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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

Revenue of the Group rose 5.2% from RMB1,057.0 million in the same period of 2013 to RMB1,112.4 million in the first half of 2014. Profit attributable to equity holders of the Company decreased by 83.3% from RMB164.2 million in the same period of 2013 to RMB27.4 million in the first half of 2014.

RESULTS

The board of directors (the "Board") of Anton Oilfield Services Group (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2014 (hereinafter referred to as "the first half of the year", "during the period under review" or "during the reporting period") with comparative figures for the corresponding period in 2013, as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 JUNE 2014
(Amounts expressed in thousands of RMB)

	Note	**As at 30 June 2014** ***(Unaudited)***	As at 31 December 2013 *(Audited)*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,871,434**	1,601,686
Land use rights		**50,505**	22,021
Intangible assets		**380,387**	375,440
Investment in joint ventures		**19,049**	16,776
Other non-current assets		**131,240**	60,002
Deferred income tax assets		**23,599**	25,029
		2,476,214	2,100,954
Current assets			
Inventories		**603,986**	540,707
Trade and notes receivables	5	**1,642,459**	1,332,294
Prepayments and other receivables		**247,442**	191,328
Restricted bank deposits		**41,904**	32,414
Term deposits with initial terms of over three months		**3,000**	—
Cash and cash equivalents		**1,042,535**	1,770,155
		3,581,326	3,866,898
Total assets		**6,057,540**	5,967,852

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 JUNE 2014

(Amounts expressed in thousands of RMB)

	Note	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**206,855**	202,983
Reserves			
- Proposed final dividend		**—**	119,953
- Others		**2,057,929**	1,959,739
		2,264,784	2,282,675
Non-controlling interests		**103,884**	92,622
Total equity		**2,368,668**	2,375,297
LIABILITIES			
Non-current liabilities			
Long-term bonds		**1,999,931**	1,982,596
Deferred income tax liabilities		**2,386**	1,709
		2,002,317	1,984,305
Current liabilities			
Short-term borrowings		**430,933**	395,875
Current portion of other long-term payables		**241**	3,414
Trade and notes payables	6	**713,301**	703,878
Accruals and other payables		**496,297**	449,118
Current income tax liabilities		**45,783**	55,965
		1,686,555	1,608,250
Total liabilities		**3,688,872**	3,592,555
Total equity and liabilities		**6,057,540**	5,967,852
Net current assets		**1,894,771**	2,258,648
Total assets less current liabilities		**4,370,985**	4,359,602

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts expressed in thousands of RMB except per share data)

		Six months ended 30 June	
		2014	2013
	Note	***(Unaudited)***	*(Unaudited)*
Revenue	7	**1,112,359**	1,057,002
Cost of sales		**(691,193)**	(591,925)
Gross Profit		**421,166**	465,077
Other gains, net		**2,868**	12,144
Selling expenses		**(82,923)**	(81,357)
Administrative expenses		**(137,663)**	(119,747)
Research and development expenses		**(22,832)**	(32,049)
Sales tax and surcharges		**(11,607)**	(10,089)
Operating profit	8	**169,009**	233,979
Interest income	9	**11,235**	743
Finance expenses	9	**(100,047)**	(21,974)
Finance costs, net	9	**(88,812)**	(21,231)
Share of loss of joint ventures		**(5,053)**	(5,688)
Profit before income tax		**75,144**	207,060
Income tax expense	10	**(43,077)**	(37,358)
Profit for the period		**32,067**	169,702
Profit attributable to:			
Equity holders of the Company		**27,395**	164,228
Non-controlling interests		**4,672**	5,474
		32,067	169,702
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
- basic	11	**0.0125**	0.0765
- diluted	11	**0.0123**	0.0741
Dividends	12	**—**	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(Amounts expressed in thousands of RMB)

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
Profit for the period	**32,067**	169,702
Other comprehensive income/(loss), net of tax:		
Items that may be reclassified to profit or loss		
Currency translation differences	**4,942**	(7,614)
Other comprehensive income/(loss) for the period, net of tax	**4,942**	(7,614)
Total comprehensive income for the period	**37,009**	162,088
Total comprehensive income attributable to:		
Equity holders of the Company	**32,337**	156,614
Non-controlling interests	**4,672**	5,474
	37,009	162,088

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts expressed in thousands of RMB)

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(433,553)**	(2,525)
Net cash used in investing activities	**(229,465)**	(216,547)
Net cash (used in)/generated from financing activities	**(58,979)**	69,623
Net decrease in cash and cash equivalents	**(721,997)**	(149,449)
Cash and cash equivalents, at beginning of the period	**1,770,155**	523,378
Exchange loss on cash and cash equivalents	**(5,623)**	(10,523)
Cash and cash equivalents at end of the period	**1,042,535**	363,406

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts expressed in thousands of RMB unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

This condensed consolidated interim financial information has been reviewed, not audited.

This unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 27 August 2014.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with International Accounting Standard ('IAS') 34, 'Interim financial reporting'. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ('IFRS').

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

- The Group has adopted IFRIC21 'Levies'. IFRIC21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised. The Group is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial information for the period ended 30 June 2014. The Group does not expect IFRIC21 to have a significant effect on the results for the financial year ending 31 December 2014.

- Other amendments to IFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that would be expected to have a material impact on the Group.

4. SEGMENT INFORMATION

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

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

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

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

	Drilling technology	Well completion	Down-hole operation	Tubular services	Total
Six months ended 30 June 2014 (Unaudited)					
Revenue	284,772	262,647	450,318	114,622	1,112,359
EBITDA	61,945	75,418	256,590	66,892	460,845
Depreciation and amortisation	(28,906)	(9,017)	(37,997)	(14,782)	(90,702)
Interest income	2	11	16	87	116
Finance expenses, net	(1,133)	(1,813)	(271)	(298)	(3,515)
Share of loss of jointly ventures	(5,053)	—	—	—	(5,053)
Income tax expense	(2,395)	(2,942)	(29,218)	(8,522)	(43,077)
Six months ended 30 June 2013 (Unaudited)					
Revenue	249,282	192,851	473,760	141,109	1,057,002
EBITDA	68,543	62,009	259,925	77,463	467,940
Depreciation and amortisation	(10,769)	(7,768)	(23,485)	(12,531)	(54,553)
Interest income	28	104	24	115	271
Finance expenses, net	(216)	(465)	(266)	(36)	(983)
Share of loss of joint ventures	(5,688)	—	—	—	(5,688)
Income tax expense	(5,347)	(5,241)	(18,482)	(8,288)	(37,358)
As at 30 June 2014 (Unaudited)					
Total assets	940,263	1,111,748	1,908,551	522,764	4,483,326
Total assets include:					
Investments in joint ventures	15,049	—	—	4,000	19,049
Additions to non-current assets (other than deferred tax assets)	31,860	41,899	146,393	53,869	274,021
As at 31 December 2013 (Audited)					
Total assets	641,864	1,151,504	1,609,498	510,064	3,912,930
Total assets include:					
Investments in joint ventures	12,776	—	—	4,000	16,776
Additions to non-current assets (other than deferred tax assets)	142,794	112,165	375,661	163,825	794,445

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
EBITDA for reportable segments	**460,845**	467,940
Corporate overheads	**(286,547)**	(199,927)
Depreciation	**(76,397)**	(44,709)
Amortisation	**(14,305)**	(9,844)
Interest income	**116**	271
Finance expenses, net	**(3,515)**	(983)
Share of loss of joint ventures	**(5,053)**	(5,688)
Profit before income tax	**75,144**	207,060

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

	As at 30 June 2014	As at 31 December 2013
	(Unaudited)	*(Audited)*
Assets for reportable segments	**4,483,326**	3,912,930
Corporate assets for general management	**1,574,214**	2,054,922
Total assets per balance sheet	**6,057,540**	5,967,852

Geographical Information

	Revenue		Non-current Asset	
	Six months ended 30 June		**As at 30 June**	As at 31 December
	2014	2013	**2014**	2013
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Audited)*
PRC	**804,927**	840,975	**2,187,796**	1,852,808
Iraq	**230,616**	164,008	**230,807**	205,214
Other countries	**76,816**	52,019	**57,611**	42,932
Total	**1,112,359**	1,057,002	**2,476,214**	2,100,954

Client Information

Sales made to individually significant customer of each operating segment (accounts for over 10% of the total revenue of each operating segment) are as following:

For the six months ended 30 June 2014 (Unaudited)

	Drilling technology	Well completion	Down-hole operation	Tubular services	Total
Client a	23,483	37,846	25,155	68,284	154,768
Client b	11,755	8,765	128,874	—	149,394
Client c	30,000	25,129	—	—	55,129
Client d	33,671	26,020	6,556	—	66,247
Client e	37,200	—	—	—	37,200
Client f	38,925	—	—	—	38,925
Total	175,034	97,760	160,585	68,284	501,663

Note: Client a, c, d, f are entities controlled by the same major oilfield operator.

For the six months ended 30 June 2013 (Unaudited)

	Drilling technology	Well completion	Down-hole operation	Tubular services	Total
Client 1	31,058	—	1,259	—	32,317
Client 2	81,458	66,809	20,227	90,741	259,235
Client 3	11,959	10,006	81,380	—	103,345
Client 4	—	1,062	52,863	—	53,925
Client 5	—	—	144,228	—	144,228
Total	124,475	77,877	299,957	90,741	593,050

Note: Client 1, 2, 3, 4 are entities controlled by the same major oilfield operator.

5. TRADE AND NOTES RECEIVABLES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Trade receivables, net (a)	**1,550,897**	1,302,044
Trade receivables from related parties	**44,006**	4,832
Notes receivables (c)	**47,556**	25,418
	1,642,459	1,332,294

Note:

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

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Within 6 months	**1,110,588**	1,179,863
6 months - 1 year	**437,035**	75,508
1 - 2 years	**49,338**	65,584
2 - 3 years	**9,362**	7,800
Over 3 years	**12,778**	13,985
	1,619,101	1,342,740
Less: Impairment of receivables	**(24,198)**	(35,864)
Trade receivables, net	**1,594,903**	1,306,876

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

(c) Notes receivable are bank acceptance with maturity dates within six months.

6. TRADE AND NOTES PAYABLES

	As at 30 June 2014 *(Unaudited)*	As at 31 December 2013 *(Audited)*
Trade payables	**651,059**	537,736
Trade payables to related parties	**18,764**	40,688
Notes payables	**43,478**	125,454
	713,301	703,878

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

	As at 30 June 2014 *(Unaudited)*	As at 31 December 2013 *(Audited)*
Less than 1 year	**665,990**	675,590
1 - 2 years	**39,278**	20,588
2 - 3 years	**4,173**	4,079
Over 3 years	**3,860**	3,621
	713,301	703,878

7. REVENUE

	Six months ended 30 June	
	2014 *(Unaudited)*	2013 *(Unaudited)*
Sales of goods	**93,102**	148,515
Sales of services	**1,019,257**	908,487
	1,112,359	1,057,002

8. EXPENSE BY NATURE

Operating profit is arrived at after charging / (crediting) the following:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
Materials and services	**464,506**	423,720
Staff costs		
- Salaries and other staff expenses	**176,408**	137,622
- Share-based compensation	**12,908**	15,705
Depreciation	**76,735**	50,530
Amortisation	**15,205**	9,982
Sales tax and surcharges	**11,607**	10,089
Other operating expenses	**188,849**	187,519
In which: - (Reversal)/provision for impairment of receivables	**(334)**	5,952
- Loss on disposal of property, plant and equipment	**18**	2,423
Total operating cost	**946,218**	835,167

9. FINANCE EXPENSES, NET

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
Interest income	**11,235**	743
Interest expenses	**(87,289)**	(17,317)
Exchange loss, net	**(10,566)**	(2,909)
Others	**(2,192)**	(1,748)
	(88,812)	(21,231)

10. INCOME TAX EXPENSE

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

For the Company's PRC subsidiaries, income tax is provided on the basis of their profits for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for PRC subsidiaries of the Group was 25% for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 25%), based on the relevant PRC tax laws and regulations, except that certain subsidiaries which are taxed at preferential tax rates. The subsidiaries established overseas are subject to the prevailing rates of the countries they located. The statutory income tax is assessed on an individual entity basis, based on their results of operations. The commencement dates of tax holiday period of each entity are individually determined.

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
Current income tax		
- PRC income tax	**24,156**	22,726
- Others	**16,814**	14,102
Deferred income tax	**2,107**	530
	43,077	37,358

11. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
Profit attributable to equity holders of the Company (RMB'000)	**27,395**	164,228
Weighted average number of ordinary shares in issue (thousands of shares)	**2,197,609**	2,145,501
Basic earnings per share (expressed in RMB per share)	**0.0125**	0.0765

(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. As at 30 June 2014, the only dilutive factor of the Company was the outstanding share options. For the purpose of calculating diluted earnings per share, the Company assumed the outstanding share options had been exercised upon the grant dates of the options. Meanwhile, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January 2014 to 30 June 2014) 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.

	Six months ended 30 June	
	2014	2013
	(Unaudited)	*(Unaudited)*
Profit attributable to equity holders of the Company (RMB'000)	**27,395**	164,228
Weighted average number of ordinary shares in issue (thousands of shares)	**2,197,609**	2,145,501
Adjustments for assumed conversion of share options (thousands of shares)	**31,562**	69,344
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	**2,229,171**	2,214,845
Diluted earnings per share (expressed in RMB per share)	**0.0123**	0.0741

12. DIVIDENDS

On 3 June 2013, upon the approval from the annual general meeting of the shareholders, the Company declared 2012 final dividend of RMB0.0456 per ordinary share, totaling RMB98,314,000.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Entering 2014, the Group has been facing a changing market, a market where domestic oil and gas industry is undergoing reform while oil companies are transforming their business models to emphasize more on efficiency. In line with their transformation, clients' capital expenditure structure changed accordingly by slowing down their exploration and development activities and postponing some of their projects. As a result, the Group's domestic business has been significantly impacted. In the first half of 2014, the Group's revenue structure changed as projects were slow to start, changing the Group's revenue structure. Meanwhile, the opening up of domestic markets has intensified competition, bringing more downward pricing pressure on the Group. Despite this adversity, the industry's transformation will be a positive force in the long run by making the sector more open and transparent. Although the transformation is creating temporary challenges, it is incubating future development opportunities.

In overseas market, the tense situation in Iraq led to major political events in the first half of 2014. As the Group's operations are primarily in southern Iraq, its business has generally not been affected and is progressing smoothly. Chinese investors, national oil companies and international oil companies continue to seek influential and trusted Chinese oilfield services companies. The Group, being such company, has further demonstrated its advantages and been presented with more market opportunities. In the Americas market, after initial business cultivation, the Group has successfully introduced several of its product lines in the market and is cooperating with both international and local oil companies. The Americas markets are starting to show its vigor.

Owing to the adjustment and deployment the Group started two years ago, we are now able to offer more products to the market. In terms of product lines, with the Group has put in place a complete and integrated product line focusing on asset-light product lines its regular service capacity building in the past as well as the establishment of Reservoir Geology Research Institute that combines reservoir and geology research with engineering. Meanwhile the Group has adopted a regionalization strategy, targeting key geographical markets by restructuring domestic and international business into seven regions, allowing us to focus on key markets while ensuring coverage of all markets. These two important measures have well prepared the Group to tackle the challenges created by the current challenging market environment, to embrace opportunities, and to lead the industry competition in the long run.

In the first half of 2014, the Group recorded revenue of RMB1,112.4 million, an increase of RMB55.4 million, or 5.2%, from RMB1,057.0 million in the same period of 2013. This relatively small increase was due to the decent growth in our overseas business, which offset the slight decrease in our domestic business caused by difficult market environment.

In the first half of 2014, the Group's operating profit was RMB169.0 million, a decrease of RMB65.0 million, or 27.8%, from RMB234.0 million in the same period of 2013. Net profit was RMB32.1 million, a decrease of RMB137.6 million, or 81.1%, from RMB169.7 million in the same period of 2013. Profit attributable to equity holders of the Company was RMB27.4 million, a decrease of RMB136.8 million, or 83.3%, from RMB164.2 million in the same period of 2013. The margin of net profit attributable to equity holders of the Company was 2.5%, a decrease of 13 percentage points, from 15.5% in the same period of 2013. The lower profit is due to the slowdown in revenue growth, downward pricing pressure and the lower profit margin as a result of the increased costs related to such resources as human resources, capital and equipment prepared for the long-term development of the Group.

In the first half of 2014, revenue from domestic market dropped by 4.3% from the same period of 2013. The Group's regionalization strategy means that it is striving to be more targeted to regional markets and more responsive to customers' requirements. Thus, despite the difficult situation in the first half of 2014, some regional markets still managed to record growth. In the Tarim and Erdos Basin, the Group has continued to maintain growth by taking advantage of local market demand and open bidding opportunities. In the Sichuan Basin, the Group saw a significant decline in revenue due to fewer market opportunities as a result of clients altering their business strategies. The Group has yet to win integrated shale gas general contracting projects and undertook mainly single technology projects in Sichuan Basin, and the shale gas revenue has not become large enough in scale. At the same time, unconventional oil and gas projects such as tight oil and shale gas in other domestic markets outside the Sichuan Basin have sound momentum of development. The Group has successfully launched new reservoir production management projects by starting its tight oil project in the Subei Basin and the shale gas project in Hubei Province. The Group has identified the production management business model as a new growth opportunity. The Group's overseas business grew rapidly as the Company has been developing new national and international oil company clients while continuing to develop Chinese investors' projects. The Group's business in Iraq was relatively unaffected by the temporary instability in June there, with more product lines entering the local market, presenting a broader range of opportunities. In the Americas market, increased business development has led to a faster growth in both Canadian and Colombian markets. Americas markets are becoming a key growth engine for the Group. Overseas revenue grew by 42.4% in the first half of 2014 from the same period of 2013.

In the first half of 2014, the Group's integrated products strategy continued to proceed smoothly, with a focus on building up reservoir geology research capability, promoting integrated project management models and building up asset-light product lines. In building up reservoir geology research capability, the Group established Reservoir Geology Research Institute. In promoting integrated project management model, the Group established a joint venture with Schlumberger, Tongzhou Integrated Oilfield Technology Co., Ltd. (Tongzhou IPM). It creates synergy by introduces its integrated development projects to clients in Erdos Basin by utilizing the Group's drilling rigs and human resources. Furthermore, through project management and integrated technologies of the Group and Schlumberger, the Group significantly lowered drilling and completion cycle as well as clients' costs, improved quality and increased value for the clients. The reservoir production management model of the Group was successfully promoted in tight oil and shale gas projects outside the Sichuan Basin in the first half of 2014. This model combines the Group's reservoir research and engineering analysis, setting production-linked incentive targets with the clients, reducing risks for the clients and realizing production targets through integrated project management. Regarding asset-light product lines, the Group made great efforts to develop its asset-light technical service product lines in the first half of 2014, including oilfield waste management and oilfield chemicals, creating synergy with equipment service including land drilling service and pressure pumping, allowing the company to build more comprehensive integrated product lines and supporting development of business clusters.

As the result of last year's investment, the Group's regular services capacity has reached its basic targets set by the clients. In 2014, the Group's equipment investment strategy has been shifting from great leaps forward to steady steps. The key to building up the Group's services capability is to strengthen technical innovation and building asset-light product lines by bringing in leading industry talent and developing the Group's own top performers.

In the first half of 2014, the Group's working capital management efficiency decreased and dragged down by the difficult industry environment and clients' adjusting business strategies. For the six months ended 30 June 2014, the Group's average trade receivables turnover days were 223 days, an increase of 60 days as compared with the same period last year. The average inventory turnover days were 149 days, a decrease of 1 day as compared with the same period last year. And average accounts payable turnover days was 163 days, a decrease of 4 days as compared with the same period last year.

Geographical Market Analysis

In the first half of 2014, revenue from domestic market was RMB804.9 million, representing a decrease of RMB36.1 million, or 4.3%,from RMB841.0 million in the same period last year, and accounting for 72.4% of the Group's total revenue. Revenue from overseas market reached RMB307.5 million, an increase of RMB91.5 million, or 42.4% from RMB216.0 million in the same period of 2013, and accounting for 27.6% of the Group's total revenue.

Revenue Breakdown of Domestic and Overseas Markets

	Six months ended 30 June		**Change**	**Revenue from the respective market as a percentage of revenue Six months ended 30 June**	
	2014	**2013**	**(%)**	**2014**	**2013**
	(RMB million)	*(RMB million)*			
Domestic	**804.9**	841.0	-4.3%	**72.4%**	79.6%
Overseas	**307.5**	216.0	42.4%	**27.6%**	20.4%
Total	**1,112.4**	1,057.0	5.2%	**100.0%**	100.0%

Revenue Analysis of Domestic Market

	Six months ended 30 June 2014 (RMB million)	Six months ended 30 June 2013 (RMB million)	Change (%)	Revenue from the respective market as a percentage of domestic revenue Six months ended 30 June 2014	Revenue from the respective market as a percentage of domestic revenue Six months ended 30 June 2013
Northwest China	**360.1**	312.3	15.3%	**44.7%**	37.1%
North China	**326.9**	304.2	7.5%	**40.6%**	36.2%
Southwest China	**44.8**	116.3	-61.5%	**5.6%**	13.8%
Others*	**73.1**	108.2	-32.4%	**9.1%**	12.9%
total	**804.9**	841.0	-4.3%	**100.0%**	100.0%

* *Including Northeast China and other domestic markets*

Revenue Analysis of Overseas Market

	Six months ended 30 June 2014 (RMB million)	Six months ended 30 June 2013 (RMB million)	Change (%)	Revenue from the respective market as a percentage of overseas revenue Six months ended 30 June 2014	Revenue from the respective market as a percentage of overseas revenue Six months ended 30 June 2013
Middle East	**233.2**	165.5	40.9%	**75.8%**	76.6%
Americas	**38.4**	14.0	174.3%	**12.5%**	6.5%
Central Asia	**29.9**	32.2	-7.1%	**9.7%**	14.9%
Africa	**6.0**	4.3	39.5%	**2.0%**	2.0%
Total	**307.5**	216.0	42.4%	**100.0%**	100.0%

Domestic Market

Hence, the Group caught the opportunity of some markets opening-up, and promoted products and services with the comprehensive product lines and full market coverage, stopping the downward trend.

Major Business Developments in the Domestic Market

- The Tarim Basin was the first region where the Group introduced its regionalization strategy. New product lines in drilling, well completion and downhole operation clusters have been introduced, the Group has also achieved wide market coverage of product lines. Compared with the same period last year, newly product lines were introducted including directional drilling, drilling new technology, oilfield waste management and workover services. These new businesses, together with the existing well completion tool services, contributed to a revenue increase in the first half of 2014, offsetting the revenue decline in the drilling fluid product line and tubular services due to clients' adjusted operating schedules.

- The Erdos Basin has evolved into a major opened-up market for oilfield technical service providers. In the first half of 2014, a client at Erdos launched tenders for wellbore engineering projects. The Group won consecutive tenders to provide drilling rig operation, pressure pumping and coiled tubing services. Market opening-up made it no longer necessary for us to cooperate with connected state-owned oilfield service companies of state-owned oil companies in order to enter the regular service market. At the same time, clients' changed operating plans meant that demand for stimulation services at Erdos Basin dropped sharply, subsequently offsetting the revenue growth for the Group in this region.

- In the Sichuan Basin, the Group's revenue declined due to clients adjusting operating plans. In the first half of this year, the Group focused on providing individual services for the local shale gas market, which were yet of large scale, resulting in a substantial decline in the Group's revenue in this regional market.

- In other domestic markets, the Group's revenue declined in Northeast China market due to clients' adjusted business plans. At the same time, tight oil and shale gas developments shown good momentum in other markets outside the Sichuan Basin. The Group entered unconventional oil and gas markets through its production management model, including a tight oil project at the Subei Basin and a shale gas project in Hubei Province, developing new growth opportunities outside the three major basins.

Overseas Market

In the first half of 2014, the Iraq market continued to generate business opportunities. The Group's regionalization strategy, which was launched last year, allowed the Group to provide more targeted services for key markets, expanding the coverage of services and giving rise to competitiveness overseas. In the first half of 2014, the Group continued to devlopment its Chinese clients and accelerated cooperation with national and international oil companies. Through these efforts, the Group's overseas business grew rapidly in the first half of 2014, especially in the Middle East, which continued to be our largest overseas market. The Group also achieved breakthroughs in the Americas market, which is the Group's key emerging market overseas, and has great business potential and prospects for the Group.

Major Business Developments in the Overseas Market

- The Group's Iraq operations were mostly unaffected by the temporary political instability in the country during the first half of 2014, as most of the Group's projects are in southern Iraq. In preparation for potential risks, the Group has developed emergency action plans to ensure the safety of its staff and assets. In general, the Group's risks in Iraq are controllable. At the same time, the Group has successfully promoted its oilfield services in Iraq by accelerating cooperation with both national and international oil companies there, creating more business opportunities. In the first half of 2014, the Group won contract again for coiled tubing acidizing service project, with a larger contract size, and also won a second oilfield production facility operation and maintenance service project in Iraq. The Group's diversified services, including directional drilling, have also entered the local market, especially the Halfaya market and Buzurgan market, supporting healthy and rapid growth there. In June, the Group won bids of two drilling rigs in the Iraq market, helping the Group to fully enter local markets of its overseas business.

- The Americas market, following preliminary market cultivation, has proven to be another dynamic marketplace for the Group. In North America, through its sand and water control business, the Group has established an initial foothold through partnerships with local and international oil companies. In Colombia, South America, the Group responded to integrated demand of sand control and stimulation by starting to provide sand control services, which has replaced international oilfield services due to the Group's technological and cost advantages. The Group has also entered Ecuador market, where it provided sand and water control technology. The Americas market becomes as another important growth engine driving the Group's business expansion.

Business Cluster Analysis

In the first half of 2014, the Group saw steady performance across all business clusters. The drilling technology cluster posted RMB284.8 million in revenue, an increase of 14.2% over the first half of 2014. The well completion cluster recorded a revenue of RMB262.6 million, a year-on-year increase of 36.2%. The down-hole operation cluster saw its revenue down 4.9% from RMB473.1 million in the first half of 2013 to RMB450.4 million in the first half of 2014. The tubular services cluster recorded RMB114.6 million in revenue, a decrease of 18.8% from the same period of 2013.

In the first half of 2014, the Group continued vigorous efforts to shape up its product lines and achieved significant progress. On one hand, the Group has emphasized on building new product lines, especially asset-light product lines including oilfield waste management and oilfield chemicals developing a suite of technologies that effectively combine its reservoir technologies and engineering expertise. With a full range of products and featured technologies covering all phases of oil and gas development and production, the Group has been able to tackle difficult client challenges such as production stimulation, drilling performance enhancement, cost reduction and safety and environmental protection in oil and gas fields. On the other hand, the Group strengthened its proprietary capabilities of existing product lines, including maintenance and repairing capability of directional drilling and proprietary manufacturing capacity for the completion tools and having quickly amassed strength in reservoir research and analysis, the Group is now fully equipped to meet the client demand for reservoir technologies from evaluation on the front end to drilling, well completion and production. At present, the Group is competent for undertaking large and medium-sized integrated projects. It has also been accelerating the development of product lines oriented towards light assets so as to further attain a nimble, integrated services model.

Facing expanding businesses, the Group forged its quality control system, controlled risks and improved operation quality with good outcomes. In the first half, the QHSE supervision system of product lines, from regions to QHSE management center has been put into operation, and QHSE capabilities of the entire company have been systematically improved. By promoting “the flagship benchmarking teams” , crew configuration and competency matrix, operating procedures, equipment maintenance as well as management procedures have been standardized.

Revenue Breakdown by Cluster

	Six months ended on 30 June		**Change**	**As a percentage of total revenue six months ended on 30 June**	
	2014 *(million RMB)*	**2013** *(million RMB)*	**(%)**	**2014**	**2013**
Down-hole operation cluster	**450.4**	473.8	-4.9%	**40.5%**	44.9%
Drilling technology cluster	**284.8**	249.3	14.2%	**25.6%**	23.6%
Well completion cluster	**262.6**	192.8	36.2%	**23.6%**	18.2%
Tubular services cluster	**114.6**	141.1	-18.8%	**10.3%**	13.3%
Total	**1,112.4**	1,057.0	5.2%	**100.0%**	100.0%

Down-hole Operation Cluster

In the first half of 2014, the down-hole operation cluster maintained similar performance and posted RMB450.4 million in revenue, a decline of 4.9% from RMB473.8 million in the same period of 2013. The product lines in this cluster remain anchored around client needs for stimulation. On the one hand, the cluster ramped up regular services capacity with pressure pumping equipment, allowing the Group to initially depend its integrated services offering in key target markets on self-owned services equipment. On the other hand, adding oilfield chemicals, fracturing proppant and other asset-light product lines complementary to pressure pumping and coiled tubing services to improve pressure pumping and coiled tubing services along the value chain, further facilitated the nimble, integrated service model for the down-hole operation cluster.

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

Down-hole module

1) Stimulation. In the first half of 2014, this product line recorded RMB79.0 million in revenue, down 65.3% from RMB227.6 million in the first half of 2013.

2) Pressure pumping service. In the first half of 2014, this product line recorded RMB81.7 million in revenue, up 459.6% from RMB14.6 million in the first half of 2013.

3) Coiled tubing service. In the first half of 2014, this product line recorded RMB196.9 million in revenue, up 55.0% from RMB127.0 million in the first half of 2013.

4) Oilfield chemicals. This product line offers the research and development ("R&D"), production, marketing and technical service related to oilfield chemicals for acidizing, fracturing, oil production (inflow control and profile control). It is equipped for the R&D and performance testing of a full range of chemicals for down-hole operation. The business was launched in earlier 2014 and has recorded RMB6.7 million in revenue.

5） Proppant. This product line offers a critical material used to hold reservoir fractures open in a fracturing process. The high-end ceramic proppant produced independently by the Group is high temperature and high pressure rated, non-toxic, non-corrosive and non-radioactive. It helps to keep the integrity of the oil and gas production channel after a fracturing operation, thus stimulating production. This product line officially commenced production in June 2014 and has not yet recorded any revenue for the first half of 2014.

6） Helium testing service. In the first half of 2014, this product line recorded RMB43.1 million in revenue, down 19.6% from RMB53.6 million in the first half of 2013.

Oil production cluster

1) Production operation service. This product line offers production technical service and the O&M (operation and management) of oilfield production facilities. With specialized technical services capabilities for operating oilfield production facilities at the core, it also expanded related maintenance and repair service for oil and gas production equipment. In the first half of 2014, this product line recorded RMB34.6 million in revenue, down 32.2% from RMB51.0 million in the first half of 2013.

2) Workover service. This product line, launched in the first half of 2014, offers conventional and major workover for oil and gas wells, sidetrack, fishing, oil testing and well completion integrated operation and routine maintenance operation services. In the first half of 2014, this product line recorded RMB8.4 million in revenue.

EBITDA for the down-hole operation cluster decreased by 1.3% from RMB259.9 million in the first half of 2013 to RMB256.6 million in the first half of 2014. The EBITDA margin of the cluster was 57.0% in the first half of 2014, a marginal increase of 2.1 percentage points from 54.9% in the first half of 2013. The slight uptick of the EBITDA margin was largely due to lower rate of raw materials from new technology deployment and optimized procurement management as well as increased equipment utilization rate.

Major Development in the Down-hole Operation Cluster

- Stimulation business booked significantly lower revenue in the first half of 2014 compared with the first half of 2013 due to clients' adjustment of business plan by clients in north and southwest China and more fierce competition.

- Pressure pumping equipment service capacity was fully deployed. As at 30 June 2014, the Group's pressure pumping service capacity reached 102,000 HHP, fulfilling its base target. The equipment was deployed right upon arrival to enable routine and large-scale undertaking of pressure pumping service. The Group's available pressure pumping service capacity, track record and brand equity have become important competitive advantages in capturing long-term service contracts further to existing business in the local markets. They also propelled other businesses such as down-hole chemicals, fracturing proppant and stimulation technical service.

- Coiled tubing business witnessed stable growth. In the first half of 2014, a new set of coiled tubing equipment was delivered to the Group and put to use immediately after. As at 30 June 2014, the Group owned 8 units of coiled tubing equipment. In the first half of 2014, the coiled tubing business gained encouraging growth in China and continued to lend vital support to unconventional projects. Coiled tubing equipment, tool service and technology innovation also boosted other related down-hole businesses such as down-hole chemicals and fracturing proppant. In the overseas markets, the Group won contract again for coiled tubing in Iraq with a notably higher contractual value, showing a positive growth momentum.

- The ceramic proppant production line ran continuously and reliably. The production line built by the Group for ceramic proppant, a critical material used in fracturing, officially commenced production in June 2014 and has had a smooth and continuous run since. This makes the Group became the first Chinese ceramic supplier being capable of meeting the top global performance metrics including strength and density. It will help the Group to further integrate along the value chain of fracturing.

- The new product line for oilfield chemicals began operation in the first half of 2014, which, combined with pressure pumping service, has generated great synergies with pressure pumping service and revenue for the Group in the first half of 2014. This new business will help the Group extend further along the value chain of fracturing.

- Production operation service continued its business development effort. Due to production schedule adjustments by some clients in Iraq, the revenue to this product line declined in the first half of 2014. During this period, the Group was awarded its second production operation service contract in Iraq. The project will go into production in the second half. The Group has gained client endorsement in the overseas markets and hence will enjoy promising business potential.

- Workover service officially went online. The Group kicked off the development of its workover service capacity in 2014, with an engineering start in the Tarim Basin. This product line helps the Group target the client segment of operational expenditure, strengthen its service capacity in the production stage of oilfield development, generate a stable revenue stream and improve the revenue structure of the Group, hence raising its ability to resist risks.

Drilling Technology Cluster

In the first half of 2014, the drilling technology cluster achieved largely consistent performance, posting RMB284.8 million in revenue, an increase of 14.2% from RMB249.3 million in the first half of 2013. Business development efforts within this cluster mainly revolved around building the Group's integrated service capabilities and meeting client needs for optimized performance drilling, safety and environmental protection. In the first half of 2014, the cluster continued to build a self-owned rig fleet to enable the offering of integrated services starting with drilling engineering technology at the heart of oil and gas development. In light of the client demand for drilling optimization, the various product lines within this cluster delivered multiple technological applications around performance drilling, which demonstrated excellent results in terms of improving drilling success rate and efficiency, shorten the drilling cycle and reduce drilling costs for the clients. Recognizing the client demand for safety and environmental protection, the Group has freshly launched oilfield waste management service within this cluster.

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

Integrated module:

1) Reservoir production management. This product line offers integrated services in the form of a general contracting from geology to reservoir and engineering, with performance fee linked to oil and gas production targets and associated production risks. In the first half of 2014, this product line recorded a revenue of RMB38.9 million.

2) Integrated project management service. The Group provides integrated project management (IPM) service mainly through "Tongzhou Integrated Oilfield Technology Co., Ltd." ("Tongzhou IPM"), a joint venture with Schlumberger.

Drilling module:

1) Drilling new technology service. In the first half of 2014, this product line booked RMB58.0 million in revenue, a decrease of 2.5% from RMB59.5 million in the first half of 2013.

2) Directional drilling. In the first half of 2014, this product line booked RMB97.4 million in revenue, a decrease of 7.2% from RMB105.0 million in the first half of 2013.

3) Drilling fluid service. In the first half of 2014, this product line recorded RMB30.7 million in revenue, a decrease of 60.3% from RMB77.4 million in the first half of 2013.

4) Land drilling services. In the first half of 2014, this product line booked RMB58.2 million in revenue, an increase of 686.5% from RMB7.4 million in the first half of 2013.

5) Oilfield waste management service. This product line provides waste and pollutants management service throughout oil and gas exploration and development such as oil-based drilling fluid and drill cutting treatment and fracture flowback fluid treatment. Since its launch in the first half of 2014, this product line has so far recorded RMB1.6 million in revenue.

EBITDA of the drilling technology cluster increased from RMB68.5 million in the first half of 2013 to RMB61.9 million in the first half of 2014, a decrease of 9.6%. EBITDA margin for the first half of 2014 stood at 21.7%, down 5.8 percentage points from 27.5% in the first half of 2013, mainly caused by lower gross profit margin of land drilling service, downward pricing pressure in a challenging market environment in the first half of 2014 as well as delay of some projects.

Major Development in the Drilling Technology Cluster

- Accelerated implementation of the integrated services model. In the first half of 2014, reservoir production management service moved into the implementation stage and achieved rapid growth. It served unconventional oil and gas development projects in China such as shale gas and tight oil projects, proving its usefulness and value for promotion in the domestic unconventional markets and some overseas markets. It drove growth and created strong synergies with the Group's other product lines including land drilling service. Meanwhile, Tongzhou IPM, a joint venture with Schlumberger, started offering IPM service and successfully promoted the service among clients in the Erdos Basin. The IPM solution benefited the clients with significant cost savings and a much shorter drilling and well completion cycle, demonstrating its quality and greater value creation for the clients.

- Drilling fluid service received substantially less orders due to the adjustment of operating strategy by the clients and new wells waiting to commence operation. Correspondingly, this resulted in a marked drop in revenue in the first half of 2014 compared with the same period of 2013.

- Land drilling services gained stable orders and expanded into overseas markets. As at 30 June 2014, the Group owned 6 rigs, with the 7th rig to be delivered in July 2014. The rigs were deployed right upon arrival and quickly received stable orders. This has facilitated the implementation of the Group's integrated projects and drove the growth of other product lines. In the meantime, the Group gradually garnered international recognition of its land drilling service, winning the bid for two rigs in Iraq market in July 2014. The expansion of land drilling service into overseas markets will help the Group to increase profitability and secure better opportunities for overseas business development.

- Oilfield waste management service commenced engineering operation. The Group set up oilfield waste management service in 2014 primarily for providing waste and pollutants management service throughout oil and gas exploration and development such as oil-based drilling fluid and drill cutting treatment and fracture flowback fluid treatment. In the first half of 2014, the business already commenced engineering operation in Xinjiang. This product line has created strong synergies with land drilling service, drilling fluid service and stimulation service. It helps the Group further advance the integrated product strategy and improve its product mix. As the Chinese government and oilfields demand higher environmental standards, the Group expects ample room for growth for this product line.

Well Completion Cluster

In the first half of 2014, the well completion cluster experienced steady growth and recorded RMB262.6 million in revenue, up 36.2 % compared with RMB192.8 million in the same period of 2013. Business development efforts within this cluster focused on reservoir completion on the one hand, which start with geological survey of reservoirs and reservoir evaluation and analysis for each individual well or block, based on which an optimal well completion engineering solution is presented. On the other hand, the Group accelerated the development of proprietary well completion tools. Powered by in-house completion tool design, testing, processing and manufacturing capabilities, this cluster aims to minimize the deployment costs of a well completion operation and ensure the service quality of well completion technology through a full suite of completion tools.

The well completion cluster comprises the following businesses:

1) Well completion integration. This business includes technical services for reservoir completion and well completion tools. In the first half of 2014, this business recorded RMB194.4 million in revenue, an increase of 64.7% from RMB118.0 million in the first half of 2013.

2) Gravel packing service. This business came from Shandong Precede, a majority-owned subsidiary acquired by the Group in 2008, which provides gravel packing well completion products and services. In the first half of 2014, this business recorded RMB68.2 million in revenue, a decrease of 8.8% from RMB74.8 million in the first half of 2013.

EBITDA of the well completion cluster increased by 21.6% from RMB62.0 million in the first half of 2013 to RMB75.4 million in the first half of 2014. EBITDA margin for the first half of 2014 was 28.7%, down by 3.5 percentage points from 32.2% in the first half of 2013, which was mainly attributable to downward pressure on price in some of the preexisting product lines domestically while newly added product lines were yet to go online.

Major Development in the Well Completion Cluster

- By gradually taking self-ownership and improve technology on completion tools and service under well completion integration, the Group raised the competitive position of the Group's self-owned products, developed new markets in China and made breakthroughs in overseas markets such as the Americas. The business gained rapid growth in the first half of 2014.

- Sand and water control business under well completion integration remained stable. Recognizing the market demand for heavy oil recovery in the Americas and drawing upon its technical and cost advantages, the Group quickly grew its sand and water control business in the Americas as a technology category receiving the accolade of international clients. It also became another growth engine of the Group in the Americas.

Tubular Services Cluster

In the first half of 2014, the tubular services cluster declined slightly and posted RMB114.6 million in revenue, a decrease of 18.8% over RMB141.1 million in the same period of 2013. Business development within this cluster was focused on inspection technology and covered tubular inspection and evaluation, oil drilling tools leasing and technical service, oil casing and tubing technical service and tubular anti-corrosion. The objective is to improve the safety of tubular use, lower costs and simplify tubular use management for the clients.

EBITDA of the tubular services cluster decrease by 13.7% from RMB77.5 million in the first half of 2013 to RMB66.9 million in the first half of 2014. EBITDA margin for the first half of 2014 reached 58.4%, up 3.5 percentage points from 54.9% in the first half of 2013, mainly due to higher percentage of drilling tools rental business revenue. Drilling tools rental business has a lower variable cost ratio than that of tubular services cluster.

Major Development in the Tubular Services Cluster

- All-round improvement of inspection and evaluation service capabilities. This product line covers inspection and evaluation service along the value chain of oil recovery, transportation and storage, the "base+field" inspection and evaluation service model, API, and special-requirement third-party tubular inspection and plant supervision technical service. It harnesses best-in-class technology to minimize costs and eradicate potential risks. Through high-quality inspection services such as drilling tool inspection, rig and derrick inspection, oil casing and tubing inspection, steel structure inspection, meter inspection (calibration), in-service pipeline inspection, and oilfield storage and transportation stations (network) security surveillance, the Group offers "professional, premium and practical" technical services to its clients. Through investing in Sichuan Chengliang Inspection Services Co., Ltd, the Group acquired multiple qualifications on inspection and calibration. The investment laid a solid foundation for the large-scale development of the product line and for the Group to become an independent third-party inspection service provider.

- In the first half of 2014, drilling tools leasing business focused on integrated contracts of drilling tools leasing and built complementary drilling tools management, inspection and repair, wear resistant treatment capabilities as well as storage and logistic service capabilities. Being the most competitive third-party drilling tool leasing and operation service provider in China, the Group set up one of China's finest tubular service base in the Tarim region, equipped with a full set of drilling tool service and repair capabilities. In addition to drill pipe rental, the Group developed down-hole mud motor and other down-hole drilling tools rental, thus forming initially the capabilities for integrated contracts of drilling tools leasing.

- Oil tubing and casing and anti-corrosion technology business provides integrated services ranging from oil casing and tubing down-hole service, processing and repair, tubular anti-corrosion and storage. Based on production needs, the business sets out to cut oilfield costs, mobilize resources from steel plants, and develop tubular service in drilling, completion and repair. In the first half of 2014, this product line absorbed tubular anti-corrosion service, further improved operational effectiveness, forged partnerships with various organizations and prestigious Chinese universities, and developed distinctive oil casing and tubing technical service capabilities with premium threads as the centerpiece.

Alignment of Strategic Resources

In the first half of 2014, the Group preemptively deployed and aligned all-round strategic resources in terms of investment, R&D and human resources. On the investment side, the Group successfully met its expectations for regular services capacity building. In the meantime, it was making big strides towards developing asset-light product lines while focusing on technical innovation and growing its talent reserve. In the first half of 2014, the Group made RMB226.5 million in capital expenditure, a decrease of 16.2% compared with RMB270.3 million in the first half of 2013.

Alignment of Investment

As a result of progress in the previous year, the Group met its basic targets for regular services capacity building. Therefore, in the first half of 2014, the Group changed its pace of equipment investment from strides to steady steps. It continued to execute the investment plans of the previous year for regular services capacity such as rigs and pressure pumping equipment without making significant new investment plans. On the other hand, it moderately replenished the capacity for coiled tubing operation and directional drilling service. At the same time, the Group achieved key milestones in the construction of various bases, whose support to the Group's product lines has been boosted.

Major Investment Projects

— On pressure pumping, the Group added 25,000 HHP additional pressure pumping service capacity in the first half of 2014, which had all been deployed as at the date of this Announcement. This brought the Group's total pressure pumping capacity to 102,000 HHP as of 30 June 2014, all of which had entered into normal operation. Meanwhile, the ceramic proppant production line created for critical fracturing materials had been operating smoothly since its official launch of production in June 2014. This means the Group has established a more complete value chain in fracturing and developed an integrated fracturing service capability, together with its fracturing technology, techniques, tools and equipment.

— On coiled tubing, the Group set up an additional coiled tubing operation unit in the first half of 2014. As of 30 June 2014, the Group had a total 8 coiled tubing units in operation, of which 4 were deployed in China and another 4 in the Middle East. Furthermore, a new coiled tubing operation unit is being set up which is expected to be finalized in the second half of 2014.

— On land drilling service, as at the date of this Announcement, the Group had a total of 7 self-owned rigs in position, which were already backed by domestic and overseas project contracts and steadily receiving orders. The fast ramp-up of land drilling service capacity will facilitate the growth of the Group's integrated general contracting business.

— On directional drilling, the Group added 3 additional operation units in the first half of 2014, of which 2 were deployed in China and 1 in South America. As of 30 June 2014, the Group had established a total of 33 directional drilling operation units.

— In terms of establishing in-house manufacturing capacity and constructing operation bases, as at the date of this Announcement, all the manufacturing workshops of the well completion tools base in Tianjin Binhai New Area had been completed and put to use, with the final construction expected to conclude in 2015. Once completed, the manufacturing base will have integrated tool design, experimentation, assembling, testing and processing capabilities with well completion tools as its core product. In the meantime, the base will leverage the strategic location of Tianjin to establish itself as a center for the Group's procurement, storage, logistics, export and import. As at the date of this Announcement, the construction of the downhole operation base in Suining, Sichuan province had been completed and made operational. The base provides equipment storage, maintenance and repair, research and development, staff training, and frontline support for downhole operation, as well as office space and accommodation for downhole operation engineers. The ceramic production base, also in Suining, Sichuan province, has been running smoothly since launching production in the first half of 2014. Ceramic proppant is a vital consumable material used in fracturing which plays an important role to provide higher stimulation performance. The launch and reliable performance of the production base makes the Group became the first Chinese ceramic supplier being capable of meeting the highest global performance standards on multiple key performance indicators.

Alignment of R&D Resource

In the first half of 2014, the Group, driven by its strategy, actively advanced the R&D of proprietary products around the need for stimulation and integration along the value chain in a bid to further deliver productivity gains, diversify product portfolio and lower total costs for the clients. In the first half of 2014, the Group invested RMB40.2 million in R&D, a decline of 5.0% compared with RMB42.3 million in the first half of 2013 due to higher success rate of research projects and certain projects initiating in the second half of 2013. During the reporting period, the Group obtained a total of 39 patent rights and 5 software copyrights, increasing the total number of patent rights owned by the Group to 447 and software copyrights to 15, respectively.

Key R&D projects

— Horizontal well multi-stage fracturing with cementing

— Oil-based mud drill cutting treatment

— High temperature organic acid

— Research and development of ceramic proppant for deep well and shale gas

— Research and application of premium thread tubular

Alignment of Human Resources

The development of human resources is crucial to build a world-leading oilfield technical service company. The Group has always prioritized talent cultivation as part of its strategic resource alignment program. In 2014, the Group further deepened the 'Talents First' strategy and built talent reserves preemptively. While attracting top industry talents globally, the Group also drew a large intake of graduates. At the same time, it further improved the talent management and training mechanism to provide far-sighted strategic talent reserves for the Group. As of 30 June 2014, the Group had a permanent staff of 2,210.

Major development in human resources

— Talent recruitment further accelerated. To meet the need for long-term development, the Group continued to bring in talents on a large scale in the first half of 2014. As of 30 June 2014, the Group had taken aboard over 1,000 graduates with bachelor's degree or above. The majority of them will be trained with an orientation to become technical talents. Meanwhile, the Group intensified the hiring of product line leaders and key position talents to support its various product lines in business development. As an important step towards consummating the integrated strategy, the Group established the Reservoir Geology Research Institute and attracted several leading talents on reservoir geology research in the first half of 2014 to strengthen its reservoir research and analysis capabilities.

— A fast track talent development program was also put in place. In light of the considerable number of graduates joining, the Group continued to improve its training system and establish clear training goals by developing a matrix of competencies for each position and preparing the relevant technical and professional courses with industry experts across the Group as trainers. They leveraged training with rigs and internships within various business units to help the graduate trainees to improve hands-on skills, boarden their understanding of wellbore technologies, and increase their professional knowledge of the QHSE process with a view to qualify them as field engineers.

— In the first half of 2014, the Group granted a total of 21,700,000 ordinary share options to more than 280 top-performing employees and core staff members, the entire 21,700,000 shares are being exercisable at a price of HKD5.200 per share.

OUTLOOK

Looking into the second half of 2014, on the domestic front, the market environment remains challenging, and intensifying market competition leads to downward pricing pressure. However, the Group expects the market to recover gradually from the low in the second half of 2014. Over the longer horizon, China is initiating energy sector reform in 2014 and oilfield services market is opening up progressively. Furthermore, domestic demand for natural gas continues to pick up. The positive momentum underlying the demand for oilfield technical services in China remains unchanged. The Group expects huge opportunities will emerge in the market in the next 12 to 24 months and oilfield technical service providers are in for the next period of rapid growth. On the overseas front, geopolitical risks remain heightened yet under control in the Middle East. Market opportunities are expected to expand further. In the Americas market, promising market potential continues to present itself. In terms of market development, the Group will further improve its business footprint, strengthen centralized coordination and improve the frontline sales force.

Product-wise, the Group will continue to promote integrated services that combine reservoir geology and engineering, roll out the IPM model, and commit to an integrated business strategy focusing on asset-light product lines. Drawing upon its strengths on product lines and widespread market coverage, the Group will compete on all fronts. In the long term, the Group plans to maintain the number of product lines as it is and accentuate on the development of existing business to drive growth as a whole through the scale expansion of existing product lines.

In the second half of 2014, the Group will maintain R&D spending, create a facility to collect, process and respond to frontline client needs for new technology, set up a technology innovation platform internally and pursue technical alliances with universities and research institutes and strategic partnerships with technical services firms externally. By improving supply chain management, financial management and setting cost control targets in light of the new circumstances, the Group will exercise more rigorous cost discipline and cash flow management. On QHSE management, the Group will faithfully advance operational quality management and building benchmarking teams. It will further refine its operation, fully raise the level of quality control and improve service quality. On human resources, the Group remains committed to maintain strong teams. By combining the self-cultivation of graduate hires and introduction of industry leaders and key talents, the Group strives to build a team with full competences for meeting the operational requirements of each product line.

Recognizing the grim market environment as well as ample room for development, the Group will improve its capacity for innovation, adopt stronger cost discipline, enforce full quality controls, and commit to team building to capture the opportunities and overcome the challenges.

FINANCIAL REVIEW

Revenue

The Group' s revenue in the first half of 2014 amounted to RMB1,112.4 million, representing an increase of RMB55.4 million or 5.2% as compared to RMB1,057.0 million in the same period of 2013. The growth of the Group' s revenue slowed down as compared to the same period last year, mainly due to increased pressure for reducing prices following the postponed start up of projects in China, resulting in a change in the revenue structure.

Cost of Sales

The cost of sales in the first half of 2014 increased to RMB691.2 million, representing an increase of 16.8%, from RMB591.9 million in the same period of 2013. This was mainly due to the Group's effort to maintain market share and preserve resources for future development under current tough market circumstance, which led to an increase in labour cost and equipment cost.

Other Gains

Other gains in the first half of 2014 decreased to RMB2.9 million from RMB12.1 million in the same period of 2013. Such decrease was mainly due to the gains on disposal of subsidiaries in the same period last year.

Selling Expenses

The selling expenses in the first half of 2014 amounted to RMB82.9 million, representing an increase of RMB1.5 million or 1.8% as compared with RMB81.4 million in the same period of 2013. The selling expenses were basically stable as compared to the same period last year.

Administrative Expenses

The administrative expenses in the first half of 2014 amounted to RMB137.7 million, representing an increase of RMB18.0 million or 15.0% as compared with RMB119.7 million in the same period of 2013. This was mainly due to an increase in labour cost as a result of the recruitment of talents by the Group preparing for long-term development.

Research & Development Expenses

The Research & Development expenses for the first half of 2014 amounted to RMB22.8 million, representing a decrease of RMB9.2 million or 28.8% as compared with RMB32.0 million in the same period of 2013. This was mainly attributable to the improved success rate on R&D projects, and part of the R&D projects will start in the second half of 2014.

Sales Tax and Surcharges

The sales tax and surcharges for the first half of 2014 amounted to RMB11.6 million, representing an increase of RMB1.5 million or 14.9% as compared with RMB10.1 million in the same period of 2013. The increase was mainly due to an increase in revenue.

Operating Profit

As a result of the foregoing, the operating profit in the first half of 2014 amounted to RMB169.0 million, representing a decrease of RMB65.0 million or 27.8% as compared with RMB234.0 million in the same period of 2013. The operating profit margin was 15.2% in the first half of 2014, representing a decrease of 6.9 percentage points from 22.1% in the same period of 2013.

Finance Costs (Net)

Net finance expenses in the first half of 2014 was RMB88.8 million, an increase of approximately RMB67.6 million compared to the same period of 2013. The increase was mainly due to the expanded production capacity of the Group which led to an increase in financing cost.

Share of Loss of Joint Ventures

The share of loss of joint ventures in the first half of 2014 amounted to RMB5.1 million, a decrease of approximately RMB0.6 million or 10.5% compared to the same period of 2013. The decrease was mainly due to certain projects of a joint ventures were just started.

Income Tax Expense

Income tax expense for the first half of 2014 amounted to RMB43.1 million, representing an increase of approximately RMB5.7 million from the same period of 2013. The increase was mainly attributable to an increase in taxes incurred by overseas subsidiaries.

Profit for the Period

As a result of the foregoing, the Group' s profit for the first half of 2014 was RMB32.1 million, representing a decrease of RMB137.6 million or 81.1% from the same period of 2013.

Profit Attributable to Equity Holders of the Company

The Group' s profit attributable to equity holders of the Company for the first half of 2014 amounted to approximately RMB27.4 million, representing a decrease of approximately RMB136.8 million or 83.3% from the same period of 2013.

Trade and Notes Receivables

As at 30 June 2014, the Group' s net trade and notes receivables were approximately RMB1,642.5 million, representing an increase of approximately RMB310.2 million as compared to 31 December of 2013. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in the first half of 2014 were 223 days, representing an increase of 60 days as compared to the same period of 2013. This was mainly attributable to the adjustment of operating strategies by the Group' s oil company customers to extend the payment term.

Inventory

As at 30 June 2014, the Group' s inventory was RMB604.0 million, representing an increase of RMB63.3 million as compared to 31 December 2013, mainly due to the Group's storage to ensure business development for the whole year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2014, the Group' s cash and bank deposits amounted to approximately RMB1,087.4 million including restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents, representing a decrease of RMB715.2 million as compared to 31 December 2013, mainly due to the increased investment and working capital in order to meet the needs of the Group's strategy development.

As at 30 June 2014, the Group' s outstanding short term bank loans amounted to RMB430.9 million. Credit facilities granted to the Group by banks amounted to RMB580.0 million and US$13.0 million, of which approximately RMB198.0 million and US$13.0 million were not used.

As at 30 June 2014, the gearing ratio of the Group was 57.0%, representing an increase of 0.5 percentage point from the gearing ratio of 56.5% as at 31 December 2013. This was mainly due to an increase in trade payables and notes payables. Net debt included borrowings and trade and notes payables. Total capital was calculated as equity plus net debt.

The equity attributable to equity holders of the Company decreased to RMB2,264.8 million in the first half of 2014 from RMB2,282.7 million as at 31 December 2013. The decrease was mainly due to the payment of dividends for the previous year by the Group during the reporting period.

EXCHANGE RISK

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. The Group also has purchases from and sales to 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$.

CASH FLOW OF OPERATING ACTIVITIES

As at 30 June 2014, net cash outflow in operating activities of the Group amounted to RMB433.6 million, representing an increase of RMB431.1 million in outflow as compared to the same period of 2013. This was mainly due to the extension of the payment term as a result of the adjustment of operating strategies by the Group's customers.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for the first half of 2014 was RMB226.5 million, of which, investments in fixed assets were RMB199.1 million, investments in intangible assets (including land use right) were RMB17.4 million and payment of the equity investments was RMB10.0 million. The Group changed its pace of equipment investment from strides to steady steps.

CONTRACTUAL LIABILITY

The Group's contractual commitments mainly consist of payment obligations under the Group' s operating lease arrangements for offices, certain equipment and machinery. As at 30 June 2014, the Group' s operating lease commitments amounted to approximately RMB61.1 million. As at the balance sheet dated 30 June 2014, the Group had capital commitments of approximately RMB407.4 million, which was not provided for in the balance sheet.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any material contingent liabilities or guarantees.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 June 2014, the Group did not have any off-balance sheet arrangement.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (For the six months ended 30 June 2013: nil).

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "Code") under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2014, except for the following deviation:

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the period ended 30 June 2014, the Company repurchased a total 202,000 shares For the six months ended 30 June (For the six months ended 30 June 2013: 2,502,000) on the Stock Exchange at an aggregate consideration of approximately HK$997,981 (2013: HK$12,523,580). All the repurchased shares were subsequently cancelled. Particulars of the repurchases were as follows:

Month of the repurchases	Number of ordinary shares repurchased	Purchase per share price Highest	Purchase per share price Lowest	Aggregate Consideration Paid (before expenses)
		HK$	*HK$*	*HK$*
March 2014	202,000	5.0000	4.8600	997,981
Total	202,000			997,981

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2014.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Mr. Wang Mingcai. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2014.

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

Hong Kong, 27 August 2014

As at the date of this announcement, Mr. LUO Lin, Mr. WU Di and Mr. LIU Enlong are the executive directors of the Company; Mr. Jean Francois POUPEAU is a non-executive director of the Company; and Mr. ZHANG Yongyi, Mr. ZHU Xiaoping and Mr. WANG Mingcai are the independent non-executive directors of the Company.