Total hazardous wastes per Million Yuan of Revenue (Tons/Million Yuan)** | **18.41** |

(1) Based on the business nature of Anton, its major gas emissions are greenhouse gases, which are mainly generated from the use of fossil fuel-converted electricity and fuels. The scope of greenhouse gas accounting for Anton mainly covers carbon dioxide, methane and nitrous oxide. Greenhouse gas emissions data are presented in CO2 equivalent and are calculated according to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

(2) Scope 1: Covering the greenhouse gas emissions directly generated by the Company's operations; Scope 2: Internal energy consumption (purchased, acquired or obtained) of electricity, heat and steam resulting in "indirect energy" greenhouse gas emissions.

(3) Total energy consumption is calculated through direct and indirect energy consumption with the conversion factor according to the General Principles of Comprehensive Energy Consumption Calculation (GB/T 2589-2008) published by the General Administration of Quality Supervision, Inspection and Quarantine of China and the China National Standardization Administration.

(4) The hazardous wastes involved in Anton's operations mainly include: waste mineral oil, waste drilling fluid, waste mud, and oil-based cuttings.

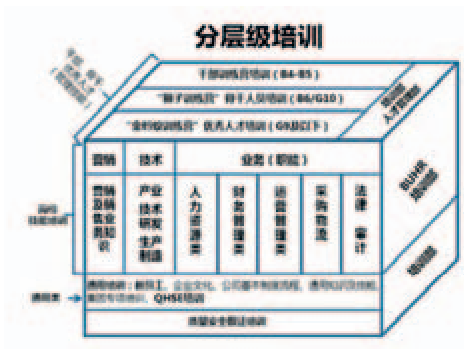
## 3. EMPLOYEE RIGHTS

### 3.1 Legal Hiring

The Group strictly abides by the Labor Law and the Labor Contract Law of the People's Republic of China as well as relevant laws, regulations and systems of the countries in which it operates. It follows the principle of "lawfulness, equality, voluntariness, consensus, honesty and trustworthiness" with employees when signing contracts. It promotes fair and equitable treatment of employees of different nationalities, races, genders, religious beliefs and cultural backgrounds, and prohibits use of child labor in all regions and resists all forms of compulsory labor. It carefully verifies candidate identification information during recruitment to ensure no child labor was used. It earnestly implements the Special Regulations on Labor Protection for Female Employees to protect the rights and benefits of female workers who are pregnant, child-bearing or breast-feeding her child. It forbids wage-cutting, dismissal or release of female employees during pregnancy, childbirth, and breastfeeding. Labor or contract employment practices ensure that female employees are not discriminated against. In 2017, Anton did not engage in child labor worldwide.

One of the biggest advantages of Anton is workforce diversity, and employees from different countries and background with the same goal make progress together. Anton will quicken the pace of globalization and recruit and employ talents around the world constantly. Besides, it encourages offering fair recruitment and equal employment opportunity to people worldwide. In 2017, Anton recruited in more than 10 countries including Iraq, Pakistan, Kazakhstan, UAE, Ethiopia, Colombia, Albania and Venezuela, with employees of the Group coming from more than 30 countries and regions. According to the Recruitment Management Handbook, Anton does not specify gender when it issues recruitment information, and to a certain extent avoids gender discrimination. When recruiting, PeopleSoft recruitment management system is used to create separate files handles retiring and retirees' files in a timely manner. The recruitment management system for overseas employees complies with local laws and regulations. With continuous expansion of overseas business, more and more foreign employees join Anton. For this, Anton proposes a basic competency model of its employees to standardize basic quality of global employees and maintain a relatively high behaviour standard in its operation locations.

### 3.2 Development Training




Anton attaches great importance to training, establishes a key quality model of employees based on "cultural identity", and emphasizes on employees' QHSE abilities, health, self-management, and information capabilities. It conducts full-cycle talent management and multi-channel career development approaches to implement all-round talent incentives.

The Company has a perfect personnel training system of multi-layer multi-category training. Professional certification training, general skill upgrading training, professional technical ability training, etc. are carried out. Golden Ant Training Camp and Lion Training Camp are regularly carried out to improve the leadership of middle management leaders; and the annual training of entrants is organized. For the senior managers of the Group, selected excellent leaders are taken each year to take EMBA courses.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


Over nearly ten years, Anton has developed its competent employees recognizing corporate culture with passion and professional quality since it carried out the "Trainee training Project" in 2007. Directional training is conducted for trainees along the development path according to three kinds of trainings including field engineer, production & manufacturing and functions, which provides exceptional talents for various posts.

Anton has a comprehensive training system, establishes a business-oriented training system with staff development as its core, and forms and implements the Administrative Measures for Employee Expat Learning, Administrative Measures for Internal Trainers, and Clarification on Training Work Management Requirements and other series of institutional documents.

In 2017, Anton organized and completed 1,402 training courses, including 243 trainings targeting at obtaining qualifications, 325 general-purpose skills upgrading trainings, and 834 professional and technical ability trainings. The total training time was 2,056 hours. The total amount of training investment in 2017 was RMB5.39 million

## Employee welfare

According to its Global Pay Management Regulations, in addition to basic salary, Anton regularly pays the "Five Insurances and One Housing Fund" and supplementary medical insurance for all employees. It regularly pays "Five Insurances and One Housing Fund" for the dispatched employees to protect the personal and property safety. For expats overseas, it provides risk allowances, expat grants, foreign worker subsidies for foreign employees (for foreign employees working in non-home countries), and various benefits required by overseas regulations.

In order to enhance the culture of the Group and allow global employees to keep informed of the Group's news and related policies, Anton utilized the popular new media tool - WeChat to push Group news around the world. At the same time, the Group respects the religious customs and beliefs of various countries and regions, and sets up prayer rooms for local staff in the office area in Iraq.

### 3.3 Labor Standards

While implementing personnel management systems, Anton strictly obeyed Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China as well as the relevant laws, regulations and rules in the business country, and sign labor contract with employees in accordance with the principle of "equal consultation and good faith".

The Group strictly manages working hours, and applies irregular working hours and comprehensive working hours mechanisms for irregular job positions. The heads of HRM department and the employee's managing department jointly supervise the overtime arrangements of employees, and prevent employees from working overtime at the expense of health. Compensation for employees' overtime hours is usually made in the form of leaves in lieu or overtime compensation. If employees are subjected to forced labor or imprisonment, they may respond to department heads or submit written materials to the "comments box", and the relevant departments will unpack them periodically for processing. In addition, each factory regularly holds an informal meeting among the workers. The management will inquire about the work and living conditions of the employees in detail to ensure that the work intensity of the employees is within a reasonably acceptable range, the spirit of employees is active, and labor protection of the employees is effectively implemented.

The Company paid much importance on the labor-capital relationship. We actively obeyed the regulations of relevant labor laws and guarantee labor interests of employees, having dedicated ourselves to create a high-quality, safe and stable working environment, ensuring the safety and health of the working sites, and taking good care of physical and mental health for employees. In 2017, Anton was free of serious violations against laws and regulations with respect to labor and also was not informed about human right infringement, forced labor events or infringement of staff's benefits.

## 4. RESPONSIBILITY MANAGEMENT

### 4.1 Supply Chain Management

Anton continued to improve the management level for the supply chain, and implemented all-process management mechanism to suppliers during the admittance, monitoring process, approval and repaying procedures. With the development and deep cooperation with suppliers, Anton successively understood the importance role of itself to the suppliers with respect to the social responsibility management of enterprises. In addition to quality, price and service level, Anton also values the supplier's performance of social responsibility. Anton is willing to work together with suppliers to create green supply chain environment.

In 2017, in order to further optimize the supplier management system, Anton perfected and upgraded the original Supplier Management Rules, formulated and issued Supplier Management Procedure to provide standardized requirements and clear the detailed admittances of suppliers and especially enhance the assessment and management on their QHSE performance by warning the nonconforming suppliers for rectification and stopping cooperation with the suppliers who are still nonconforming after rectification.

In order to strengthen supply chain management, in April 2017, Anton issued a notice requiring industry headquarters to act as a unified resource mobilization department to become fully responsible for procurement contract negotiations (purchase price, payment terms) and supplier management. With the continuous development of the Group's development and suppliers' cooperation, the Group requested all participating tendering suppliers to sign the Anti-Corruption Commitment Letter, conducted inquiries regarding bribery-related crimes of the participating suppliers, and implemented a credit rating. Bribery, uncooperating behaviour, unqualified quality of products and intentional exclusions, etc. will lead to revocation of tendering qualifications to ensure compliance throughout the procurement process. At the same time, Anton recognized its important role in the supplier's social responsibility. It requires suppliers to protect the rights and interests of employees, protect the environment, provide relevant qualifications to process hazardous materials on demand, comply with relevant laws and regulations, and take initiative to undertake social responsibilities.

### 4.2 Intellectual Property Rights Protection

Anton deeply understands that intellectual property rights are the strong support of each company's core competitiveness. It insists on the orientation of customer needs, and establishes a technological innovation system that integrates research institutes of the Group and closely combined production, academy and research branches to meet the needs of customers for technical services. At the same time, Anton respects the intellectual property rights of its own as well as of other partners and avoids infringements. It also effectively protects its intellectual property rights through a systematic intellectual property management system.

## 4.3 Customer Privacy Protection

Anton insisted "transparent marketing" adhering to the idea of honesty and fair transactions and attaching much importance on obtaining and maintaining trust from customers.

Anton formulated the relevant policies and management rules on keeping secret and information materials, requiring all departments to perform Rules on Confidentiality Management of the Group Company (Trial) strictly. All staff need to sign confidentiality agreement before taking work, and shall pay attention to protect the information resources of customers in daily work, protect the customer's information from unauthorized access, use and leakage, and ensure that the customer's information and business data are used preferably as limited by the authorized commercial use and only acquired by employees who are deemed to know.

## 4.4 Anti-corruption

Adhering to "loyal to the company, honestly and self-discipline, maintaining confidentiality and coping with overall situation", Anton and its staff are against corruption, bribery and cheating in any forms. In 2017, Anton was not informed any breaches of laws and regulations with respect to anti-corruption.

The staff followed the idea of "help others for success and make oil production simpler" and obeyed Enterprise Culture Manual of Anton, creating economic benefits for customers with advanced technologies and high-quality services, and keeping long-terms strategic cooperation with customers for mutual benefit and win-win situation. The Company paid much attention on the relationship with suppliers and customers and stuck to integrity. In the reporting period, Anton established an interflow channel for information supervision and carried out bidding work in a just, fair and open way, and correct the violation of process and procedures timely. No breaches of honesty work of management personnel were found in this period.

## 4.5 Community Investment

With the vision of being a global leading oilfield technology services group based in China, and to help others succeed, Anton is committed to using its broad platform to practice social responsibility. In order to support the rejuvenation of old revolutionary base areas, during the decade since listing, Anton has purchased 25,000 kilograms of oranges in Gannan, Jiangxi Province and gave them to its employees. This not only fully demonstrated its concern for employees, but also helped farmers with their sales.

Combining its own industry advantages, Anton and surrounding primary and secondary schools jointly organized social practice activities, including visits to the geological museum, and popularized geology knowledge for primary and secondary school students.

While expanding business in Iraq, the Group actively promoted the localization of employees, and conducted donation-raising activities to further publicize Anton's brand philosophy and values, which deepened the partnership between the two, supported local economic development, and promoted cultural exchanges between China and Iraq, and contributed to local talent development.

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

## OPINION

We have audited the consolidated financial statements of Anton Oilfield Services Group (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 79 to 162, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

## KEY AUDIT MATTERS

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **The recoverable amount of a cash generating unit of well completion services** | |
| We identified the recoverable amount of a cash generating unit ("CGU") of well completion services as a key audit matter due to the significant judgement involved in estimating the recoverable amount of the corresponding plant and equipment amounting to Renminbi 331,495,000 (Note 4(a)) recorded by the Group.<br><br>The recoverable amount of the CGU has been determined based on value-in-use calculations through discounting the estimated future cash flows generated from the CGU to the present value. In estimating the aforesaid recoverable amount, the management is required to consider all relevant factors with reasonable and supportable assumptions to make significant accounting estimations. Details of the related estimation uncertainty are set out in Note 4(a) to the consolidated financial statements. | Our procedures in relation to the recoverable amount of the CGU included:<br><br>• testing the controls relevant to the audit on valuation and determination of asset impairments;<br><br>• challenging the appropriateness of the assumption of forecast revenue and forecast gross margin used in the impairment test;<br><br>• involving our internal valuation specialists to perform a corroborative calculation based on independent research to evaluate the appropriateness of the discount rate used in the impairment test; and<br><br>• verifying the arithmetical accuracy of the calculations in the impairment test. |

## OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yam Siu Man.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

26 March 2018

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017
(Amounts expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

| | Notes | As at 31 December **2017** | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **2,331,571** | 2,272,223 |
| Prepaid lease payments | 7 | **77,567** | 46,903 |
| Goodwill | 8 | **242,004** | 242,004 |
| Intangible assets | 9 | **224,285** | 173,151 |
| Interest in a joint venture | 10 | **2,691** | 3,592 |
| Prepayments and other receivables | 14 | **121,063** | 157,060 |
| Other non-current assets | 11 | **304,844** | 56,745 |
| Deferred income tax assets | 22 | **63,743** | 52,334 |
| | | **3,367,768** | 3,004,012 |
| **Current assets** | | | |
| Inventories | 12 | **597,233** | 781,165 |
| Prepaid lease payments | 7 | **1,932** | 1,091 |
| Trade and notes receivables | 13 | **1,760,358** | 1,297,995 |
| Prepayments and other receivables | 14 | **467,029** | 672,164 |
| Current portion of other non-current assets | 11 | **4,923** | 5,255 |
| Restricted bank deposits | 15 | **415,135** | 381,325 |
| Term deposits with initial terms of over three months | 15 | **—** | 11,011 |
| Cash and cash equivalents | 15 | **1,133,097** | 507,263 |
| | | **4,379,707** | 3,657,269 |
| **Total assets** | | **7,747,475** | 6,661,281 |

## Consolidated Statement of Financial Position (Continued)

As at 31 December 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

| | Notes | As at 31 December 2017 | 2016 |
|---|---|---|---|
| **EQUITY** | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 16 | **246,271** | 226,578 |
| Reserves | 17 | **2,311,768** | 1,318,307 |
| | | **2,558,039** | 1,544,885 |
| **Non-controlling interests** | | **388,953** | 432,012 |
| **Total equity** | | **2,946,992** | 1,976,897 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term bonds | 18 | **1,885,824** | 1,694,940 |
| Long-term borrowings | 19 | **36,217** | 89,506 |
| Accruals and other payables | 21 | **—** | 715,453 |
| Deferred income tax liabilities | 22 | **10,661** | 4,318 |
| | | **1,932,702** | 2,504,217 |
| **Current liabilities** | | | |
| Short-term borrowings | 19 | **880,320** | 739,642 |
| Current portion of long-term bonds | 18 | **461,588** | — |
| Current portion of long-term borrowings | 19 | **141,105** | 61,723 |
| Trade and notes payables | 20 | **685,147** | 800,022 |
| Accruals and other payables | 21 | **658,224** | 534,814 |
| Current income tax liabilities | | **41,397** | 43,966 |
| | | **2,867,781** | 2,180,167 |
| **Total liabilities** | | **4,800,483** | 4,684,384 |
| **Total equity and liabilities** | | **7,747,475** | 6,661,281 |

The consolidated financial statements on pages 79 to 162 were approved and authorised for issue by the Board of Directors on 26 March 2018 and were signed on its behalf by:

*Chairman*
Luo Lin

*Executive Director*
Pi Zhifeng

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

| | Notes | Year ended 31 December 2017 | 2016 |
|---|---|---|---|
| Revenue | 23 | **2,202,702** | 1,617,675 |
| Cost of sales | 24 | **(1,372,962)** | (1,073,784) |
| **Gross profit** | | **829,740** | 543,891 |
| Other gains, net | 25 | **9,674** | 68,967 |
| Selling expenses | 24 | **(152,587)** | (110,838) |
| Administrative expenses | 24 | **(175,463)** | (337,816) |
| Research and development expenses | 24 | **(26,525)** | (16,455) |
| Sales tax and surcharges | 24 | **(11,145)** | (4,553) |
| **Operating profit** | | **473,694** | 143,196 |
| Interest income | 26 | **3,759** | 2,508 |
| Finance expenses | 26 | **(271,631)** | (175,887) |
| Finance costs, net | 26 | **(267,872)** | (173,379) |
| Share of loss of a joint venture | 10 | **(901)** | (408) |
| Profit/(loss) before income tax | | **204,921** | (30,591) |
| Income tax expense | 28 | **(33,647)** | (67,081) |
| **Profit/(loss) for the year** | | **171,274** | (97,672) |
| **Profit/(loss) attributable to:** | | | |
| Owners of the Company | | **54,495** | (160,450) |
| Non-controlling interests | | **116,779** | 62,778 |
| | | **171,274** | (97,672) |
| **Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company for the year (expressed in RMB per share)** | | | |
| – Basic | 29 | **0.0206** | (0.0720) |
| – Diluted | 29 | **0.0205** | (0.0720) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

| | Notes | Year ended 31 December **2017** | 2016 |
|---|---|---|---|
| **Profit/(loss) for the year** | | **171,274** | (97,672) |
| **Other comprehensive income/(expense), net of tax:** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Net investment hedge | 17(b) | **97,880** | (87,827) |
| Currency translation differences | 17(a) | **(78,660)** | 48,590 |
| **Other comprehensive income/(expense) for the year, net of tax** | | **19,220** | (39,237) |
| **Total comprehensive income/(expense) for the year** | | **190,494** | (136,909) |
| **Total comprehensive income/(expense) attributable to:** | | | |
| – Owners of the Company | | **82,891** | (211,530) |
| – Non-controlling interests | | **107,603** | 74,621 |
| | | **190,494** | (136,909) |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

| | | Attributable to the owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Share premium** | **Capital reserve** | **Statutory reserve** | **Retained earnings** | **Other reserves** | **Subtotal** | **Non-controlling interests** | **Total equity** |
| **Balance at 1 January 2016** | | 207,629 | 460,903 | 390,368 | 77,756 | 772,091 | (14,721) | 1,894,026 | 65,586 | 1,959,612 |
| **Comprehensive income** | | | | | | | | | | |
| (Loss)/profit for the year | | — | — | — | — | (160,450) | — | (160,450) | 62,778 | (97,672) |
| **Other comprehensive (expense)/income** | | | | | | | | | | |
| Net investment hedge | 17(b) | — | — | — | — | — | (72,052) | (72,052) | (15,775) | (87,827) |
| Currency translation differences | 17(a) | — | — | — | — | — | 20,972 | 20,972 | 27,618 | 48,590 |
| **Total comprehensive (expense)/income** | | — | — | — | — | (160,450) | (51,080) | (211,530) | 74,621 | (136,909) |
| Issue of ordinary shares | 16(ii) | 19,365 | 175,835 | — | — | — | — | 195,200 | — | 195,200 |
| Share option scheme | 16(i) | — | — | 15,431 | — | — | — | 15,431 | — | 15,431 |
| Acquisition of additional interest in a subsidiary | | — | — | — | — | — | 3,178 | 3,178 | (29,161) | (25,983) |
| Changes in ownership interests in subsidiaries without change of control | 21 | — | — | — | — | — | 379,034 | 379,034 | 320,966 | 700,000 |
| Recognition of put option | 21 | — | — | — | — | — | (700,000) | (700,000) | — | (700,000) |
| Disposal of a subsidiary | | — | — | (27,060) | — | — | — | (27,060) | — | (27,060) |
| Dissolution of a subsidiary | | — | — | — | (856) | — | — | (856) | — | (856) |
| Repurchase and cancellation of shares | 16(iii) | (416) | (2,122) | — | — | — | — | (2,538) | — | (2,538) |
| **Total transactions with owners, recognised directly in equity** | | 18,949 | 173,713 | (11,629) | (856) | — | (317,788) | (137,611) | 291,805 | 154,194 |
| **Balance at 31 December 2016** | | 226,578 | 634,616 | 378,739 | 76,900 | 611,641 | (383,589) | 1,544,885 | 432,012 | 1,976,897 |
| **Balance at 1 January 2017** | | **226,578** | **634,616** | **378,739** | **76,900** | **611,641** | **(383,589)** | **1,544,885** | **432,012** | **1,976,897** |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the year | | **—** | **—** | **—** | **—** | **54,495** | **—** | **54,495** | **116,779** | **171,274** |
| **Other comprehensive income/(expense)** | | | | | | | | | | |
| Net investment hedge | 17(b) | **—** | **—** | **—** | **—** | **—** | **72,055** | **72,055** | **25,825** | **97,880** |
| Currency translation differences | 17(a) | **—** | **—** | **—** | **—** | **—** | **(43,659)** | **(43,659)** | **(35,001)** | **(78,660)** |
| **Total comprehensive income** | | **—** | **—** | **—** | **—** | **54,495** | **28,396** | **82,891** | **107,603** | **190,494** |
| Issue of ordinary shares | 16(ii) | **19,625** | **178,194** | **—** | **—** | **—** | **—** | **197,819** | **—** | **197,819** |
| Share option scheme | 16(i) | **—** | **—** | **16,490** | **—** | **—** | **—** | **16,490** | **—** | **16,490** |
| Share option exercised | 16 | **68** | **433** | **—** | **—** | **—** | **—** | **501** | **—** | **501** |
| Acquisition of a subsidiary | 35 | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **29,338** | **29,338** |
| Termination of put option | 21 | **—** | **—** | **—** | **—** | **—** | **715,453** | **715,453** | **—** | **715,453** |
| Dividends | | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(180,000)** | **(180,000)** |
| **Total transactions with owners, recognised directly in equity** | | **19,693** | **178,627** | **16,490** | **—** | **—** | **715,453** | **930,263** | **(150,662)** | **779,601** |
| **Balance at 31 December 2017** | | **246,271** | **813,243** | **395,229** | **76,900** | **666,136** | **360,260** | **2,558,039** | **388,953** | **2,946,992** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

| | Notes | Year ended 31 December 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash inflows from operations | 31 | **240,242** | 148,674 |
| Interest received | 26 | **3,759** | 2,508 |
| Income tax paid | | **(48,391)** | (35,565) |
| Net cash generated from operating activities | | **195,610** | 115,617 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(313,575)** | (473,354) |
| Proceeds from disposal of property, plant and equipment | | **7,361** | 16,549 |
| Purchase of intangible assets | | **(66,274)** | (38,267) |
| Net cash paid for acquisition of a subsidiary | 35 | **(38,033)** | — |
| Proceeds from disposal of a subsidiary | 25(b) | **—** | 77,000 |
| Investment in a joint venture | 10 | **—** | (4,000) |
| Decrease/(increase) in term deposits | 15 | **11,011** | (11) |
| Net cash used in investing activities | | **(399,510)** | (422,083) |
| **Cash flows from financing activities** | | | |
| Proceeds from short-term borrowings | | **1,108,522** | 1,027,292 |
| Repayments of short-term borrowings | | **(967,844)** | (962,650) |
| Proceeds from long-term borrowings | | **—** | 180,093 |
| Repayments of long-term borrowings | | **(65,656)** | (28,864) |
| Proceeds from long-term bonds | | **779,252** | — |
| Repayments of long-term bonds | | **—** | (200,000) |
| Repurchase of long-term bonds | | **(24,775)** | (6,776) |
| Proceeds from disposal of interests in a subsidiary without loss of control | 36(c) | **343,000** | 357,000 |
| Net cash paid to non-controlling interests for additional interest in a subsidiary | 38 | **(300,000)** | (21,825) |
| Proceeds from share options exercised | 16(i) | **501** | — |
| Dividends distribution | | **—** | (17,367) |
| Repurchase of own shares | 16(iii) | **—** | (2,538) |
| Issue of shares | 16(ii) | **197,819** | 195,200 |
| Interest paid | | **(177,946)** | (181,660) |
| Placement of restricted bank deposits | | **(30,000)** | — |
| Net cash generated from financing activities | | **862,873** | 337,905 |
| **Net increase in cash and cash equivalents** | | **658,973** | 31,439 |
| Cash and cash equivalents at beginning of the year | | **507,263** | 458,158 |
| Exchange (loss)/gain on cash and cash equivalents | | **(33,139)** | 17,666 |
| **Cash and cash equivalents at end of the year** | | **1,133,097** | 507,263 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

## 1. GENERAL INFORMATION

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

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

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

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

| | |
|---|---|
| Amendments to IAS 7 | *Disclosure Initiative* |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to IFRSs | *Annual Improvements to IFRS Standards 2014-2016 Cycle* |

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

### Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

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

#### Amendments to IAS 7 Disclosure Initiative *(Continued)*

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 32. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 32, the application of these amendments has had no impact on the Group's consolidated financial statements.

### New and revised IFRSs in issue but not yet effective

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

| | |
|---|---|
| IFRS 9 | *Financial Instrument*[1] |
| IFRS 15 | *Revenue from Contracts with Customers and the related Clarification*[1] |
| IFRS 16 | *Leases*[2] |
| IFRS 17 | *Insurance Contracts*[4] |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| IFRIC 23 | *Uncertainty over Income Tax Treatments*[2] |
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1] |
| Amendments to IFRS 9 | *Prepayments Features with Negative Compensation*[2] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement*[2] |
| Amendments to IAS 28 | *Long-term Interest in Associates and Joint Ventures*[2] |
| Amendments to IAS 28 | *As Part of the Annual Improvements to IFRS Standards 2014-2016 Cycle*[1] |
| Amendments to IAS 40 | *Transfers of Investment Property*[1] |
| Amendments to IFRSs | *Annual Improvements to IFRS Standards 2015-2017 Cycle*[2] |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

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

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### New and revised IFRSs in issue but not yet effective *(Continued)*

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

### IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and financial assets have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### New and revised IFRSs in issue but not yet effective *(Continued)*

#### IFRS 9 Financial Instruments *(Continued)*

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

*Classification and measurement*

All the financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

*Impairment*

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would not be materially increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables and prepayments and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets at 1 January 2018.

*Hedge accounting*

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. Accordingly, the Directors anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### New and revised IFRSs in issue but not yet effective *(Continued)*

#### IFRS 15 Revenue from Contracts with Customers *(Continued)*

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to the performance obligations in the contract

– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarification to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

• Provision of oilfield technology services (excluding operation and maintenance services)

• Provision of oilfield-related operation and maintenance services

• Sales of oilfield-related goods

The Directors have specifically assessed that there are different and separate performance obligations in different stages of an oilfield technology service (excluding operation and maintenance services) contract, with transaction price allocated to the different and separate performance obligations on a relative stand-alone price basis, and revenue will be recognised for each of these performance obligations when control over the corresponding services is transferred to the customer. This is similar to the current identification of separate revenue components under IAS 18. Furthermore, since the oilfield technology services (excluding operation and maintenance services) are expected to meet certain specified technological criteria which are not simply based on size and weight characteristics, the Group cannot objectively determines that the services provided to the customer are in accordance with the agreed-upon specifications in the contract and then the Group would not be able to conclude that the customer has obtained control until it receives the customer's acceptance. Therefore, the revenue from oilfield technology services (excluding operation and maintenance services) is recognised at a point when the customer acceptance is concluded which is consistent with current practice.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### New and revised IFRSs in issue but not yet effective *(Continued)*

#### IFRS 15 Revenue from Contracts with Customers *(Continued)*

As regards the provision of oilfield-related operation and maintenance services, since they are routine with no complicated processes involved and customer acceptance is a formality, the Directors have assessed that revenue from these operation and maintenance contracts should be recognised over time as the customer simultaneously receives and consumes the benefits during the course of operation and maintenance services provided by the Group, which will continue to be appropriate both under IAS 18 and IFRS 15.

As regards the sales of oilfield-related goods, since the goods are not self-manufactured and the Group is not entitled to payment until the customer receives and accepts the goods, revenue will be recognised at a point when control over the corresponding goods is transferred to the customer, which is consistent both under IAS 18 and IFRS 15.

The Directors have assessed the impact on application of IFRS 15 by nature of revenue as above and did not anticipate a material impact on the timing and amounts of revenue recognised in respective reporting periods. However, application of IFRS 15 may have impact on the following area:

- Currently, the Group expensed off the costs associated with obtaining the services and sales of goods contracts with customers. Under IFRS 15, incremental costs of obtaining a contract is eligible for capitalisation as deferred contract costs if they meet certain criteria. Accordingly, the Directors expect a recognition of deferred contract costs, resulting in an increase in opening retained earnings and a slight increase in recognition of deferred tax liabilities at 1 January 2018.

In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

#### IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### New and revised IFRSs in issue but not yet effective *(Continued)*

#### IFRS 16 Leases *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, leases payments in relation to lease liability will be allocated to a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitment of RMB31,393,000 as disclosed in Note 33(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

# 3. SIGNIFICANT ACCOUNTING POLICIES

## Statement of compliance

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

## Basis of preparation

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

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

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

### Changes in the Group's ownership interests in existing subsidiaries

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

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

### Separate financial statements

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If, after re-assessment, the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

### Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Segment reporting

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

### Foreign currency translation

#### Functional and presentation currency

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

#### Transactions and balances

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

#### Group companies

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currency translation *(Continued)*

#### Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over joint ventures that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### Property, plant and equipment

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

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

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

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

| | **Estimated useful life** |
|---|---|
| Buildings | 5-50 years |
| Machinery and equipment | 5-10 years |
| Motor vehicles | 5-10 years |
| Furniture, fixtures and others | 5 years |

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment *(Continued)*

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

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

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

### Prepaid lease payments

Prepaid lease payments represent upfront prepayments made for the land use rights and leasehold land located in the PRC, which are classified as operating lease, and are expensed in the consolidated statement of profit or loss on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the consolidated statement of profit or loss.

### Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Intangible assets

#### Computer software

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

#### Patents

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

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

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

### Impairment of non-financial assets

Intangible assets that have an indefinite useful life are tested annually for impairment. Assets that are subject to depreciation or amortisation are 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets

#### Classification

The Group classifies its financial assets as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group's financial assets are loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise "term deposits with initial terms of over three months", "restricted bank deposits", "trade and notes receivables", part of "prepayments and other receivables" and "cash and cash equivalents" in the consolidated statement of financial position.

#### Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

#### Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

#### Offsetting financial instruments

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets *(Continued)*

#### Impairment of financial assets

Assets carried at amortised cost:

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is (are) impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

#### Derecognition of financial assets

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities

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

#### Financial liabilities at amortised cost

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

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

#### Derecognition of financial liabilities

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

### Hedging activities

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

#### Net investment hedge

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Inventories

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

### Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, bank deposits and other short-term highly liquid investments with original maturities of three months or less.

### Share capital

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

### Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

### Current and deferred income tax

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Current and deferred income tax *(Continued)*

#### Current income tax

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

#### Deferred income tax

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

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

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

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

#### Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits

#### Pension and other social obligations

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

#### Share-based compensation

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

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

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

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

#### Sales of goods

Revenue associated with the sales of goods is recognised when the title to the goods, such as drilling tools, tubing and casing, has been passed to the customer, which is at the date when the customer receives and accepts the goods and collectability of the related receivables is reasonably assured.

### Interest income

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

### Leases

The Group leases certain property, plant and equipment.

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

### Government grants

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

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

### Dividend distribution

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

### (a) Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at cost or cost less depreciation or amortisation. The carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts 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.

During the year ended 31 December 2017, the management has determined that the plant and equipment within one of the CGUs related to well completion services have impairment indicators and the plant and equipment have a carrying amount of RMB331,495,000 at 31 December 2017. An impairment test has been performed on the CGU to which the plant and equipment are allocated after taking into account the Group's future operating plans and the outlook for the industry. The recoverable amount of the CGU has been determined based on value-in-use calculations through discounting the estimated future cash flows generated from the CGU to the present value. In estimating the aforesaid 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. As a result of the impairment test, management determined that no impairment charge was required for the plant and equipment of the CGU in year 2017.

The aggregate carrying amount of property, plant and equipment as at 31 December 2017 was RMB2,331,571,000 (31 December 2016: RMB2,272,223,000). The aggregate carrying amount of intangible assets as at 31 December 2017 was RMB224,285,000 (31 December 2016: RMB173,151,000).

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

### (b) Impairment of inventory

Inventories are reviewed for impairment whenever events or changes in circumstances cause their cost to exceed their net realisable value. Cost is determined on the weighted average basis. The determination of net realisable value of the inventories requires the use of estimates. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Where the actual outcome or expectation in future is different from the original estimate, such difference will have an impact on the cost of inventories and a provision may be made or reversed in the year in which these estimates have been changed. As at 31 December 2017, the carrying amount of inventories was RMB597,233,000 (31 December 2016: RMB781,165,000), already net of accumulated impairment loss of RMB119,157,000 (31 December 2016: RMB118,717,000).

### (c) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value-in-use calculations require the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2017 and 2016, the carrying amount of goodwill was RMB242,004,000, already net of accumulated impairment loss of RMB26,325,000. Details of the key assumptions used by the management in goodwill impairment assessment are set out in Note 8.

### (d) Impairment of trade receivables

The impairment of trade receivables is determined by the management based on available objective, e.g., it becoming probable that a debtor will enter bankruptcy or is having significant financial difficulty where particular customers are unable to make timely payments. Further, some of the customers of the Group operate in countries facing difficult political and economic circumstances, which expose the Group to additional recoverability risk of trade receivables.

The impairment amount is subject to the management's assessment at each reporting date which involves an expectation of estimated collections from customers. Uncertainties exist with respect to evaluating the available evidence by management, such as the credit risk characteristics of the respective trade receivables, ageing analysis, cash collections subsequent to the year end date and impairment amount that management estimates based on the consideration of the above. As at 31 December 2017, the carrying amount of trade receivables was RMB1,687,760,000 (31 December 2016: RMB1,240,917,000), already net of accumulated impairment loss of RMB63,664,000 (31 December 2016: RMB40,826,000).

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

### (e) Income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For deductible temporary differences which give rise to deferred income tax assets, the Group has assessed the likelihood that the deferred income tax assets could be recovered. Deferred income tax assets mainly relate to deductible tax losses and provision for impairment of receivables and inventories not yet deductible for tax purposes. Deferred income tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

The Group believes it has recorded adequate current tax provision and deferred income taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred income taxation may be necessary which would impact the Group's results or financial position.

As at 31 December 2017, deferred tax assets of RMB63,743,000 (31 December 2016: RMB52,334,000) in relation to unused deductible tax losses and other deductible temporary difference have been recognised in the Group's consolidated statement of financial position. No deferred tax assets have been recognised on the unused deductible tax losses and other deductible temporary difference of RMB301,581,000 (31 December 2016: RMB225,751,000) due to the unpredictability of future profit streams.

## 5. SEGMENT INFORMATION

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

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

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

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

## 5. SEGMENT INFORMATION *(Continued)*

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

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

| | Drilling technology | Well completion | Oil production services | Total |
|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | |
| Revenue (Note) | **959,201** | **564,450** | **679,051** | **2,202,702** |
| **EBITDA** | **400,582** | **262,876** | **310,658** | **974,116** |
| Depreciation and amortisation | **(72,490)** | **(111,247)** | **(20,352)** | **(204,089)** |
| Asset impairment provision of | | | | |
| – Inventories | **—** | **(5,389)** | **(1,600)** | **(6,989)** |
| – Trade and other receivables | **(3,136)** | **(12,203)** | **(7,499)** | **(22,838)** |
| Interest income | **47** | **150** | **230** | **427** |
| Finance expenses | **(5,758)** | **(2,988)** | **(8,250)** | **(16,996)** |
| Share of loss of a joint venture | **(901)** | **—** | **—** | **(901)** |
| Income tax expense | **10,054** | **(6,413)** | **(37,288)** | **(33,647)** |
| **For the year ended 31 December 2016** | | | | |
| Revenue (Note) | 437,451 | 751,129 | 429,095 | 1,617,675 |
| **EBITDA** | 141,747 | 303,467 | 198,044 | 643,258 |
| Depreciation and amortisation | (55,962) | (116,256) | (15,191) | (187,409) |
| Asset impairment provision of | | | | |
| – Inventories | (72,089) | (3,562) | (21,830) | (97,481) |
| – Trade and other receivables | (8,809) | (4,142) | (113) | (13,064) |
| Interest income | 2 | 288 | — | 290 |
| Finance expenses | (1,508) | (10,162) | (2,696) | (14,366) |
| Share of loss of a joint venture | (408) | — | — | (408) |
| Income tax expense | (3,696) | (23,111) | (40,274) | (67,081) |

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

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

## 5. SEGMENT INFORMATION *(Continued)*

| | Drilling technology | Well completion | Oil production services | Total |
|---|---|---|---|---|
| **As at 31 December 2017** | | | | |
| **Total assets** | **2,025,962** | **2,816,315** | **587,235** | **5,429,512** |
| Total assets include: | | | | |
| Capital expenditures | **149,412** | **81,737** | **39,772** | **270,921** |
| **As at 31 December 2016** | | | | |
| **Total assets** | 1,904,963 | 2,713,884 | 540,618 | 5,159,465 |
| Total assets include: | | | | |
| Capital expenditures | 110,804 | 76,147 | 17,312 | 204,263 |

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

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

| | Year ended 31 December 2017 | 2016 |
|---|---|---|
| **EBITDA for reportable segments** | **974,116** | 643,258 |
| Corporate overheads | **(517,809)** | (361,411) |
| Depreciation | **(185,306)** | (177,196) |
| Amortisation | **(18,783)** | (10,213) |
| Asset impairment provision | **(29,827)** | (110,545) |
| Interest income | **427** | 290 |
| Finance expenses | **(16,996)** | (14,366) |
| Share of loss of a joint venture | **(901)** | (408) |
| **Profit/(loss) before income tax** | **204,921** | (30,591) |

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

## 5. SEGMENT INFORMATION *(Continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| **Assets for reportable segments** | **5,429,512** | 5,159,465 |
| Corporate assets for general management | **2,317,963** | 1,501,816 |
| **Total assets** | **7,747,475** | 6,661,281 |

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

**Geographical Information**

| | Revenue Year ended 31 December | | Non-current assets As at 31 December | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| PRC | **793,903** | 751,532 | **2,290,221** | 2,287,170 |
| Iraq | **855,328** | 628,230 | **661,359** | 495,129 |
| Other countries | **553,471** | 237,913 | **338,445** | 169,379 |
| **Total** | **2,202,702** | 1,617,675 | **3,290,025** | 2,951,678 |

**Client information**

For the year ended 31 December 2017, revenues of approximately RMB817,426,000 (2016: RMB413,368,000) were derived from two external independent customers, which contributed 21.84% and 15.27% (2016: 17.01% and 8.54%) to the total revenue respectively. These revenues were mainly attributable to drilling technology and oil production services segments.

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

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery and equipment | Motor vehicles | Furniture, fixtures and others | Construction-in-progress | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2016** | | | | | | |
| Cost | 257,860 | 2,051,811 | 63,693 | 88,584 | 509,934 | 2,971,882 |
| Accumulated depreciation | (46,497) | (488,489) | (37,755) | (43,603) | — | (616,344) |
| Carrying values | 211,363 | 1,563,322 | 25,938 | 44,981 | 509,934 | 2,355,538 |
| **Year ended31 December 2016** | | | | | | |
| **As at 1 January 2016** | 211,363 | 1,563,322 | 25,938 | 44,981 | 509,934 | 2,355,538 |
| Additions | 5,464 | 18,689 | 115 | 598 | 125,802 | 150,668 |
| Transfer in/(out) | 138,678 | 209,217 | — | 1,482 | (365,604) | (16,227) |
| Depreciation charge | (10,387) | (180,361) | (6,822) | (9,884) | — | (207,454) |
| Disposals | (2,986) | (3,573) | (4,328) | (239) | (3,541) | (14,667) |
| Disposal of a subsidiary | (29,412) | (217) | — | (45) | — | (29,674) |
| Currency translation differences | 3,171 | 13,554 | 568 | 985 | 15,761 | 34,039 |
| **As at 31 December 2016** | 315,891 | 1,620,631 | 15,471 | 37,878 | 282,352 | 2,272,223 |
| **As at 31 December 2016** | | | | | | |
| Cost | 366,205 | 2,244,519 | 46,491 | 87,774 | 282,352 | 3,027,341 |
| Accumulated depreciation | (50,314) | (623,888) | (31,020) | (49,896) | — | (755,118) |
| Carrying values | 315,891 | 1,620,631 | 15,471 | 37,878 | 282,352 | 2,272,223 |
| **Year ended 31 December 2017** | | | | | | |
| **As at 1 January 2017** | **315,891** | **1,620,631** | **15,471** | **37,878** | **282,352** | **2,272,223** |
| Additions | **14,132** | **15,965** | **364** | **20,317** | **143,990** | **194,768** |
| Transfer in/(out) | **36,827** | **129,543** | **741** | **1,355** | **(168,466)** | **—** |
| Depreciation charge | **(19,507)** | **(184,099)** | **(5,380)** | **(8,976)** | **—** | **(217,962)** |
| Disposals | **(5,224)** | **(93)** | **(512)** | **(391)** | **—** | **(6,220)** |
| Disposal of a subsidiary (Note 35) | **—** | **(83,618)** | **—** | **(81)** | **(6,985)** | **(90,684)** |
| Acquisition of a subsidiary (Note 35) | **220,247** | **—** | **—** | **—** | **—** | **220,247** |
| Currency translation differences | **(2,610)** | **(25,802)** | **(191)** | **(200)** | **(11,998)** | **(40,801)** |
| **As at 31 December 2017** | **559,756** | **1,472,527** | **10,493** | **49,902** | **238,893** | **2,331,571** |
| **As at 31 December 2017** | | | | | | |
| Cost | **627,914** | **2,246,553** | **45,696** | **105,927** | **238,893** | **3,264,983** |
| Accumulated depreciation | **(68,158)** | **(774,026)** | **(35,203)** | **(56,025)** | **—** | **(933,412)** |
| Carrying values | **559,756** | **1,472,527** | **10,493** | **49,902** | **238,893** | **2,331,571** |

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

During the year ended 31 December 2017, the depreciation charges of the Group were recorded in cost of sales with an amount of RMB180,315,000 (2016: RMB155,575,000), selling, general and administrative expenses with an amount of RMB21,342,000 (2016: RMB27,827,000), and cost of inventories which remained unsold as at year end with an amount of RMB16,305,000 (2016: RMB24,052,000), respectively.

As at 31 December 2017, long-term borrowings were secured by certain equipment with a carrying value of RMB182,573,000 (31 December 2016: RMB197,726,000) and certain buildings with a carrying value of RMB126,865,000 (31 December 2016: RMB Nil) (Note 19(a)).

As at 31 December 2017, the Group's buildings with a carrying value of RMB28,006,000 (31 December 2016: RMB29,285,000) were pledged as counter-guarantee for short-term borrowings of RMB80,000,000 (31 December 2016: RMB80,000,000) (Note 19(b)). As at 31 December 2017, the Group's buildings with a carrying value of RMB128,279,000 (31 December 2016: equipment with a carrying value of RMB155,310,000) were pledged as security of short-term borrowings of RMB150,000,000 (Note 19(b)).

As at 31 December 2017, none of the Group's property, plant and equipment (31 December 2016: buildings with a carrying value of RMB164,660,000) were pledged as security of undrawn bank borrowing facilities (Note 19(d)).

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

## 7. PREPAID LEASE PAYMENTS

| | |
|---|---|
| **As at 1 January 2016** | |
| Cost | 67,032 |
| Accumulated amortisation | (7,139) |
| Carrying value | 59,893 |
| **Year ended 31 December 2016** | |
| As at 1 January 2016 | 59,893 |
| Disposal of subsidiaries | (10,700) |
| Amortisation charge | (1,199) |
| **As at 31 December 2016** | 47,994 |
| **As at 31 December 2016** | |
| Cost | 56,332 |
| Accumulated amortisation | (8,338) |
| Carrying value | 47,994 |
| **Year ended 31 December 2017** | |
| As at 1 January 2017 | **47,994** |
| Acquisition of a subsidiary (Note 35) | **33,249** |
| Amortisation charge | **(1,744)** |
| **As at 31 December 2017** | **79,499** |
| **As at 31 December 2017** | |
| Cost | **89,581** |
| Accumulated amortisation | **(10,082)** |
| Carrying value | **79,499** |

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

## 7. PREPAID LEASE PAYMENTS *(Continued)*

Analysed for reporting purpose as:

| | As at 31 December **2017** | 2016 |
|---|---|---|
| Current asset | **1,932** | 1,091 |
| Non-current asset | **77,567** | 46,903 |
| | **79,499** | 47,994 |

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

As at 31 December 2017, prepaid lease payments with carrying amount of RMB18,739,000 were pledged as counter guarantee for certain long-term borrowings (Note 19(a)).

As at 31 December 2017, none of the prepaid lease payments (31 December 2016: with a carrying value of RMB27,329,000) were pledged as security of undrawn bank borrowing facilities (Note 19(d)).

## 8. GOODWILL

| | |
|---|---|
| **As at 1 January 2016** | |
| Cost | 268,329 |
| Accumulated impairment | (26,325) |
| Carrying value | 242,004 |
| **Year ended 31 December 2016** | |
| Closing and Opening carrying value | 242,004 |
| **As at 31 December 2016** | |
| Cost | 268,329 |
| Accumulated impairment | (26,325) |
| Carrying value | 242,004 |
| **Year ended 31 December 2017** | |
| Closing and Opening carrying value | **242,004** |
| **As at 31 December 2017** | |
| Cost | **268,329** |
| Accumulated impairment | **(26,325)** |
| Carrying value | **242,004** |

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

## 8. GOODWILL *(Continued)*

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

| As at 31 December 2017 and 2016 | Drilling technology | Well completion | Total |
|---|---|---|---|
| Shandong Precede Petroleum Technology Co., Ltd. (山東普瑞思德石油技術有限公司,"Shandong Precede") | — | 132,486 | 132,486 |
| Beijing Haineng Haite Petroleum Technology Development Co., Ltd. (北京海能海特石油科技發展有限公司, "Beijing Haineng Haite") | — | 106,886 | 106,886 |
| Anton Machinery and Meter Testing Co., Ltd. (安東儀器儀表檢測服務有限公司, "Anton Testing", formerly 四川誠量檢測服務有限公司) | 2,632 | — | 2,632 |
| | 2,632 | 239,372 | 242,004 |

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

The recoverable amount of the CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expects cash flow beyond the five-year period will be similar to that of the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using zero growth rates. Based on the assessments, no goodwill was further impaired as at 31 December 2017.

The key assumptions used for value-in-use calculations in 2017 are as follows:

| As at 31 December 2017 | Shandong Precede | Beijing Haineng Haite | Anton Testing |
|---|---|---|---|
| Gross margin | 34.25% | 17.18% | 15.79% |
| Discount rate | 12.70% | 12.70% | 13.50% |

| As at 31 December 2016 | Shandong Precede | Beijing Haineng Haite | Anton Testing |
|---|---|---|---|
| Gross margin | 46.25% | 20.20% | 18.84% |
| Discount rate | 14.12% | 14.12% | 16.00% |

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

Except for the accumulated impairment loss already recognised, management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed their recoverable amount as of 31 December 2017.

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

## 9. INTANGIBLE ASSETS

| **As at 31 December 2017 and 2016** | **Patent** | **Computer software** | **Total** |
|---|---|---|---|
| **As at 1 January 2016** | | | |
| Cost | 208,815 | 51,866 | 260,681 |
| Accumulated amortisation | (93,250) | (29,897) | (123,147) |
| Carrying value | 115,565 | 21,969 | 137,534 |
| **Year ended 31 December 2016** | | | |
| **As at 1 January 2016** | 115,565 | 21,969 | 137,534 |
| Additions | 31,468 | 20,332 | 51,800 |
| Disposal of a subsidiary | (290) | — | (290) |
| Amortisation charge | (13,337) | (2,556) | (15,893) |
| **As at 31 December 2016** | 133,406 | 39,745 | 173,151 |
| **As at 31 December 2016** | | | |
| Cost | 239,993 | 72,198 | 312,191 |
| Accumulated amortisation | (106,587) | (32,453) | (139,040) |
| Carrying value | 133,406 | 39,745 | 173,151 |
| **Year ended 31 December 2017** | | | |
| **As at 1 January 2017** | **133,406** | **39,745** | **173,151** |
| Additions | **75,984** | **169** | **76,153** |
| Disposal | **—** | **(744)** | **(744)** |
| Disposal of a subsidiary (Note 35) | **(984)** | **—** | **(984)** |
| Amortisation charge | **(19,066)** | **(4,225)** | **(23,291)** |
| **As at 31 December 2017** | **189,340** | **34,945** | **224,285** |
| **As at 31 December 2017** | | | |
| Cost | **314,993** | **71,623** | **386,616** |
| Accumulated amortisation | **(125,653)** | **(36,678)** | **(162,331)** |
| Carrying value | **189,340** | **34,945** | **224,285** |

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

## 10. INTEREST IN A JOINT VENTURE

The amounts recognised in the consolidated statement of financial position are as follows:

**A joint venture:**

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Cost of unlisted investment in a joint venture | **4,000** | 4,000 |
| Share of undistributed post-acquisition reserves | **(1,309)** | (408) |
| Total | **2,691** | 3,592 |

| **Company name** | **Place and date of establishment** | **Registered capital** | **Equity interest held by the Group (a)** | **Principal activities** |
|---|---|---|---|---|
| Xinjiang PengAn Energy Technology Co., Ltd. (新疆鵬安能源科技有限責任公司, "Xinjiang PengAn") | Xinjiang Uygur Autonomous Region, the PRC, 22 January 2016 | RMB10,000,000 | 40% | Oilfield technology consulting service and sales of equipment |

Notes:

(a) The Group has 40% of the equity interests in Xinjiang PengAn, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of Xinjiang PengAn, the board of directors of Xinjiang PengAn shall comprise five directors whereby the Group and the other sole investor shall appoint two and three directors each. Unanimous approvals by the directors of Xinjiang PengAn are required for decisions on directing the relevant activities of Xinjiang PengAn. In the opinion of the Directors, the Group has joint control over Xinjiang PengAn with the other sole investor and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement. Accordingly, Xinjiang PengAn has been accounted for as a joint venture of the Group.

(b) Xinjiang PengAn is an unlisted limited liability company.

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

## 10. INTEREST IN A JOINT VENTURE *(Continued)*

The following amounts represent 100% of the assets and liabilities, and sales and results of the joint venture.

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| **Assets:** | | |
| Non-current assets | **7,519** | 993 |
| Current assets | **4,864** | 8,153 |
| | **12,383** | 9,146 |
| **Liabilities:** | | |
| Current liabilities | **5,655** | 166 |
| | **5,655** | 166 |
| **Net assets** | **6,728** | 8,980 |
| **Revenue** | **3,922** | — |
| **Loss and total other comprehensive expense for the year** | **(2,253)** | (1,020) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Xinjiang PengAn recognised in the consolidated financial statements:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Net assets | **6,728** | 8,980 |
| Proportion of the Group's ownership interest | **40%** | 40% |
| Carrying amount of the Group's interest | **2,691** | 3,592 |

There are no contingent liabilities relating to the Group's interest in the joint venture.

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

## 11. OTHER NON-CURRENT ASSETS

| | As at 31 December **2017** | 2016 |
|---|---|---|
| Current | | |
| Long-term lease prepayments (a) | **4,923** | 5,255 |
| Non-current | | |
| Long-term lease prepayments (a) | **5,615** | 56,745 |
| Prepayment for acquisition of additional equity interest in a subsidiary (Note 36(c)/Note 38) | **299,229** | — |
| | **304,844** | 56,745 |

Note:

(a) As at 31 December 2017, long-term lease prepayments mainly represent prepayments for lease of logistics base and relevant renovation expenditure on it, which will be amortised in 5 years.

## 12. INVENTORIES

| | As at 31 December **2017** | 2016 |
|---|---|---|
| Raw materials | **58,489** | 26,975 |
| Work-in-progress | **773** | 885 |
| Finished goods | **57,369** | 50,433 |
| Project materials and spare parts | **302,778** | 409,410 |
| Project-in-progress | **296,981** | 412,179 |
| Total cost | **716,390** | 899,882 |
| Less: provision for obsolescence | **(119,157)** | (118,717) |
| | **597,233** | 781,165 |

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

| | **2017** | 2016 |
|---|---|---|
| As at 1 January | **(118,717)** | (23,784) |
| Addition | **(6,989)** | (97,481) |
| Disposal of a subsidiary | **3,403** | — |
| Write-off | **3,146** | 2,548 |
| As at 31 December | **(119,157)** | (118,717) |

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

## 13. TRADE AND NOTES RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Trade receivables, net (a) | | |
| – from related parties (Note 36(c)) | **12,102** | 6,252 |
| – others | **1,675,658** | 1,234,665 |
| | **1,687,760** | 1,240,917 |
| Notes receivable (e) | **72,598** | 57,078 |
| | **1,760,358** | 1,297,995 |

Notes:

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

| | **As at 31 December 2017** | | |
|---|---|---|---|
| | **Gross amount** | **Impairment** | **Carrying value** |
| 1 - 6 months | **1,055,640** | **—** | **1,055,640** |
| 6 months - 1 year | **468,012** | **—** | **468,012** |
| 1 - 2 years | **110,927** | **—** | **110,927** |
| 2 - 3 years | **52,656** | **(205)** | **52,451** |
| Over 3 years | **64,189** | **(63,459)** | **730** |
| | **1,751,424** | **(63,664)** | **1,687,760** |

| | As at 31 December 2016 | | |
|---|---|---|---|
| | Gross amount | Impairment | Carrying value |
| 1 - 6 months | 824,673 | — | 824,673 |
| 6 months - 1 year | 223,805 | — | 223,805 |
| 1 - 2 years | 162,754 | (2,494) | 160,260 |
| 2 - 3 years | 38,500 | (10,958) | 27,542 |
| Over 3 years | 32,011 | (27,374) | 4,637 |
| | 1,281,743 | (40,826) | 1,240,917 |

(i) As at 31 December 2017, trade receivables amounting to RMB1,523,652,000 (31 December 2016: RMB1,048,478,000) aged within one year, which were neither past due nor impaired according to the Group's credit policy.

(ii) The Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2017, trade receivables with carrying value of RMB164,108,000 (31 December 2016: RMB192,439,000) were past due but not impaired. For the past-due trade receivables without impairment, management considered such long ageing items were receivable from customers with good cooperation and no default history, therefore the risk of impairment was low.

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

## 13. TRADE AND NOTES RECEIVABLES *(Continued)*

Notes: *(Continued)*

(b) Most of the trade receivables are with credit terms of one year or less, except for retention money which would be collected one year after the completion of the services. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables.

As at 31 December 2017, trade receivables of RMB203,369,000 (31 December 2016: RMB221,824,000) were pledged as security for short-term borrowings of RMB181,320,000 (31 December 2016: RMB199,642,000) (Note 19(b)).

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

| | **2017** | 2016 |
|---|---|---|
| As at 1 January | **(40,826)** | (31,712) |
| Additions | **(22,838)** | (10,591) |
| Dispose of a subsidiary | **—** | 11 |
| Write-off | **—** | 1,466 |
| As at 31 December | **(63,664)** | (40,826) |

(d) Included in the impairment of trade receivables are individually impaired trade receivables with an aggregate balance of RMB63,664,000 (31 December 2016: RMB40,826,000) which are generally not recoverable based on the management's historical experience and understanding of the customers' financial status.

(e) As at 31 December 2017 and 2016, notes receivable are all bank acceptance bills with maturity dates within six months.

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

| | **As at 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| RMB | **740,246** | 724,205 |
| United States dollar ("US$") | **836,761** | 569,320 |
| Others | **183,351** | 4,470 |
| | **1,760,358** | 1,297,995 |

## 14. PREPAYMENTS AND OTHER RECEIVABLES

| | **As at 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| **Current** | | |
| Advances to suppliers | **87,251** | 74,062 |
| Other receivables | **278,980** | 162,499 |
| Amounts due from related parties (Note 36(c)) | **4,489** | 345,474 |
| Value-added tax recoverable | **96,309** | 90,129 |
| | **467,029** | 672,164 |
| **Non-current** | | |
| Value-added tax recoverable | **44,033** | 103,929 |
| Advances to engineering equipment suppliers | **63,030** | 53,131 |
| Other receivables (Note 32) | **14,000** | — |
| | **121,063** | 157,060 |

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

## 14. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| 1 - 6 months | **241,512** | 525,263 |
| 6 months - 1 year | **147,713** | 64,155 |
| 1 - 2 years | **41,645** | 46,332 |
| 2 - 3 years | **29,886** | 18,032 |
| Over 3 years | **10,399** | 22,714 |
| | **471,155** | 676,496 |
| Less: allowance for impairment (a) | **(4,126)** | (4,332) |
| Prepayments and other receivables, net | **467,029** | 672,164 |

Note:

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

| | **2017** | 2016 |
|---|---|---|
| As at 1 January | **(4,332)** | (1,859) |
| Additions | **—** | (2,473) |
| Write-off | **206** | — |
| As at 31 December | **(4,126)** | (4,332) |

## 15. CASH AND BANK

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Restricted bank deposits (a) | **415,135** | 381,325 |
| Term deposits with initial terms of over three months | **—** | 11,011 |
| Cash and cash equivalents | | |
| – Cash on hand | **9,547** | 2,633 |
| – Deposits in bank | **1,123,550** | 504,630 |
| | **1,548,232** | 899,599 |

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

## 15. CASH AND BANK *(Continued)*

Notes:

(a) As at 31 December 2017, bank deposits amounting to RMB415,135,000 (31 December 2016: RMB381,325,000) were held as securities for letter of guarantee, issuance of notes payable and secured short-term bank borrowings (Note19(b)). The restricted bank deposits carried a fixed interest rate at 0.35% per annum as at 31 December 2017 (2016: 0.35% per annum).

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

| | As at 31 December **2017** | 2016 |
|---|---|---|
| RMB | **411,330** | 362,409 |
| US$ | **1,053,924** | 412,189 |
| Hong Kong dollar ("HK$") | **14,178** | 90,470 |
| Others | **68,800** | 34,531 |
| | **1,548,232** | 899,599 |

(c) As at 31 December 2017, cash and cash equivalents were bank deposits bearing market interest rate at 0.35% per annum (31 December 2016: 0.35% per annum).

## 16. SHARE CAPITAL AND SHARE OPTIONS

| | Number of shares issued and fully paid of HK$0.1 each (thousands) | Share capital HK$'000 | RMB'000 |
|---|---|---|---|
| Ordinary shares issued and fully paid: | | | |
| As at 1 January 2016 | 2,221,122 | 222,112 | 207,629 |
| Issue of new shares (ii) | 221,620 | 22,162 | 19,365 |
| Repurchase and cancellation (iii) | (4,926) | (493) | (416) |
| As at 31 December 2016 | 2,437,816 | 243,781 | 226,578 |
| Issue of new shares (ii) | 221,620 | 22,162 | 19,625 |
| Exercise of share options (i) | 798 | 80 | 68 |
| As at 31 December 2017 | 2,660,234 | 266,023 | 246,271 |

## 16. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

Notes:

(i) Share options

During the year ended 31 December 2017, options to subscribe for 100,000,000 shares at the exercise price of HK$0.810 (2016: 122,216,000 shares at the exercise price ranging from HK$0.740 to HK$1.100) have been conditionally granted to certain key employees and three independent non-executive directors. 2,100,000 shares granted to independent non-executive directors have a 2-year vesting period, 50% each exercisable per year and the other 97,900,000 shares have a 3-year vesting period, 33.33% each exercisable per year, on the premises of achieving the performance conditions of the Group set out in the share option scheme. The options have an option period of 6 years.

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

| | Average exercise price in HK$ per share | Number of share options (thousands) |
|---|---|---|
| **As at 1 January 2016** | | 52,415 |
| Granted (on 24 February 2016) | 0.740 | 112,800 |
| Granted (on 1 April 2016) | 0.800 | 7,200 |
| Granted (on 2 December 2016) | 1.100 | 2,216 |
| Forfeited | 1.967 | (18,779) |
| Cancelled | 5.200 | (1,950) |
| Expired | 1.417 | (21,259) |
| **As at 1 January 2017** | | 132,643 |
| Granted (on 23 May 2017) | 0.810 | 100,000 |
| Forfeited | 0.901 | (9,850) |
| Exercised | 0.740 | (798) |
| Expired | 3.878 | (17,023) |
| **As at 31 December 2017** | | 204,972 |

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

| Expiry date | Exercise price HK$ per share | Number of share options (thousands) As at 31 December 2017 |
|---|---|---|
| 20 June 2019 | 5.742 | 1,276 |
| 27 June 2019 | 5.600 | 82 |
| 19 November 2019 | 4.960 | 76 |
| 23 February 2022 | 0.740 | 95,022 |
| 31 March 2022 | 0.800 | 6,300 |
| 1 December 2022 | 1.100 | 2,216 |
| 22 May 2023 | 0.810 | 100,000 |
| | | 204,972 |

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

## 16. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

Notes: *(Continued)*

(i) Share options *(Continued)*

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

As of 31 December 2017, out of the 204,972,000 options (31 December 2016: 132,643,000 options), 35,715,000 options (31 December 2016: 18,787,000 options) were exercisable. Options exercised in 2017 resulted in 798,000 shares being issued at a weighted average exercise price of HK$0.740 each. The related weighted average share price at the time of exercise was HK$0.933 per share in 2017. No options were exercised in 2016.

The fair value of the options granted during the year ended 31 December 2017 was determined using the Binomial Option Pricing Model. The major assumptions used in the pricing model for options granted in 2017 were the exercise price shown above, and the other parameters are shown below:

| **Parameters** | **Options granted in 2017** | Options granted in 2016 |
|---|---|---|
| Share price as of the valuation date (HK$) | **0.81** | 0.74-1.10 |
| Expected dividend yield | **—** | — |
| Forfeiture rate | **0.34%** | 0.36%-0.40% |
| Exercise multiples | **3.39-3.54** | 3.35-3.70 |
| Maturity years | **6** | 6 |
| Risk free rate | **1.14%** | 0.95%-1.25% |
| Annualised volatility | **56.91%** | 54.67%-58.25% |

The weighted average fair value of options granted during the year determined using the Binomial valuation model was HK$0.410 per option (2016: HK$0.750 per option). The volatility measured at the standard deviation of continuously compounded share returns is derived from historical volatility of the share price over the last 6 years.

The total expense recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 for share options amounted to RMB16,490,000 (31 December 2016: RMB15,431,000), with a corresponding amount credited in capital reserve (Note 17).

(ii) On 15 December 2016 and 3 December 2016, the Company entered into a subscription agreement with a third party pursuant to which the third party agreed to subscribe new shares of 221,620,000 each at HK$1.008 per share respectively. The subscriptions were completed on 25 January 2017 and 25 December 2016 respectively. The subscription shares represent approximately 9.09% and 10.00% of the then existing issued share capital of the Company and approximately 8.33% and 9.35% of the Company's then issued share capital as enlarged by the subscription, respectively. The new shares rank pari passu with other existing shares in all respects.

(iii) During the year ended 31 December 2016, the Company repurchased 4,926,000 of its own shares listed on the Stock Exchange, which were then all cancelled. The total amount paid to acquire these shares was RMB2,538,000 and deducted from share capital and share premium.

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

## 17. RESERVES

| | Share premium | Capital reserve | Statutory reserve(c) | Retained earnings | Other reserves | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2016** | 460,903 | 390,368 | 77,756 | 772,091 | (14,721) | 1,686,397 |
| Loss for the year | — | — | — | (160,450) | — | (160,450) |
| Net investment hedge (b) | — | — | — | — | (72,052) | (72,052) |
| Currency translation differences (a) | — | — | — | — | 20,972 | 20,972 |
| Issue of ordinary shares (Note16 (ii)) | 175,835 | — | — | — | — | 175,835 |
| Repurchase and cancellation of shares (Note16 (iii)) | (2,122) | — | — | — | — | (2,122) |
| Share option scheme (Note16 (i)) | — | 15,431 | — | — | — | 15,431 |
| Acquisition of additional interest in a subsidiary | — | — | — | — | 3,178 | 3,178 |
| Changes in ownership interests in subsidiaries without change of control (Note 21) | — | — | — | — | 379,034 | 379,034 |
| Recognition of put option (Note 21) | — | — | — | — | (700,000) | (700,000) |
| Disposal of a subsidiary | — | (27,060) | — | — | — | (27,060) |
| Dissolution of a subsidiary | — | — | (856) | — | — | (856) |
| **As at 31 December 2016** | 634,616 | 378,739 | 76,900 | 611,641 | (383,589) | 1,318,307 |
| Profit for the year | — | — | — | 54,495 | — | 54,495 |
| Net investment hedge (b) | — | — | — | — | 72,055 | 72,055 |
| Currency translation differences (a) | — | — | — | — | (43,659) | (43,659) |
| Issue of ordinary shares (Note16 (ii)) | 178,194 | — | — | — | — | 178,194 |
| Share option exercised | 433 | — | — | — | — | 433 |
| Share option scheme (Note16 (i)) | — | 16,490 | — | — | — | 16,490 |
| Termination of put option (Note 21) | — | — | — | — | 715,453 | 715,453 |
| **As at 31 December 2017** | 813,243 | 395,229 | 76,900 | 666,136 | 360,260 | 2,311,768 |

Notes:

(a) Translation reserve

| | **2017** | 2016 |
|---|---|---|
| Items that may be reclassified subsequently to profit or loss: | | |
| At 1 January | **191,596** | 170,624 |
| Currency translation differences | **(43,659)** | 20,972 |
| At 31 December | **147,937** | 191,596 |

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

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

## 17. RESERVES *(Continued)*

Notes: *(Continued)*

(b) Hedging reserve

| | **2017** | 2016 |
|---|---|---|
| Items that may be reclassified subsequently to profit or loss: | | |
| At 1 January | **(126,163)** | (54,111) |
| Net investment hedge | **72,055** | (72,052) |
| At 31 December | **(54,108)** | (126,163) |

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

During the year ended 31 December 2017, a proportion of the Group's US$ denominated long-term bonds amounting to US$241,654,000 (2016: US$196,162,000) has been designated as hedging instrument for the US$ denominated net investment in the Group's overseas subsidiaries. For the year ended 31 December 2017, foreign exchange translation gain of RMB72,055,000 (2016: loss of RMB72,052,000) on the hedging instrument was recognised in other comprehensive income as addition in other reserves.

(c) Statutory reserve

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

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

## 18. LONG-TERM BONDS

| Issue date | Par value | Coupon rate | As at 31 December 2017 | As at 31 December 2016 | Effective interest rate |
|---|---|---|---|---|---|
| 31 October 2013 (a) | US$71 million | 7.50% | **461,588** | 1,694,940 | 8.31% |
| 5 December 2017 (b) | US$300 million | 9.75% | **1,885,824** | — | 11.62% |
| Subtotal | | | **2,347,412** | 1,694,940 | |
| Less: Current portion | | | **(461,588)** | — | |
| | | | **1,885,824** | 1,694,940 | |

Notes:

(a) The Company issued US$250 million 7.50% senior notes at par value on 31 October 2013, in which US$1 million and US$3.75 million were repurchased during the year ended 31 December 2016 and 2017, respectively. In addition to which, US$172.2 million of these senior notes were settled by exchanging with some senior notes (see note(b) below). The bonds mature in 5 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 31 December 2017, interest payable amounted to approximately RMB5.3 million (31 December 2016: RMB19.0 million).

(b) The Company issued US$300 million 9.75% senior notes at discount of par value on 5 December 2017 with direct transaction costs amounting to RMB39,989,000, in which US$176.4 million were arranged to exchange the senior notes issued on 31 October 2013 in the amount of US$172.2 million during the year ended 31 December 2017. The bonds mature in 3 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 31 December 2017, interest payable amounted to approximately RMB13.8 million (31 December 2016: Nil).

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

## 19. BORROWINGS

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2017 Amount** | **2017 Interest Rate** | 2016 Amount | 2016 Interest Rate |
| **Long-term borrowings** | | | | |
| – Secured | | | | |
| – RMB denominated (a) | **177,322** | **5.94%-10.73%** | 151,229 | 5.94% |
| Less: Current portion | **(141,105)** | | (61,723) | |
| | **36,217** | | 89,506 | |
| **Short-term bank borrowings** | | | | |
| – Unsecured | | | | |
| – RMB denominated | **359,000** | **5.22%-6.53%** | 310,000 | 5.22%-6.09% |
| – Secured | | | | |
| – RMB denominated (b) | **441,320** | **5.22%-6.89%** | 429,642 | 5.00%-6.50% |
| **Other short-term borrowings** | | | | |
| – Unsecured | | | | |
| – RMB denominated (c) | **80,000** | **5.66%** | — | |
| | **880,320** | | 739,642 | |

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| The carrying amounts of the above borrowings are repayable: | | |
| – Within one year | **1,021,425** | 801,365 |
| – More than one year but not exceeding two years | **36,217** | 68,105 |
| – More than two years but not exceeding five years | **—** | 21,401 |
| | **1,057,642** | 890,871 |
| Less: Amount due for settlement within one year and shown under current liabilities | **(1,021,425)** | (801,365) |
| Amount due after one year | **36,217** | 89,506 |

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

## 19. BORROWINGS *(Continued)*

Notes:

(a) As at 31 December 2017, secured long-term borrowings of RMB104,322,000 (31 December 2016: RMB151,229,000) represented borrowings from Minsheng Financial Leasing Co., Ltd., a third party, which will mature in 2 (31 December 2016: 3) years, and secured by the Group's equipment with a carrying value of RMB182,573,000 (31 December 2016: RMB197,726,000) (Note 6). Secured long-term borrowings of RMB73,000,000 (31 December 2016: RMB Nil), represented borrowings from banks and secured by the Group's buildings with a carrying value of RMB126,865,000 (Note 6) and prepaid lease payments with a carrying value of RMB18,739,000 respectively (Note 7).

(b) As at 31 December 2017, secured short-term bank borrowings of RMB80,000,000 (31 December 2016: RMB80,000,000) were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd. (北京中關村科技融資擔保有限公司), a third party, and secured by the Group's buildings with a carrying value of RMB28,006,000 (31 December 2016: RMB29,285,000) as counter-guarantee (Note 6). Secured short-term bank borrowings of RMB150,000,000 (31 December 2016: RMB150,000,000) were secured by the Group's buildings with a carrying value of RMB128,279,000 (31 December 2016: secured by the Group's equipment with a carrying value of RMB155,310,000) (Note 6). Secured short-term bank borrowings of RMB181,320,000 (31 December 2016: RMB199,642,000) were secured by the Group's trade receivables amounting to RMB203,369,000 (31 December 2016: RMB221,824,000) (Note 13(b)). Secured short-term bank borrowings of RMB30,000,000 (31 December 2016: RMB Nil) were secured by the restricted bank deposits amounting to RMB30,000,000 (Note 15) (Note 32).

(c) As at 31 December 2017, other unsecured short-term borrowings represented a loan borrowed by Anton Oilfield Services (Group) Co., Ltd. ("Anton Oil") from Beijing Zhongguancun Sci-tech Guaranty Co., Ltd. (北京中關村科技融資擔保有限公司), a third party.

(d) As at 31 December 2017, the undrawn bank borrowing facilities of the Group of approximately RMB261 million (31 December 2016: RMB80 million), with maturity dates up to 25 July 2018 (31 December 2016: 2 June 2017), were unsecured (31 December 2016: RMB50,000,000 secured by the Group's buildings with a carrying value of RMB164,660,000 (Note 6) and prepaid lease payments with a carrying value of RMB27,329,000 (Note 7)).

## 20. TRADE AND NOTES PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Trade payables | | |
| – related parties (Note 36(c)) | **87,796** | 95,757 |
| – others | **453,367** | 401,806 |
| Notes payable | **143,984** | 302,459 |
| | **685,147** | 800,022 |

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Less than 1 year | **559,887** | 715,791 |
| 1 - 2 years | **83,845** | 59,225 |
| 2 - 3 years | **27,582** | 19,491 |
| Over 3 years | **13,833** | 5,515 |
| | **685,147** | 800,022 |

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

## 20. TRADE AND NOTES PAYABLES *(Continued)*

Trade and notes payables were denominated in the following currencies:

| | As at 31 December 2017 | 2016 |
|---|---|---|
| RMB | **496,993** | 717,417 |
| US$ | **86,026** | 82,321 |
| Others | **102,128** | 284 |
| | **685,147** | 800,022 |

## 21. ACCRUALS AND OTHER PAYABLES

| | As at 31 December 2017 | 2016 |
|---|---|---|
| **Current** | | |
| Advance from customers | **20,146** | 16,855 |
| Payroll and welfare payables | **27,750** | 31,852 |
| Taxes other than income taxes payable | **64,247** | 63,364 |
| Payables to equipment venders | **192,601** | 320,703 |
| Dividend payable | **191,753** | 11,753 |
| Interest payable | **23,506** | 24,054 |
| Others | **138,221** | 66,233 |
| | **658,224** | 534,814 |
| **Non-current** | | |
| Liability arising from put option of non-controlling interest (a) | **–** | 715,453 |

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

## 21. ACCRUALS AND OTHER PAYABLES *(Continued)*

Note:

(a) On 16 May 2016, the Company, Anton Oilfield Services Company International Limited ("Anton International") and Anton Oilfield Services DMCC ("DMCC") entered into an agreement with China Oil HBP Science & Technology Co., Ltd. (the "Partner" or "China Oil HBP"), a third party, and Hong Kong Huihua Global Technology Limited (the "Purchaser"), a wholly-owned subsidiary of the Partner, pursuant to which Anton International will transfer 40% interest in DMCC to the Purchaser at a consideration of RMB700,000,000. DMCC was an indirect wholly-owned subsidiary of the Company on the date of disposal. The Group recognised an increase in non-controlling interests by RMB320,966,000 and an increase in equity attributable to owners of the Company of RMB379,034,000.

Pursuant to the agreement signed in 2016, the Purchaser has the right to request Anton International to repurchase the 40% equity interest at the original price with a premium of interest at 10% per annum if DMCC failed to fulfil the profit commitments as prescribed in the agreement ("Repurchase Arrangement"). Therefore the Group recognised a financial liability amounting to RMB700,000,000 by debiting to other reserves as at 31 December 2016, bearing interest at 10% per annum.

During the year, pursuant to the supplemental agreements entered into with the Partner and the Purchaser, both parties agreed to cancel the Repurchase Arrangement. Therefore, the Group derecognised the financial liability together with interest accrued amounting to RMB715,453,000 by crediting to other reserves.

## 22. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

| | **As at 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| Deferred tax assets | **63,743** | 52,334 |
| Deferred tax liabilities | **10,661** | 4,318 |
| | **53,082** | 48,016 |

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

## 22. DEFERRED INCOME TAX *(Continued)*

Deferred tax assets:

| | Taxable losses | Impairment provision of receivables and inventories | Unrealised profit | Total |
|---|---|---|---|---|
| **As at 1 January 2016** | 55,366 | 9,293 | — | 64,659 |
| Debited to the consolidated statement of profit or loss | (8,206) | (4,119) | — | (12,325) |
| **As at 31 December 2016** | 47,160 | 5,174 | — | 52,334 |
| Credited to the consolidated statement of profit or loss | 7,314 | 1,106 | 2,989 | 11,409 |
| **As at 31 December 2017** | 54,474 | 6,280 | 2,989 | 63,743 |

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2017, the Group did not recognise deferred income tax assets of RMB75,996,000 (31 December 2016: RMB61,938,000) in respect of accumulated tax losses and temporary difference amounting to RMB301,581,000 (31 December 2016: RMB225,751,000) that can be carried forward against taxable income as the Group is going to dissolve the subsidiaries or the losses are considered as unrecoverable in 5 years.

Deferred tax liabilities:

| | Fair value adjustment from acquisition of subsidiaries | Withholding tax on investment income | Capitalised borrowing costs | Total |
|---|---|---|---|---|
| **As at 1 January 2016** | 27 | 3,717 | 631 | 4,375 |
| Credited to the consolidated statement of profit or loss | (11) | — | (46) | (57) |
| **As at 31 December 2016** | 16 | 3,717 | 585 | 4,318 |
| Credited to the consolidated statement of profit or loss | (181) | — | (585) | (766) |
| Acquisition of a subsidiary (Note 35) | 7,109 | — | — | 7,109 |
| **As at 31 December 2017** | 6,944 | 3,717 | — | 10,661 |

As at 31 December 2017, deferred income tax liabilities of RMB28,815,000 (31 December 2016: RMB30,407,000) have not been recognised for the withholding tax relating to the unremitted earnings of subsidiaries. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

## 23. REVENUE

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Sales of goods | **113,723** | 250,470 |
| Provision of services | **2,088,979** | 1,367,205 |
| | **2,202,702** | 1,617,675 |

## 24. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Materials and services purchased | **726,523** | 700,999 |
| Staff costs | **377,151** | 371,726 |
| In which: | | |
| – Salaries and other staff expenses | **360,661** | 356,295 |
| – Share-based compensation (Note 16(i)) | **16,490** | 15,431 |
| Depreciation | **217,962** | 207,454 |
| Less: Capitalised in inventories | **16,305** | 24,052 |
| | **201,657** | 183,402 |
| Amortisation | **25,035** | 17,092 |
| Less: Capitalised in inventories | **2,265** | 5,357 |
| | **22,770** | 11,735 |
| In which: | | |
| – Cost of sales | **17,866** | 8,792 |
| – Administrative expenses | **2,857** | 1,715 |
| – Selling expenses | **70** | 41 |
| – Research and development expenses | **1,977** | 1,187 |
| Sales tax and surcharges | **11,145** | 4,553 |
| Auditor's remuneration | | |
| – Audit and related services | **3,900** | 6,030 |
| – Other services | **500** | 950 |
| Other operating expenses | **395,036** | 264,051 |
| In which: | | |
| – Impairment of receivables | **22,838** | 13,064 |
| – Impairment of inventories | **6,989** | 97,481 |
| Total operating cost | **1,738,682** | 1,543,446 |

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

## 25. OTHER GAINS, NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Government grants and subsidies (a) | **5,193** | 14,861 |
| Gains on disposal of a subsidiary (b) | **—** | 62,616 |
| Loss on dissolution of a subsidiary (c) | **—** | (717) |
| Gains on disposal of a joint venture | **—** | 549 |
| Gains on disposal of property, plant and equipment | **1,141** | 2,737 |
| Donation | **—** | (874) |
| Others | **3,340** | (10,205) |
| | **9,674** | 68,967 |

Notes:

(a) Government grants and subsidies of RMB5,193,000 (2016: RMB14,861,000) were received in the current year towards awarding of research and development expenditures. The amounts have been included in other gains for the year.

(b) On 1 March 2016, the Group disposed its 100% equity interests in its subsidiary, Beijing Anton Petroleum Machinery Co., Ltd., to a third party. The Group received cash consideration amounting to RMB77,000,000 and recognised a gain amounting to RMB62,616,000.

(c) On 19 January 2016, Beijing Huarui Mei'er Petroleum Technology Co., Ltd., a wholly-owned subsidiary of the Group, was dissolved and a loss amounting to RMB717,000 was recognised.

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

## 26. FINANCE COSTS, NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Interest expenses | | |
| – on bank borrowings | **(61,010)** | (48,776) |
| – on bonds | **(148,467)** | (140,697) |
| – on put option of non-controlling interest | **—** | (15,453) |
| Exchange (loss)/gain, net | **(42,207)** | 34,939 |
| Others | **(19,947)** | (5,900) |
| Finance expenses | **(271,631)** | (175,887) |
| Interest income | **3,759** | 2,508 |
| | **(267,872)** | (173,379) |

## 27. STAFF COSTS

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Wages, salaries and allowances | **309,154** | 295,035 |
| Housing subsidies (a) | **11,812** | 6,753 |
| Contributions to pension plans (b) | **21,700** | 23,390 |
| Share option costs | | |
| – equity settled share-based payment (Note 16(i)) | **16,490** | 15,431 |
| Welfare and other expenses | **17,995** | 31,117 |
| | **377,151** | 371,726 |

Notes:

(a) Housing subsidies mainly include the Group's contributions to government-sponsored housing funds, at rates ranging from 5% to 12% of the employees' salaries for the Group's Chinese employees in the PRC.

(b) This represents the Group's contributions to defined contribution plans or schemes organised by relevant government authorities or authorised entities in accordance with the requirements in the locations where the Group operates.

The Group has no other material obligations for the payment of pensions and other post-retirement benefits of employees or retirees other than those disclosed above.

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

## 27. STAFF COSTS *(Continued)*

Notes: *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2016: two) Directors whose emoluments are reflected in the analysis shown in Note 40. The emolument payable to the other three (2016: three) individuals during the year were as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Basic salaries, housing allowances, other allowances and benefits-in-kind | **5,983** | 4,637 |
| Contributions to pension schemes | **152** | 143 |
| | **6,135** | 4,780 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2017** | 2016 |
| Emoluments bands | | |
| HK$1,000,001 - HK$1,500,000 | **—** | 1 |
| HK$1,500,001 - HK$2,000,000 | **1** | 2 |
| HK$2,500,001 - HK$3,000,000 | **2** | — |
| | **3** | 3 |

(d) During the years ended 31 December 2017 and 2016, no Directors or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the Directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

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

## 28. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Current income tax | | |
| – PRC enterprise income tax | **2,512** | 2,734 |
| – Iraq corporate income tax | **41,659** | 51,869 |
| – Others | **1,651** | 210 |
| Deferred income tax (Note 22) | **(12,175)** | 12,268 |
| | **33,647** | 67,081 |

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

PRC enterprise income tax ("EIT") is provided on the basis of estimated taxable profits of PRC established subsidiaries at applicable tax rate of 25% in 2017 (2016: 25%), based on the relevant PRC tax laws and regulations, except for certain subsidiaries which are taxed at preferential tax rates of 15% and 12.5%. These subsidiaries have been granted a preferential rate of 15% as high technology enterprises or as enterprises set up in western area of the PRC. Certain entities are qualified for a tax holiday of 2-year exemption and 3-year 50% reduction, pursuant to Caishui [2008] No.1.

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.

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

## 28. INCOME TAX EXPENSE *(Continued)*

The taxation of the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using applicable tax rates of the Group companies as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Profit/(loss) before income tax | **204,921** | (30,591) |
| Tax calculated at applicable tax rates | **22,311** | 21,577 |
| Income not subject to taxation | **(2,718)** | (2,000) |
| Expenses not deductible for taxation purposes | **1,143** | 1,828 |
| Additional deduction of research and development expense | **(1,583)** | (799) |
| Tax losses and deductible temporary difference for which no deferred income tax was recognised | **35,387** | 34,000 |
| Utilisation of unused deductible tax losses previously not recognised as deferred income tax | **(105)** | — |
| Reversal of the deferred income tax assets from prior years | **—** | 12,325 |
| Recognition of the deferred income tax assets for unused deductible tax losses from prior years | **(21,224)** | — |
| Share of loss of a joint venture | **135** | 61 |
| Others | **301** | 89 |
| | **33,647** | 67,081 |

## 29. EARNINGS/(LOSS) PER SHARE

### (a) Basic

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Profit/(loss) attributable to equity holders of the Company (RMB'000) | **54,495** | (160,450) |
| Weighted average number of ordinary shares in issue (thousands of shares) | **2,644,785** | 2,227,365 |
| Basic earnings/(loss) per share (expressed in RMB per share) | **0.0206** | (0.0720) |

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

## 29. EARNINGS/(LOSS) PER SHARE *(Continued)*

### (b) Diluted

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

For the year ended 31 December 2017, the only dilutive factor of the Company was the outstanding share options. For the purpose of calculating diluted earnings per share, the Company assumed the outstanding share options had been exercised upon the grant dates of the options. Meanwhile, a calculation is made in order to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options, which are deducted from the total number of outstanding share options to determine the number of diluted shares deemed to be issued at no consideration.

For the year ended 31 December 2016, the Group made loss and therefore the effect of share option was anti-dilutive and is ignored from the calculation of diluted loss per share. The diluted loss per share is calculated in the same way with basic loss per share.

| | **Year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| Profit/(loss) attributable to equity holders of the Company (RMB'000) | **54,495** | (160,450) |
| Weighted average number of ordinary shares in issue (thousands of shares) | **2,644,785** | 2,227,365 |
| Adjustments for assumed conversion of share options (thousands of shares) | **9,456** | — |
| Weighted average number of ordinary shares for computation of diluted earnings/(loss) per share (thousands of shares) | **2,654,241** | 2,227,365 |
| Diluted earnings/(loss) per share (expressed in RMB per share) | **0.0205** | (0.0720) |

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

## 30. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

## 31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Profit/(loss) for the year | **171,274** | (97,672) |
| Adjustments for: | | |
| Property, plant and equipment | | |
| – Depreciation charge | **201,657** | 183,402 |
| – Gain on disposals | **(1,141)** | (2,737) |
| Amortisation of prepaid lease payments of land and intangible assets | **22,770** | 11,735 |
| Amortisation of long-term lease prepayments of buildings | **4,923** | 5,255 |
| Addition of impairment of receivables | **22,838** | 13,064 |
| Addition of impairment of inventories | **6,989** | 97,481 |
| Disposal of a joint venture | **—** | (549) |
| Charge of share option scheme | **16,490** | 15,431 |
| Gain on disposal of a subsidiary | **—** | (62,616) |
| Loss on dissolution of a subsidiary | **—** | 717 |
| Share of loss of a joint venture | **901** | 408 |
| Gains on acquisition of a subsidiary | **(121)** | — |
| Net foreign exchange loss/(gain) | **42,207** | (34,939) |
| Interest income | **(3,759)** | (2,508) |
| Interest expenses on put option | **—** | 15,453 |
| Interest expenses on bank borrowings and bonds | **209,477** | 189,473 |
| Income tax expense | **33,647** | 67,081 |
| Changes in working capital: | | |
| – Inventories | **120,270** | (13,072) |
| – Trade and notes receivables | **(486,556)** | (132,969) |
| – Prepayments and other receivables and value-added tax recoverable | **(129,620)** | 34,406 |
| – Trade and notes payables | **(119,700)** | 169,145 |
| – Accruals and other payables | **131,506** | (84,236) |
| – Restricted bank deposits | **(3,810)** | (223,079) |
| Net cash inflows from operations | **240,242** | 148,674 |

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

## 32. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Borrowings Note 19 | Long-term bonds Note 18 | Accruals and other payables Note 21 | Prepayments and other receivables Note 36(c)/ Note 14 | Non-current assets Note 11 | Restricted bank deposits Note 19(b) | Total |
|---|---|---|---|---|---|---|---|
| As at 1 January 2017 | 890,871 | 1,694,940 | 24,054 | (358,842) | — | — | 2,251,023 |
| Financing cash flows | 75,022 | 754,477 | (177,946) | 343,000 | (300,000) | (30,000) | 664,553 |
| Acquisition of a subsidiary | 74,000 | — | — | — | — | — | 74,000 |
| Currency translation differences | — | (98,334) | — | — | 771 | — | (97,563) |
| Interest expenses | 1,667 | 23,287 | 177,398 | 7,125 | — | — | 209,477 |
| Other changes (a) | 16,082 | (26,958) | 24,876 | (14,000) | — | — | — |
| As at 31 December 2017 | 1,057,642 | 2,347,412 | 48,382 | (22,717) | (299,229) | (30,000) | 3,101,490 |

Note:

(a) Other changes mainly represent other increase or decrease of those assets and liabilities arising from financing.

## 33. COMMITMENTS

### (a) Capital commitments

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

| | As at 31 December 2017 | 2016 |
|---|---|---|
| Contracted but not provided for | **23,496** | 27,546 |

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

## 33. COMMITMENTS *(Continued)*

### (b) Operating lease commitments - where the Group as lessee

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

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| No later than 1 year | **6,174** | 6,673 |
| 1 to 5 years | **25,219** | 24,311 |
| Over 5 years | **—** | 5,993 |
| | **31,393** | 36,977 |

## 34. FINANCIAL RISK MANAGEMENT

### 34.1 Categories of financial instruments

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Financial assets | | |
| Cash and cash equivalents | **1,133,097** | 507,263 |
| Term deposits with initial terms of over three months | **—** | 11,011 |
| Restricted bank deposits | **415,135** | 381,325 |
| Loans and receivables | | |
| – Trade and notes receivables | **1,760,358** | 1,297,995 |
| – Included in prepayments and other receivables | **270,587** | 499,911 |
| | **3,579,177** | 2,697,505 |

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Financial liabilities | | |
| Loans and payables | | |
| – Trade and notes payables | **685,147** | 800,022 |
| – Included in accruals and other payables | **594,816** | 1,180,533 |
| – Borrowings | **1,057,642** | 890,871 |
| Long-term bonds | **2,347,412** | 1,694,940 |
| | **4,685,017** | 4,566,366 |

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### 34.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses non-derivative financial instruments (part of US$ denominated long-term bonds) (Note 17(b)) to hedge certain foreign currency risk exposure.

#### (a) Market risk

*(i) Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, while the Group also has purchases from and sales to overseas parties. During the year ended 31 December 2017, the Group developed its businesses overseas with most of the transactions denominated and settled in US$. Foreign exchange risk also arise from certain bank deposits and borrowings denominated in US$. The Group is exposed to foreign currency exchange risk primarily with respect to US$.

As at 31 December 2017, if RMB had strengthened/weakened by 3% against the US$ with all other variables held constant, profit after income tax for the year would have been RMB19,885,000 higher/lower and equity reserves would have been RMB6,664,000 lower/higher, mainly as a result of foreign exchange gains/losses on translation of US$-denominated cash and bank, trade and other receivables, trade and other payables, long-term bonds and net investment hedge of foreign operations.

As at 31 December 2016, if RMB had strengthened/weakened by 3% against the US$ with all other variables held constant, loss after income tax for the year would have been RMB25,220,000 lower/higher and equity reserves would have been RMB10,497,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US$-denominated cash and bank, trade and other receivables, trade and other payables, long-term bonds and net investment hedge of foreign operations.

*(ii) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from long-term bonds, long-term borrowings and short-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Long-term bonds obtained at fixed rates expose the Group to fair value interest rate risk.

Based on the balance of floating interest borrowings as at 31 December 2017, if interest rates on these borrowings for the year had been higher/lower by 100 basis points, profit before income tax for the year would have been RMB10,576,000 lower/higher.

Based on the balance of floating interest borrowings as at 31 December 2016, if interest rates on these borrowings for the year had been higher/lower by 100 basis points, loss before income tax for the year would have been RMB6,390,000 higher/lower.

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

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### 34.2 Financial risk factors *(Continued)*

#### (b) Credit risk

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

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

#### (c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated primarily from operating and financing activities.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the end of the financial period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**31/12/2017**

| | Weighted average interest rate | On demand or less than 1 year | 1-5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trade and notes payables | – | 685,147 | – | 685,147 | 685,147 |
| Included in accruals and other payables | – | 594,816 | – | 594,816 | 594,816 |
| Short-term borrowings | 6.020% | 908,415 | – | 908,415 | 880,320 |
| Long-term borrowings | 7.346% | 148,693 | 37,292 | 185,985 | 177,322 |
| Long-term bonds | 9.308% | 672,458 | 2,342,511 | 3,014,969 | 2,347,412 |
| | | 3,009,529 | 2,379,803 | 5,389,332 | 4,685,017 |

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

# 34. FINANCIAL RISK MANAGEMENT *(Continued)*

## 34.2 Financial risk factors *(Continued)*

### (c) Liquidity risk *(Continued)*

**31/12/2016**

| | Weighted average interest rate | On demand or less than 1 year | 1-5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trade and notes payables | — | 800,022 | — | 800,022 | 800,022 |
| Included in accruals and other payables | — | 465,080 | 715,453 | 1,180,533 | 1,180,533 |
| Short-term borrowings | 5.767% | 763,696 | — | 763,696 | 739,642 |
| Long-term borrowings | 5.940% | 73,273 | 95,909 | 169,182 | 151,229 |
| Long-term bonds | 7.500% | 120,294 | 1,724,213 | 1,844,507 | 1,694,940 |
| | | 2,222,365 | 2,535,575 | 4,757,940 | 4,566,366 |

## 34.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include borrowings, bonds and trade and notes payables, as shown in the consolidated statement of financial position. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus total borrowings.

The gearing ratios at 31 December 2017 and 2016 were as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| Total borrowings | **4,090,201** | 3,385,833 |
| Total equity | **2,946,992** | 1,976,897 |
| Total capital | **7,037,193** | 5,362,730 |
| Gearing ratio | **58%** | 63% |

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

## 34. FINANCIAL RISK MANAGEMENT *(Continued)*

### 34.4 Fair value estimation

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

#### Financial liabilities

| **As at 31 December 2017** | **Carrying value** | **Fair value** |
|---|---|---|
| Long-term borrowings (non-current) | **36,217** | **35,201** |
| Long-term bonds (non-current) | **1,885,824** | **1,901,931** |
| | **1,922,041** | **1,937,132** |

| **As at 31 December 2016** | Carrying value | Fair value |
|---|---|---|
| Long-term borrowings (non-current) | 89,506 | 82,432 |
| Long-term bonds (non-current) | 1,694,940 | 1,932,902 |
| | 1,784,446 | 2,015,334 |

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

## 35. ACQUISITION OF A SUBSIDIARY

On 31 March 2017, the Group transferred its entire equity interest in Anton New Material (Suining) Co., Ltd., a wholly-owned subsidiary of the Group, together with cash of RMB37,360,000 and a waiver of long-term lease prepayments to Suining Anzheng Investment Co., Ltd. ("Sichuan Anzheng") of RMB46,000,000 (recorded in "other non-current assets"), in exchange for 80% equity interest in Sichuan Anzheng, an entity wholly owned by Sichuan Anzheng Education Consulting Services Co., Ltd.. Sichuan Anzheng is engaged in investment with land, industrial and commercial building and was acquired so as to support the Group's development of operations in southwest region.

### Consideration transferred

| | |
|---|---|
| Carrying amount of 100% equity of a wholly-owned subsidiary (Note) | 33,871 |
| Waiver of long-term lease prepayments to Sichuan Anzheng | 46,000 |
| Cash as consideration paid | 37,360 |
| | 117,231 |

Acquisition-related costs amounting to RMB301,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses line item in the consolidated statement of profit or loss.

Note: analysis of assets and liabilities over which control was lost

| | |
|---|---|
| Property, plant and equipment (Note 6) | 90,684 |
| Intangible assets (Note 9) | 984 |
| Prepayments and other receivable | 23,317 |
| Inventories | 29,558 |
| Trade and notes receivables | 1,355 |
| Cash and cash equivalents | 1,863 |
| Trade and notes payables | (6,122) |
| Accruals and other payables | (107,768) |
| Net assets disposed of | 33,871 |

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

## 35. ACQUISITION OF A SUBSIDIARY *(Continued)*

### Consideration transferred *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | |
|---|---|
| **Current assets:** | |
| Cash and cash equivalents | 190 |
| Prepaid lease payments (Note 7) | 841 |
| Prepayments and other receivables | 20,913 |
| **Non-current assets:** | |
| Property, plant and equipment (Note 6) | 220,247 |
| Prepaid lease payments (Note 7) | 32,408 |
| **Current liabilities:** | |
| Accruals and other payables | (46,800) |
| Current portion of long-term borrowings | (46,000) |
| **Non-current liabilities:** | |
| Long-term borrowings | (28,000) |
| Deferred tax liabilities (Note 22) | (7,109) |
| **Net assets** | 146,690 |
| Non-controlling interests | (29,338) |
| | 117,352 |

The fair value of property, plant and equipment and prepaid lease payments at the date of acquisition amounted to RMB220,247,000 and RMB33,249,000, respectively. Deferred tax liabilities of RMB7,109,000 has been provided in relation to these fair value adjustments.

### Non-controlling interests

The non-controlling interest (20%) in Sichuan Anzheng recognised at the acquisition date was measured by reference to the proportion sharing of the fair value of the net assets of Sichuan Anzheng and amounted to RMB29,338,000. The fair value was estimated by applying the cost and market value approaches.

### Other gains arising on acquisition

| | |
|---|---|
| Consideration transferred | 117,231 |
| Less: recognised amount of identifiable net assets acquired | (117,352) |
| Other gains on acquisition | (121) |

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

## 35. ACQUISITION OF A SUBSIDIARY *(Continued)*

### Net cash outflow arising on acquisition

| | |
|---|---|
| Purchase consideration | 37,360 |
| Plus: cash and cash equivalent balances disposed of | 1,863 |
| Less: Consideration payable at 31 December 2017 | (1,000) |
| Less: cash and cash equivalent balances acquired | (190) |
| | 38,033 |

Included in the profit for the year ended 31 December 2017 is RMB14,884,000 loss attributable to the additional business generated by Sichuan Anzheng. Revenue for the year ended 31 December 2017 includes RMB1,228,000 generated from Sichuan Anzheng.

Had the acquisition been completed on 1 January 2017, total Group revenue for the year would have been RMB2,203,122,000, and profit for the year would have been RMB166,092,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group had Sichuan Anzheng been acquired at the beginning of the current year, the Directors have:

- calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and
- determined borrowings costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

## 36. RELATED PARTY TRANSACTIONS

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

### (a) The following companies are related parties of the Group during the year ended 31 December 2017:

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

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

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

## 36. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Transactions with related parties

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| **Purchases of goods or services** | | |
| Nanhai Magcobar | **—** | 12,361 |
| SLB China | **47,037** | 44,179 |
| Smith Drilling | **4,923** | 3,195 |
| SLB Chengdu | **4,360** | 901 |
| HBP Beijing | **—** | 13,094 |
| SMITH KZ | **—** | 5,883 |
| SLB Tech | **—** | 1,886 |
| Xinjiang PengAn | **184** | — |
| | **56,504** | 81,499 |
| **Sales of goods** | | |
| SLB China | **323** | 157 |
| Xinjiang PengAn | **—** | 8,295 |
| SLB Shandong | **—** | 392 |
| SLB Chengdu | **—** | 13 |
| China Oil HBP | **25,053** | — |
| HBP Beijing | **70** | — |
| SCP | **8,280** | — |
| | **33,726** | 8,857 |

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

## 36. RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Balances with related parties

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| **Trade and notes receivables** (Note 13) | | |
| SLB China | **834** | 634 |
| SLB Chengdu | **9** | — |
| Xinjiang PengAn | **2,619** | 5,618 |
| SCP | **8,640** | — |
| | **12,102** | 6,252 |
| **Trade and notes payables** (Note 20) | | |
| Nanhai Magcobar | **14,008** | 17,970 |
| SLB China | **38,628** | 59,571 |
| SLB Beijing | **262** | 262 |
| Smith Drilling | **58** | 3,406 |
| SLB Chengdu | **68** | 1,454 |
| HBP Beijing | **13,094** | 13,094 |
| SMITH KZ | **21,494** | — |
| Xinjiang PengAn | **184** | — |
| | **87,796** | 95,757 |
| **Prepayments and other receivables** (Note 14) | | |
| SLB Chengdu | **—** | 13 |
| Xinjiang PengAn | **—** | 479 |
| SLB Tech | **1,867** | 1,982 |
| China Oil HBP (Note 32) | **—** | 343,000 |
| SCP | **2,622** | — |
| | **4,489** | 345,474 |
| **Other non-current assets** (Note 11) | | |
| China Oil HBP | **299,229** | — |
| **Accruals and other payables** (Note 21) | | |
| SLB FZE | **1,762** | 6,947 |
| China Oil HBP | **195,200** | 715,453 |
| Smith Drilling | **2,300** | — |
| | **199,262** | 722,400 |

Balances with related parties were unsecured, non-interest bearing and had no fixed repayment terms except for payable to China Oil HBP as at 31 December 2016, which was secured by Anton International, bearing interest rate at 10% per annum and had a repayment term of three years.

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

## 36. RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Key management compensation

| | Year ended 31 December 2017 | 2016 |
|---|---|---|
| Salaries and other short-term employee benefits | **15,841** | 16,641 |
| Pension scheme | **403** | 471 |
| Share-based payments | **3,489** | 4,579 |
| | **19,733** | 21,691 |

## 37. SUBSIDIARIES

### (a) The following is a list of principal subsidiaries in which the Company directly or indirectly holds equity interests as at 31 December 2017:

| Company name | Place and date of incorporation/ establishment | Registered capital | Equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| **Directly held:** | | | | |
| Anton Oilfield Services Company Limited | Hong Kong, 17 August 2007 | HK$100 | 100% | Investment holding |
| Anton International | Hong Kong, 17 July 2008 | HK$100 | 100% | Investment holding |
| **Indirectly held:** | | | | |
| Anton Oil | Beijing, the PRC, 28 January 2002 | US$151,000,000 | 100% | Oilfield services and sales of equipment |
| Xinjiang Tong'ao Oilfield Services Co., Ltd. (新疆通奧油田技術服務有限公司, "Xinjiang Tong'ao") | Xinjiang Uygur Autonomous Region, the PRC, 21 February 2002 | RMB51,000,000 | 100% | Oilfield services |

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

## 37. SUBSIDIARIES *(Continued)*

### (a) The following is a list of principal subsidiaries in which the Company directly or indirectly holds equity interests as at 31 December 2017: *(Continued)*

| Company name | Place and date of incorporation/ establishment | Registered capital | Equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| Anton Tong'ao Technological Products Co., Limited ("Anton Tong'ao") | Xinjiang Uygur Autonomous Region, the PRC, 15 December 2005 | RMB90,000,000 | 90% | Manufacturing of rod casing |
| Shandong Precede | Shandong Province, the PRC, 2 September 2008 | RMB22,000,000 | 100% | Oilfield services and sales of equipment |
| Anton International FZE ("Anton Dubai") | The United Arab Emirates, 12 April 2009 | US$7,300,000 | 100% | Oilfield services |
| Sichuan Anton Oil Gas Engineering and Technology Services Co., Ltd. (四川安東油氣工程技術服務有限公司,"Sichuan Anton") | Sichuan Province, the PRC, 14 July 2009 | RMB400,000,000 | 100% | Oilfield services and sales of equipment |
| DMCC | The United Arab Emirates, 28 March 2011 | US$54,462,150 | 60% | Oilfield services |
| Sichuan Tongsheng Drilling Technology Co., Ltd. (四川通盛鑽探工程有限公司, "Sichuan Tongsheng") | Sichuan Province, the PRC, 13 February 2012 | RMB50,000,000 | 100% | Construction and drilling services, sales of drilling product |
| Xinjiang Anton Oilfield Services Co., Ltd. (新疆安東石油技術服務有限責任公司, "Xinjiang Anton") | Xinjiang Uygur Autonomous Region, the PRC, 24 February 2012 | RMB80,000,000 | 100% | Oilfield services |

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

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

## 37. SUBSIDIARIES *(Continued)*

### (b) Material non-controlling interests

The total non-controlling interest as at 31 December 2017 was RMB388,953,000 (31 December 2016: RMB432,012,000), of which RMB301,622,000 was attributable to DMCC (31 December 2016: RMB396,557,000) and RMB34,828,000 (31 December 2016: RMB33,712,000) was attributable to Anton Tong'ao. The non-controlling interests in respect of other subsidiaries are not material.

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

#### Summarised statement of financial position

| | **DMCC As at 31 December** | | **Anton Tong'ao As at 31 December** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Current | | | | |
| Assets | **3,431,074** | 2,789,353 | **673,603** | 471,540 |
| Liabilities | **(3,022,156)** | (1,987,920) | **(681,865)** | (483,741) |
| Total net current assets/(liabilities) | **408,918** | 801,433 | **(8,262)** | (12,201) |
| Non-current | | | | |
| Assets | **661,364** | 495,136 | **356,570** | 349,319 |
| Liabilities | **—** | — | **(26)** | — |
| Total non-current net assets | **661,364** | 495,136 | **356,544** | 349,319 |
| Net assets | **1,070,282** | 1,296,569 | **348,282** | 337,118 |
| Net assets attributable to non-controlling interests | **301,622** | 396,557 | **34,828** | 33,712 |

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

## 37. SUBSIDIARIES *(Continued)*

### (b) Material non-controlling interests *(Continued)*

#### Summarised statement of profit or loss and other comprehensive income

| | DMCC Year ended 31 December | | Anton Tong'ao Year ended 31 December | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Revenue | **1,027,541** | 1,180,020 | **237,912** | 203,138 |
| Profit before income tax | **388,871** | 379,176 | **13,306** | 10,660 |
| Income tax expense | **(60,124)** | (51,869) | **(2,142)** | (2,906) |
| Post-tax profit | **328,747** | 327,307 | **11,164** | 7,754 |
| Other comprehensive (expense)/income | **(87,501)** | 129,706 | **—** | — |
| Total comprehensive income | **241,246** | 457,013 | **11,164** | 7,754 |
| Total comprehensive income attributable to non-controlling interests | **85,065** | 75,591 | **1,116** | 775 |
| Dividends paid to non-controlling interests | **180,000** | — | **—** | — |

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

## 37. SUBSIDIARIES *(Continued)*

### (b) Material non-controlling interests *(Continued)*

#### Summarised statement of cash flows

| | DMCC Year ended 31 December | | Anton Tong'ao Year ended 31 December | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Cash flows from operating activities | | | | |
| Cash generated from operations | **60,426** | 128,406 | **45,446** | 60,382 |
| Income tax paid | **(42,876)** | (44,404) | **(1,544)** | (3,474) |
| Net cash generated from operating activities | **17,550** | 84,002 | **43,902** | 56,908 |
| Net cash used in investing activities | **(292,392)** | (70,939) | **(19,460)** | (63,496) |
| Net cash used in financing activities | **—** | — | **(2,815)** | (3,021) |
| Net (decrease)/increase in cash and cash equivalents | **(274,842)** | 13,063 | **21,627** | (9,609) |
| Cash and cash equivalents at beginning of year | **256,357** | 233,287 | **8,030** | 17,380 |
| Exchange gain/(loss) on cash and cash equivalents | **58,249** | 10,007 | **(15)** | 259 |
| Cash and cash equivalents at end of year | **39,764** | 256,357 | **29,642** | 8,030 |

The information above is the amount before inter-company eliminations.

## 38. EVENTS AFTER THE REPORTING PERIOD

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

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

Anton International paid the first installation of the acquisition consideration of RMB300,000,000 to Huihua in accordance with the terms of the agreement on 15 December 2017. The acquisition is subject to the approval by the Stock Exchange and the shareholders at the extraordinary shareholders' meeting to be held in 2018. As of the date of issuance of these consolidated financial statements, the transaction has not been completed.

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

## 39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Assets | | |
| Investments in subsidiaries | **5,590,534** | 5,147,843 |
| | **5,590,534** | 5,147,843 |
| Current assets | | |
| Trade and notes receivables | **47,887** | 50,833 |
| Prepayments and other receivables | **117,346** | 1,372 |
| Cash and cash equivalents | **123,651** | 49,957 |
| | **288,884** | 102,162 |
| Total assets | **5,879,418** | 5,250,005 |
| Equity and liabilities | | |
| Equity | | |
| Share capital | **246,271** | 226,578 |
| Other reserves (a) | **2,924,949** | 2,850,555 |
| Total equity | **3,171,220** | 3,077,133 |
| Liabilities | | |
| Non-current liabilities | | |
| Long-term bonds | **1,885,824** | 1,694,940 |
| Current liabilities | | |
| Current portion of long-term bonds | **461,588** | — |
| Accruals and other payables | **360,786** | 477,932 |
| | **822,374** | 477,932 |
| Total liabilities | **2,708,198** | 2,172,872 |
| Total equity and liabilities | **5,879,418** | 5,250,005 |

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

## 39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Note:

(a) Reserve movements of the Company

| | Share premium | Capital reserve | Accumulated losses | Total |
|---|---|---|---|---|
| **At 1 January 2016** | 460,903 | 2,990,278 | (547,390) | 2,903,791 |
| Loss for the year | — | — | (242,380) | (242,380) |
| Share option scheme | — | 15,431 | — | 15,431 |
| Issue of ordinary shares | 175,835 | — | — | 175,835 |
| Repurchase and cancellation of shares | (2,122) | — | — | (2,122) |
| **At 31 December 2016** | 634,616 | 3,005,709 | (789,770) | 2,850,555 |
| **At 1 January 2017** | **634,616** | **3,005,709** | **(789,770)** | **2,850,555** |
| Loss for the year | **—** | **—** | **(120,723)** | **(120,723)** |
| Share option scheme | **—** | **16,490** | **—** | **16,490** |
| Issue of ordinary shares | **178,194** | **—** | **—** | **178,194** |
| Share option exercised | **433** | **—** | **—** | **433** |
| **At 31 December 2017** | **813,243** | **3,022,199** | **(910,493)** | **2,924,949** |

## 40. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017:

| Name | Fees | Salary | Discretionary bonuses | Housing allowance | Estimated money value of other benefits (i) | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Mr. Luo Lin | – | 2,385 | 193 | – | 32 | 51 | – | – | 2,661 |
| Mr. Pi Zhifeng (chief executive) | – | 2,020 | 156 | – | 64 | 51 | – | – | 2,291 |
| Mr. Wu Di | – | 844 | 107 | – | 61 | 48 | – | – | 1,060 |
| **Non-executive Directors** | | | | | | | | | |
| Mr. John William Chisholm | – | 674 | – | – | – | – | – | – | 674 |
| **Independent Non-executive Directors** | | | | | | | | | |
| Mr. Zhang Yongyi (iii) | 287 | – | – | – | – | – | – | – | 287 |
| Mr. Zhu Xiaoping (iii) | 287 | – | – | – | – | – | – | – | 287 |
| Dato Wee Yiaw Hin (ii) (iii) | 462 | – | – | – | – | – | – | – | 462 |

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

## 40. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (a) Directors' and chief executive's emoluments *(Continued)*

The remuneration of every director and the chief executive is set out below: *(Continued)*

For the year ended 31 December 2016:

| Name | Fees | Salary | Discretionary bonuses | Housing allowance | Estimated money value of other benefits (i) | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Mr. Luo Lin | – | 3,351 | – | – | 35 | 57 | – | – | 3,443 |
| Mr. Pi Zhifeng (chief executive) | – | 1,664 | – | – | 59 | 47 | – | – | 1,770 |
| Mr. Wu Di | – | 750 | 98 | – | 55 | 43 | – | – | 946 |
| **Non-executive Directors** | | | | | | | | | |
| Mr. John William Chisholm | – | 104 | – | – | – | – | – | – | 104 |
| **Independent Non-executive Directors** | | | | | | | | | |
| Mr. Zhang Yongyi (iii) | 299 | – | – | – | – | – | – | – | 299 |
| Mr. Zhu Xiaoping (iii) | 299 | – | – | – | – | – | – | – | 299 |
| Mr. Wang Mingcai (ii) (iii) | 299 | – | – | – | – | – | – | – | 299 |

Notes:

(i) Other benefits include other insurance premium.

(ii) Mr. Wang Mingcai resigned in April 2017 and Dato Wee Yiaw Hin was appointed as an independent non-executive director on 19 April 2017.

(iii) 2,100,000 share options in aggregate were granted to three independent non-executive directors during the year ended 31 December 2017 (2016: 2,700,000 share options), and the total expense recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 amounted to RMB1,227,000, including RMB560,000 each for Mr. Zhang Yongyi and Mr. Zhu Xiaoping and RMB107,000 for Dato Wee Yiaw Hin (31 December 2016: RMB1,712,000 in total and the same amount for each then independent non-executive director) which are not included in this summary.