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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 2019

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 41.6% from RMB1,165.9 million in the same period of 2018 to RMB1,650.6 million in the first half of 2019.
- Profit attributable to the owners of the Company increased by 71.1% from a profit of RMB85.0 million in the same period of 2018 to a profit of RMB145.4 million for the first half of 2019.
- Net cash generated from operating activities of the Group strongly increased by 489.0% from RMB45.5 million in the same period of 2018 to RMB268.0 million in the first half of 2019.

RESULTS

The board of directors (the “**Board**”) of Anton Oilfield Services Group (the “**Company**”) announces 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 2019 (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 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**As at 30 June 2019***(Amounts expressed in thousands of Renminbi (“RMB”), unless otherwise stated)*

| | <i>Notes</i> | As at 30 June 2019 (Unaudited) | As at 31 December 2018 (Audited) |
|---|--------------|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 2,176,907 | 2,255,805 |
| Right-of-use assets | | 182,964 | – |
| Prepaid lease payments | | – | 75,635 |
| Goodwill | | 242,004 | 242,004 |
| Intangible assets | | 256,443 | 252,714 |
| Interest in a joint venture | | 3,402 | 3,046 |
| Prepayments and other receivables | | 111,659 | 112,810 |
| Other non-current assets | | 3,293 | 8,375 |
| Deferred income tax assets | | 41,480 | 52,076 |
| | | <u>3,018,152</u> | <u>3,002,465</u> |
| Current assets | | | |
| Inventories | | 737,882 | 774,359 |
| Prepaid lease payments | | – | 1,932 |
| Trade and notes receivables | 5 | 2,041,628 | 1,948,030 |
| Contract assets | 6 | 69,436 | 58,579 |
| Prepayments and other receivables | | 649,875 | 437,958 |
| Current portion of other non-current assets | | 7,178 | 5,694 |
| Restricted bank deposits | | 406,449 | 330,948 |
| Cash and cash equivalents | | 631,700 | 686,636 |
| | | <u>4,544,148</u> | <u>4,244,136</u> |
| Total assets | | <u>7,562,300</u> | <u>7,246,601</u> |
| EQUITY | | | |
| Equity attributable to the owners of the Company | | | |
| Share capital | | 276,220 | 275,959 |
| Reserves | | 2,506,516 | 2,369,915 |
| | | <u>2,782,736</u> | <u>2,645,874</u> |
| Non-controlling interests | | <u>48,611</u> | <u>48,688</u> |
| Total equity | | <u>2,831,347</u> | <u>2,694,562</u> |

| | <i>Notes</i> | As at 30 June 2019 <i>(Unaudited)</i> | As at 31 December 2018 <i>(Audited)</i> |
|---|--------------|--|--|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long-term bonds | | 2,056,836 | 2,051,403 |
| Long-term borrowings | | 249,424 | 243,341 |
| Lease liabilities | | 70,729 | – |
| Deferred income tax liabilities | | 10,330 | 10,440 |
| | | <u>2,387,319</u> | <u>2,305,184</u> |
| Current liabilities | | | |
| Short-term borrowings | | 770,662 | 879,192 |
| Current portion of long-term bonds | | 14,522 | 14,498 |
| Current portion of long-term borrowings | | 137,321 | 82,214 |
| Trade and notes payables | 7 | 885,197 | 714,091 |
| Accruals and other payables | | 360,198 | 455,278 |
| Lease liabilities | | 36,847 | – |
| Contract liabilities | | 64,997 | 38,814 |
| Current income tax liabilities | | 73,890 | 62,768 |
| | | <u>2,343,634</u> | <u>2,246,855</u> |
| Total liabilities | | <u>4,730,953</u> | <u>4,552,039</u> |
| Total equity and liabilities | | <u><u>7,562,300</u></u> | <u><u>7,246,601</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**For the six months ended 30 June 2019***(Amounts expressed in thousands of RMB, unless otherwise stated)*

| | <i>Notes</i> | Six months ended 30 June | 2019 | 2018 |
|---|--------------|---------------------------------|--------------------|-------------|
| | | (Unaudited) | (Unaudited) | |
| Revenue | | | | |
| Contracts with customers | 8 | 1,556,302 | 1,131,139 | |
| Rental | 8 | 94,286 | 34,753 | |
| Total revenue | 8 | 1,650,588 | 1,165,892 | |
| Cost of sales | 9 | (1,090,951) | (705,717) | |
| Gross profit | | 559,637 | 460,175 | |
| Other gains, net | | 5,331 | 7,448 | |
| Impairment losses under expected credit loss model, net of reversal | 9 | (26,356) | (22,038) | |
| Selling expenses | 9 | (80,836) | (60,373) | |
| Administrative expenses | 9 | (70,964) | (64,862) | |
| Research and development expenses | 9 | (13,913) | (7,929) | |
| Sales tax and surcharges | | (6,637) | (4,929) | |
| Operating profit | | 366,262 | 307,492 | |
| Interest income | | 456 | 1,929 | |
| Finance expenses | | (154,391) | (157,297) | |
| Finance costs, net | 10 | (153,935) | (155,368) | |
| Share of profit/(loss) of a joint venture | | 356 | (110) | |
| Profit before income tax | | 212,683 | 152,014 | |
| Income tax expense | 11 | (67,403) | (38,663) | |
| Profit for the period | | 145,280 | 113,351 | |
| Profit/(loss) attributable to: | | | | |
| Owners of the Company | | 145,357 | 84,952 | |
| Non-controlling interests | | (77) | 28,399 | |
| | | 145,280 | 113,351 | |
| Earnings per share for profit attributable to the owners of the Company (expressed in RMB per share) | | | | |
| – Basic | 12 | 0.0484 | 0.0319 | |
| – Diluted | 12 | 0.0480 | 0.0315 | |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

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

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2019 | 2018 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Profit for the period | 145,280 | 113,351 |
| Other comprehensive (expense)/income, net of tax: | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Net investment hedge | (3,055) | (21,619) |
| Currency translation differences | 6,031 | 24,001 |
| | <hr/> | <hr/> |
| Other comprehensive income for the period, net of tax | 2,976 | 2,382 |
| | <hr/> | <hr/> |
| Total comprehensive income for the period | 148,256 | 115,733 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Total comprehensive income/(expense) attributable to: | | |
| Owners of the Company | 148,333 | 86,601 |
| Non-controlling interests | (77) | 29,132 |
| | <hr/> | <hr/> |
| | 148,256 | 115,733 |
| | <hr/> <hr/> | <hr/> <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

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

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Net cash generated from operating activities | 267,981 | 45,500 |
| Net cash used in investing activities | (69,944) | (46,509) |
| Net cash used in financing activities | (251,293) | (691,507) |
| | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | (53,256) | (692,516) |
| Cash and cash equivalents at beginning of the period | 686,636 | 1,133,097 |
| Exchange (loss)/gain on cash and cash equivalents | (1,680) | 10,785 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period | <u>631,700</u> | <u>451,366</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

(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, Umland House, Grand Cayman, KY1-1104, Cayman Islands.

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”), as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

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

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

3.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases*

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

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

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

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

As a lessee

Short-term leases

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

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

Lease liabilities

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

The lease payments include:

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

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

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

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

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

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

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

As a lessor

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

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

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

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

- relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of buildings in the PRC was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid lease payments by applying IFRS 16.C8(b)(ii) transition.

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

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

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

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

Notes:

- (a) Upon application of IFRS 16, the Group recognised and measured the lease liabilities at the present value, using the incremental borrowing rate, of lease payments that were unpaid after excluding short-term leases. In addition, the Group reclassified the lease liabilities as current and non-current liabilities respectively at 1 January 2019 based on settlement term.
- (b) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB1,932,000 and RMB75,635,000 respectively were reclassified to right-of-use assets.

As a lessor

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

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

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

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

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

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

There is no material impact of applying IFRS 16 as a lessor on the Group’s condensed consolidated statement of financial position as at 30 June 2019 and its condensed consolidated statement of profit or loss and other comprehensive income and cash flows for the current interim period.

4. SEGMENT INFORMATION

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

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

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

All of the three reportable segments include a number of direct service provision operations in various cities in China and overseas countries, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into three single reportable segments based on their sharing of similar economic characteristics, including similar nature of the services and products, type of 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 the Group’s consolidated financial statements for the year ended 31 December 2018. The CODM evaluate the performance of the operating segments based on profit or loss before income tax expense, certain depreciation and amortisation, interest income, finance expenses, share of profit/(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 |
|--------------------------------------|------------------------|--------------------|-------------------------------|-----------|
| Six months ended 30 June 2019 | | | | |
| (Unaudited) | | | | |
| Revenue (Note) | 741,849 | 373,657 | 535,082 | 1,650,588 |
| EBITDA | 301,005 | 156,271 | 217,627 | 674,903 |
| Depreciation and amortisation | (80,329) | (51,062) | (13,030) | (144,421) |
| Impairment provision of | | | | |
| – Trade receivables | (4,295) | (7,178) | (8,425) | (19,898) |
| – Other receivables | (5,022) | (1,429) | (7) | (6,458) |
| – Inventories | (1,244) | (891) | (3,066) | (5,201) |
| Interest income | 60 | 128 | 13 | 201 |
| Finance expenses | (2,914) | (2,107) | (2,119) | (7,140) |
| Share of profit of a joint venture | 356 | – | – | 356 |
| Income tax expense | (18,688) | (12,130) | (36,585) | (67,403) |

| | Drilling technology | Well completion | Oil production services | Total |
|--------------------------------------|------------------------|--------------------|-------------------------------|-----------|
| Six months ended 30 June 2018 | | | | |
| (Unaudited) | | | | |
| Revenue (Note) | 615,933 | 285,992 | 263,967 | 1,165,892 |
| EBITDA | 284,323 | 130,406 | 126,455 | 541,184 |
| Depreciation and amortisation | (55,871) | (44,932) | (11,518) | (112,321) |
| Impairment provision of | | | | |
| – Trade receivables | (4,767) | (14,232) | (3,039) | (22,038) |
| – Inventories | (3,434) | (293) | (657) | (4,384) |
| Interest income | 54 | 60 | 191 | 305 |
| Finance expenses | (2,632) | (2,691) | (1,941) | (7,264) |
| Share of loss of a joint venture | (110) | – | – | (110) |
| Income tax expense | (14,484) | (9,573) | (14,606) | (38,663) |

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 condensed consolidated statement of profit or loss.

| | Drilling technology | Well completion | Oil production services | Total |
|---|------------------------|--------------------|-------------------------------|-----------|
| As at 30 June 2019 (Unaudited) | | | | |
| Total assets | 2,255,893 | 2,640,686 | 517,165 | 5,413,744 |
| Total assets include: | | | | |
| Capital expenditures | 55,796 | 30,523 | 14,851 | 101,170 |
| As at 31 December 2018 (Audited) | | | | |
| Total assets | 2,082,006 | 2,679,875 | 545,808 | 5,307,689 |
| Total assets include: | | | | |
| Capital expenditures | 117,318 | 64,179 | 31,228 | 212,725 |

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

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

| | Six months ended 30 June | |
|---|-----------------------------------|---------------------|
| | 2019 <i>(Unaudited)</i> | 2018 (Unaudited) |
| EBITDA for reportable segments | 674,903 | 541,184 |
| Corporate overheads | (279,659) | (243,358) |
| Depreciation of | | |
| – Property, plant and equipment | (118,668) | (95,137) |
| – Right-of-use assets | (13,470) | – |
| Amortisation | (12,283) | (17,184) |
| Asset impairment provision | (31,557) | (26,422) |
| Interest income | 201 | 305 |
| Finance expenses | (7,140) | (7,264) |
| Share of profit/(loss) of a joint venture | 356 | (110) |
| | 212,683 | 152,014 |

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

| | As at 30 June 2019 <i>(Unaudited)</i> | As at 31 December 2018 (Audited) |
|---|---|---|
| | Assets for reportable segments | 5,413,744 |
| Corporate assets for general management | 2,148,556 | 1,938,912 |
| | 7,562,300 | 7,246,601 |

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

Geographical Information

| | Revenue | | Non-current assets | |
|---------------------------|--|----------------------------|---|--|
| | Six months ended 30 June 2019 <i>(Unaudited)</i> | 2018 <i>(Unaudited)</i> | As at 30 June 2019 <i>(Unaudited)</i> | As at 31 December 2018 (Audited) |
| PRC | 672,534 | 413,808 | 2,092,666 | 2,025,979 |
| Republic of Iraq (“Iraq”) | 744,452 | 420,594 | 684,017 | 706,029 |
| Other countries | 233,602 | 331,490 | 186,489 | 204,881 |
| | 1,650,588 | 1,165,892 | 2,963,172 | 2,936,889 |

Client information

During the period, revenues of approximately RMB535,451,000 (six months ended 30 June 2018: RMB391,171,000) were derived from two (six months ended 30 June 2018: two) external customers, which contributed 16.82% and 15.62% to the total revenue, respectively (six months ended 30 June 2018: 18.14% and 15.41%). These revenues were mainly attributable to drilling technology and oil production services segments.

5. TRADE AND NOTES RECEIVABLES

| | As at 30 June 2019 <i>(Unaudited)</i> | As at 31 December 2018 <i>(Audited)</i> |
|----------------------------|--|--|
| Trade receivables, net (a) | | |
| – from related parties | 53,320 | 44,893 |
| – others | 1,944,232 | 1,851,173 |
| | <u>1,997,552</u> | <u>1,896,066</u> |
| Trade receivables, net (a) | | |
| – goods and services | 1,976,083 | 1,896,066 |
| – leases | 21,469 | – |
| | <u>1,997,552</u> | <u>1,896,066</u> |
| Notes receivable (c) | 44,076 | 51,964 |
| | <u>2,041,628</u> | <u>1,948,030</u> |

Notes:

- (a) Ageing analysis based on the invoice date:

| | As at 30 June 2019 <i>(Unaudited)</i> | As at 31 December 2018 <i>(Audited)</i> |
|-------------------|--|--|
| 1 – 6 months | 1,242,092 | 1,242,571 |
| 6 months – 1 year | 392,696 | 427,329 |
| 1 – 2 years | 332,016 | 198,697 |
| 2 – 3 years | 30,748 | 27,469 |
| | <u>1,997,552</u> | <u>1,896,066</u> |

- (b) Most of the trade receivables are with credit terms of one year or less. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables.
- (c) As at 30 June 2019, total notes received amounting to RMB44,076,000 (31 December 2018: RMB51,964,000) are held by the Group for settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All notes received by the Group are with a maturity period of less than one year.
- (d) As at 30 June 2019, trade receivables of RMB478,101,000 (31 December 2018: RMB357,123,000) were pledged as security for short-term borrowings of RMB144,195,000 (31 December 2018: RMB268,235,000) and long-term borrowings of RMB100,000,000 (31 December 2018: Nil).

(e) Allowance for impairment of trade receivables

| | Six months ended 30 June | |
|-----------------|---------------------------------|----------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| As at 1 January | 122,120 | 63,664 |
| Addition | 19,898 | 22,038 |
| Write-off | – | (427) |
| | <hr/> | <hr/> |
| As at 30 June | <u>142,018</u> | <u>85,275</u> |

For impairment assessment on trade receivables subject to expected credit loss model, the basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

6. CONTRACT ASSETS

| | As at 30 June 2019 (Unaudited) | As at 31 December 2018 (Audited) |
|---|---|---|
| Retention money receivables relating to revenue from services | 69,436 | 58,579 |
| Less: Impairment of contract assets | – | – |
| | <hr/> | <hr/> |
| | <u>69,436</u> | <u>58,579</u> |

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

7. TRADE AND NOTES PAYABLES

| | As at 30 June 2019 (Unaudited) | As at 31 December 2018 (Audited) |
|-------------------|---|---|
| Trade payables | | |
| – related parties | 13,094 | 13,094 |
| – others | 480,183 | 468,297 |
| Notes payable | 391,920 | 232,700 |
| | <hr/> | <hr/> |
| | <u>885,197</u> | <u>714,091</u> |

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

| | As at 30 June 2019 <i>(Unaudited)</i> | As at 31 December 2018 <i>(Audited)</i> |
|------------------|--|--|
| Less than 1 year | 766,862 | 596,564 |
| 1 – 2 years | 43,057 | 43,527 |
| 2 – 3 years | 41,219 | 34,465 |
| Over 3 years | 34,059 | 39,535 |
| | <u>885,197</u> | <u>714,091</u> |

8. REVENUE

| | Six months ended 30 June 2019 <i>(Unaudited)</i> | 2018 <i>(Unaudited)</i> |
|-----------------------|---|----------------------------|
| Sales of goods | 150,263 | 148,729 |
| Provision of services | 1,406,039 | 982,410 |
| Rental | 94,286 | 34,753 |
| | <u>1,650,588</u> | <u>1,165,892</u> |

Disaggregation of revenue

| Segments | For the six months ended 30 June 2019 | | |
|--------------------------------------|---------------------------------------|--------------------|----------------------------|
| | Drilling technology | Well completion | Oil production services |
| Types of goods or service | | | |
| Sales of goods | 40,641 | 89,740 | 19,882 |
| Provision of services | 608,116 | 282,723 | 515,200 |
| Total | <u>648,757</u> | <u>372,463</u> | <u>535,082</u> |
| Geographical markets | | | |
| PRC | 335,533 | 195,613 | 47,102 |
| Iraq | 181,028 | 127,853 | 435,571 |
| Other countries | 132,196 | 48,997 | 52,409 |
| Total | <u>648,757</u> | <u>372,463</u> | <u>535,082</u> |
| Timing of revenue recognition | | | |
| A point in time | 648,757 | 372,463 | 154,390 |
| Over time | – | – | 380,692 |
| Total | <u>648,757</u> | <u>372,463</u> | <u>535,082</u> |

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

| | For the six months ended 30 June 2019 | | |
|---|--|----------------------------|------------------------------------|
| | Drilling technology | Well completion | Oil production services |
| Revenue disclosed in segment information | | | |
| External customers | 741,849 | 373,657 | 535,082 |
| Inter-segment | 451,759 | 162,374 | 339,769 |
| | <u>(451,759)</u> | <u>(162,374)</u> | <u>(339,769)</u> |
| Inter-segment eliminations | | | |
| Rental income | (93,092) | (1,194) | – |
| | <u>(93,092)</u> | <u>(1,194)</u> | <u>–</u> |
| Revenue from contracts with customers | <u>648,757</u> | <u>372,463</u> | <u>535,082</u> |
| | | | |
| | For the six months ended 30 June 2018 | | |
| Segments | Drilling technology | Well completion | Oil production services |
| Types of goods or service | | | |
| Sales of goods | 60,353 | 76,662 | 11,714 |
| Provision of services | 521,857 | 208,300 | 252,253 |
| | <u>521,857</u> | <u>208,300</u> | <u>252,253</u> |
| Total | <u>582,210</u> | <u>284,962</u> | <u>263,967</u> |
| | | | |
| Geographical markets | | | |
| PRC | 208,702 | 125,441 | 44,912 |
| Iraq | 126,687 | 90,744 | 203,163 |
| Other countries | 246,821 | 68,777 | 15,892 |
| | <u>246,821</u> | <u>68,777</u> | <u>15,892</u> |
| Total | <u>582,210</u> | <u>284,962</u> | <u>263,967</u> |
| | | | |
| Timing of revenue recognition | | | |
| A point in time | 582,210 | 284,962 | 113,545 |
| Over time | – | – | 150,422 |
| | <u>–</u> | <u>–</u> | <u>150,422</u> |
| Total | <u>582,210</u> | <u>284,962</u> | <u>263,967</u> |

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

| | For the six months ended 30 June 2018 | | |
|---|--|----------------------------|------------------------------------|
| | Drilling technology | Well completion | Oil production services |
| Revenue disclosed in segment information | | | |
| External customers | 615,933 | 285,992 | 263,967 |
| Inter-segment | 565,856 | 329,855 | 107,317 |
| | <u>565,856</u> | <u>329,855</u> | <u>107,317</u> |
| Inter-segment eliminations | (565,856) | (329,855) | (107,317) |
| Rental income | (33,723) | (1,030) | – |
| | <u>(33,723)</u> | <u>(1,030)</u> | <u>–</u> |
| Revenue from contracts with customers | <u>582,210</u> | <u>284,962</u> | <u>263,967</u> |

9. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2019 | 2018 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Materials and services purchased | 518,182 | 359,362 |
| Staff costs | 363,706 | 234,601 |
| In which: | | |
| – Salaries and other staff expenses | 346,965 | 223,215 |
| – Share-based compensation | 16,741 | 11,386 |
| Depreciation | 152,815 | 107,907 |
| In which: | | |
| – Property, plant and equipment | 139,345 | 107,907 |
| – Right-of-use assets | 13,470 | – |
| Amortisation of prepaid lease payments and intangible assets | 19,575 | 20,731 |
| Less: Capitalised in inventories | 2,052 | 3,108 |
| | 17,523 | 17,623 |
| | 16,142 | 16,247 |
| In which: | | |
| – Cost of sales | 535 | 600 |
| – Administrative expenses | 9 | 8 |
| – Selling expenses | 837 | 768 |
| – Research and development expenses | | |
| Other operating expenses | 230,794 | 141,426 |
| In which: | | |
| – Increase in impairment of receivables | 26,356 | 22,038 |
| – Increase in impairment of inventories | 5,201 | 4,384 |

10. FINANCE COSTS, NET

| | Six months ended 30 June | |
|------------------------|---------------------------------|--------------------|
| | 2019 | 2018 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Interest expenses | | |
| – on borrowings | (40,061) | (32,364) |
| – on bonds | (101,098) | (108,321) |
| – on lease liabilities | (2,911) | – |
| | (144,070) | (140,685) |
| Exchange loss, net | (1,843) | (6,025) |
| Others | (8,478) | (10,587) |
| Finance expenses | (154,391) | (157,297) |
| Interest income | 456 | 1,929 |
| | (153,935) | (155,368) |

11. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|-----------------------------|--------------------------|---------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Current income tax | | |
| – PRC enterprise income tax | 2,566 | 1,076 |
| – Iraq corporate income tax | 52,249 | 29,588 |
| – Others | 2,102 | 1,383 |
| Deferred income tax | 10,486 | 6,616 |
| | <u>67,403</u> | <u>38,663</u> |

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

For the Company's PRC subsidiaries, enterprise income tax is provided on estimated taxation profits at applicable tax rate of 25% (2018: 25%), except that certain subsidiaries which have applied preferential tax rates of 15%.

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

12. EARNINGS PER SHARE

(a) Basic

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

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to the owners of the Company (RMB' 000) | 145,357 | 84,952 |
| Weighted average number of ordinary shares in issue (thousands of shares) | <u>3,004,051</u> | <u>2,662,362</u> |
| Basic earnings per share (expressed in RMB per share) | <u>0.0484</u> | <u>0.0319</u> |

(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 six months ended 30 June 2019 and 2018, the only dilutive factor of the Company was the outstanding share options.

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to the owners of the Company (RMB' 000) | 145,357 | 84,952 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 3,004,051 | 2,662,362 |
| Adjustments for assumed conversion of share options (thousands of shares) | 24,642 | 32,186 |
| | <u>3,028,693</u> | <u>2,694,548</u> |
| Weighted average number of ordinary shares for computation of diluted earnings per share (thousands of shares) | <u>3,028,693</u> | <u>2,694,548</u> |
| | <u>0.0480</u> | <u>0.0315</u> |
| Diluted earnings per share (expressed in RMB per share) | <u>0.0480</u> | <u>0.0315</u> |

13. DIVIDENDS

During the current interim period, a final dividend of RMB1 cent per share, with the aggregate amount of RMB30,107,000, in respect of the year ended 31 December 2018 was declared and paid to the owners of the Company (2018: Nil).

The Directors have determined that no dividend will be paid in respect of the current interim period (Six months ended 30 June 2018: Nil).

14. EVENT AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, although international oil price showed a large volatility, in the two major markets – the Iraqi market and the Chinese market where the Group’s main business is located, price sensitivity of oil and gas development is low, and business development was unaffected by short-term oil price fluctuations. Capital expenditures continued to increase, and oil and gas development continued to be active. In the Iraqi market, the government was committed to promoting the reconstruction of the country, and vigorously promoting its oil and gas production capacity, bringing a lot of project opportunities. Meanwhile, facing the risk of oil and gas over-dependent on import, the three major oil companies were actively responding to the national call to significantly increase oil and gas exploration and development investment in the Chinese market, and to make every effort to boost development of oil and gas resources in major blocks in China in order to enhance the independent supply of oil and gas and ensure national energy security. The development of natural gas in northwest Xinjiang and southwest shale gas markets has greatly accelerated.

The Group seized the great market opportunity and continued to achieve breakthroughs in its business performance based on the business philosophy of “cash flow and return on equity” as its core business growth objectives. In addition to the continued growth in revenue and profit, the Group’s breakthrough in cash flow was more prominent. In the first half of 2019, based on the continuous optimization of the Group’s business structure, the Group continued to strictly control the overall process from order, procurement, operation to payment, and comprehensively improved inventory turnover, accelerated collection of accounts receivable while continued to keep capital expenditures under strict control. Beyond a continuous profit growth, it is more remarkable on its strong growth on cash flow. The Group achieved positive free cash flow in the first half of a year for the first time, which even exceeded the amount for the full year of 2018.

Results and Performance

In the first half of 2019, the Group’s revenue was RMB1,650.6 million, an increase of RMB484.7 million compared with the first half of 2018, or 41.6%. The Group’s operating profit was RMB366.3 million, an increase of RMB58.8 million compared with RMB307.5 million for the same period of 2018, or 19.1%. Net profit was RMB145.3 million, an increase of RMB31.9 million compared with RMB113.4 million for the same period of 2018, or 28.1%. Profit attributable to the owners of the Company was RMB145.4 million, an increase of RMB60.4 million compared with RMB85.0 million for the same period of 2018, or 71.1%. The net profit margin attributable to the owners of the Company was 8.8%, an increase of 1.5 percentage points from 7.3% for the same period in 2018.

As of 30 June 2019, the Group’s accounts receivable is approximately RMB1,997.6 million, and the average turnover days of accounts receivable were 212 days, a decrease of 53 days from the same period last year; average inventory turnover days were 125 days, a decrease of 33 days from the same period last year; average accounts payable turnover days were 80 days, a decrease of 55 days compared with the same period last year. Operating cash flow was RMB268.0 million, a significant increase of RMB222.5 million compared with RMB45.5 million for the same period last year.

Geographical Market Analysis

In the first half of 2019, the Group's overseas market revenue was RMB978.1 million, an increase of RMB226.0 million compared with RMB752.1 million for the same period of 2018, or 30.0%. The overseas market accounted for 59.3% of the Group's total revenue. In the overseas markets, the Iraqi market recorded revenue of RMB744.5 million, an increase of RMB323.9 million compared with RMB420.6 million for the same period of 2018, or 77.0%, and accounted for 45.1% of the Group's total revenue; revenue of other overseas markets were RMB233.6 million, RMB97.9 million lower than the RMB331.5 million for the same period of 2018, a decrease of 29.5%, and accounted for 14.2% of the Group's total revenue. In the domestic market, the Group recorded revenue of RMB672.5 million, an increase of RMB258.7 million compared with RMB413.8 million in the same period of 2018, or 62.5%, and accounted for 40.7% of the Group's total revenue.

Breakdown of Revenue by Market

| | 6 months ended 30 June | | | Share of total revenue | |
|----------|------------------------|------------------|---------------|--------------------------------|--------|
| | 2019 (RMB'mn) | 2018 (RMB'mn) | Change (%) | 6 months ended 30 June 2019 | 2018 |
| Overseas | 978.1 | 752.1 | 30.0% | 59.3% | 64.5% |
| Domestic | 672.5 | 413.8 | 62.5% | 40.7% | 35.5% |
| Total | 1,650.6 | 1,165.9 | 41.6% | 100.0% | 100.0% |

Overseas Market

| | 6 months ended 30 June | | | Share of total revenue of the Group | |
|------------------------|------------------------|------------------|---------------|--|-------|
| | 2019 (RMB'mn) | 2018 (RMB'mn) | Change (%) | 6 months ended 30 June 2019 | 2018 |
| Iraqi market | 744.5 | 420.6 | 77.0% | 45.1% | 36.1% |
| Other overseas markets | 233.6 | 331.5 | -29.5% | 14.2% | 28.4% |
| Total | 978.1 | 752.1 | 30.0% | 59.3% | 64.5% |

Overseas Market

Key overseas market – Iraq

In the first half of 2019, the Group's large oilfield management project in Iraq kept a high-quality, stable and efficient operation, which was highly praised by the customer. On 15 July, oilfield customers organized a first-anniversary celebration of the oilfield management takeover. The

deputy minister of Iraqi Ministry of Oil, senior management of customers, the chairman of the Group together with Anton's oilfield management team attended the ceremony. During the event, the chairman of the Group reported on the major achievements of the operation in the past year, and discussed in-depth the long-term operation plan of the oilfield with customers. As the first large oilfield operated by the Iraqi government, the ceremony was spotlighted by the Iraqi Ministry of Oil as well as the local media, and the branding of the Group in the Iraqi market was further promoted. In the other markets in Iraq, the Group continued to promote high quality services in mature markets such as Halfaya and West Qurna-II oilfields, and actively participated in bidding for large-scale projects of international oil companies.

In the first half of 2019, the Company received new orders for a total of approximately RMB740.1 million in the Iraqi market. Due to the large-scale oilfield management service order under the new business model of RMB1,260.0 million in the same period last year, and the lack of the same kind of super project in the first half of this year, the total new order in the first half of this year decreased 51.6% from RMB1,528.7 million for the same period last year, but if the impact of this single item was removed, the Group's Iraqi business orders recorded a growth of 175.4%. In the first half of the year, the Iraqi market recorded revenue of approximately RMB744.5 million, a significant increase of approximately 77.0% compared with RMB420.6 million for the same period last year.

Other overseas markets – emerging markets

In the first half of 2019, the Group strictly managed its business operations taking “cash flow and return on equity” as its core growth target, strictly selecting quality orders in global emerging markets, and proactively given up projects whose cash flow cannot meet the Group's management requirements for more premium project orders. During the reporting period, the Group's regional market projects in Ethiopia and Kazakhstan decreased, while projects in the new African market of Chad continued to advance.

In the first half of the year, total new orders of the Group in the other overseas markets amounted to RMB297.0 million, a decrease of 40.9% compared with the same period last year. Although the total order volume decreased, the new orders were mainly asset-light project from the new market of Chad, with order quality continuing to improve. The Group will continue to focus and expand on more high-quality project opportunities in emerging markets around the world. In the first half of 2019, other overseas markets recorded revenue of approximately RMB233.6 million, a decrease of approximately 29.5% from RMB331.5 million for the same period last year.

Domestic market

In the domestic Chinese market, all major oil companies actively responded to the government's call and made every effort to increase investment and promote the development of domestic oil and gas resources to safeguard national energy security from the beginning of 2019. In the first half of the year, upstream production capacity building of the domestic market was fully accelerated, exploration and development investment in the markets of Xinjiang and Sichuan increased significantly, with strong oil and gas development services demand.

In 2019, China's high-end market of Xinjiang showed a great development, the exploration and development activities were concentrated in the Tarim basin and the circum-Mahu lake basin. The Group has advantages in the market and a substantial market position. In the first half of the year, the Group's new orders from the Xinjiang market reached RMB742.6 million, which doubled the number of the same period in 2018. At the same time, the development of the shale gas market in southwestern China has also picked up pace. In order to meet the demand of customers for heavy equipment while satisfying the requirements of the Group's asset-light development strategy, the Group has adopted the "equipment alliance" approach to integrate drilling and completion equipment of several independent service companies. In the first half of the year, in the qualification bidding of shale gas drilling project in Sichuan, the Group fully mobilized the "equipment alliance" resources and won 14 fleets, which accounted for almost 50% market share of independent service companies that won the bidding. In the first half of 2019, the Company received new orders in the Chinese market of approximately RMB1,648.2 million, an increase of approximately 69.8% compared with RMB970.6 million for the same period last year. The growth in the Xinjiang market has resulted in the continued and significant increase of order quality. In the first half of 2019, the Chinese market recorded revenue of approximately RMB672.5 million, a significant increase of approximately 62.5% compared with RMB413.8 million for the same period last year.

Business Cluster Analysis

In the first half of the year, the Group's drilling business continued to grow steadily with the continuous investment and capacity building of the Group's customers in various markets globally. During the reporting period, the Group's revenue from the Group's drilling technology cluster was RMB741.8 million, an increase of approximately 20.4% for the first half of 2018, accounting for 44.9% of the Group's revenue for the first half of 2019. The Group's well completion business also achieved overall growth. In the first half of 2019, the revenue of the well completion cluster was RMB373.7 million, an increase of approximately 30.7% as compared with the first half of 2018, accounting for 22.6% of the Group's total revenue. For the oil production business, the Group's

large-scale integrated oilfield management project in the Iraqi market operated smoothly during the reporting period, and the oil production services cluster recorded revenue of RMB535.1 million, an increase of approximately 102.7% as compared with the first half of 2018, accounting for 32.5% of the Group's total revenue.

Revenue Breakdown by Cluster

| | 6 months ended 30 June | | Change (%) | % of total revenue | |
|---------------------------------|-----------------------------------|-----------------------------------|---------------|--------------------------------|--------------------------------|
| | First half of 2019 (RMB'mn) | First half of 2018 (RMB'mn) | | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 |
| Drilling technology cluster | 741.8 | 615.9 | 20.4% | 44.9% | 52.8% |
| Well completion cluster | 373.7 | 286.0 | 30.7% | 22.6% | 24.5% |
| Oil production services cluster | 535.1 | 264.0 | 102.7% | 32.5% | 22.7% |
| Total | <u>1,650.6</u> | <u>1,165.9</u> | <u>41.6%</u> | <u>100.0%</u> | <u>100.0%</u> |

Drilling technology cluster

In the first half of 2019, the Group's drilling technology cluster recorded revenue of RMB741.8 million, an increase of 20.4% from RMB615.9 million in the first half of 2018. The increase was mainly due to the increase in capital expenditures by customers for building new capacity, which led to a significant increase in new well development investment and the acceleration of capacity building.

Analysis of product lines in this cluster:

- 1) Integrated drilling services: during the year, the Group's integrated drilling projects were actively carried out in the Iraqi market and the southwestern China shale gas market. However, based on the Group's consideration of project "cash flow", projects in Kazakhstan market were proactively reduced. During the reporting period, the revenue from integrated drilling services was RMB157.9 million, a decrease of 32.2% from RMB232.8 million during the same period of 2018.
- 2) Directional drilling services: in the first half of the year, the Group maintained continuous cooperation with customers in the Iraqi market; in the Chinese market, the Group provided directional drilling services to customers in various regional markets such as the northwest market and southwest shale gas market. Due to decreases in business in other overseas emerging market, directional drilling services recorded revenue of RMB93.2 million during the reporting period, down 1.6% from RMB94.7 million in the same period last year.

- 3) Drilling fluid services: with the rapid growth in the Chinese market, especially the Xinjiang natural gas development project, the Group's market-leading oil-based drilling fluid and high-performance water-based drilling fluid services have witnessed increased workload. Overseas, the Group provides project services in markets such as Chad and Iraq. In the first half of the year, the Group's drilling fluid services recorded revenue of RMB99.1 million, an increase of 39.0% from RMB71.3 million in the same period last year.
- 4) Drilling rig services: thanks to the acceleration of new capacity building in southwest China shale gas market and northwest Xinjiang market, drilling rig services continued to grow substantially during the reporting period. During the reporting period, it recorded revenue of RMB190.0 million, a significant increase of 54.3% from RMB123.1 million for the same period last year.
- 5) Oilfield waste management services: in the first half of the year, this product line recorded revenue of RMB8.8 million, a decrease of 50.8% from RMB17.9 million for the same period last year.
- 6) Drilling tool rental and technology services: as the development of oil and gas resources in the Chinese market accelerates, the demand for drilling tool rental continues to increase. Through strategic cooperation with CRCC Financial Leasing Co., Ltd., the Group integrates drilling tool resources with light assets and high efficiency to provide services to customers. During the reporting period, this product line recorded revenue of RMB139.1 million, a significant increase of 312.8% from RMB33.7 million during the same period of 2018.
- 7) Oil production facilities inspection and evaluation services: in the first half of the year, the product line mainly achieved growth in the northwest China market and the southwest shale gas market. During the reporting period, this product line recorded revenue of RMB53.7 million, an increase of 26.7% compared with RMB42.4 million for the same period last year.

EBITDA of the drilling technology cluster increased from RMB284.3 million in the same period last year to RMB301.0 million in the first half of 2019, an increase of 5.9%. In the first half of the year, the EBITDA margin was 40.6%, a decrease of 5.6 percentage points compared with 46.2% in the same period of last year, mainly due to the Group's business requirements for "cash flow" as its core for growth. Along with a large increase in project volume, the Group continued to keep strict control on capital expenditure, and chose to cooperate with third parties to provide services which need heavy assets such as drilling rigs for customers. In this way, the Group can obtain better cash flow and return rate while need to share profits with third-party partners.

Well completion cluster

In the first half of the year, the Group's well completion business continued to grow. During the reporting period, the revenue of the well completion cluster was RMB373.7 million, an increase of 30.7% compared with last year's RMB286.0 million.

Analysis of product lines in this cluster:

- 1) Well completion integration services: during the reporting period, with the continuous advancement of upstream capacity building, the business volume of this product line continued to grow. In the first half of the year, the well completion integration services recorded revenue of RMB121.1 million, an increase of 26.8% from RMB95.5 million for the same period last year.
- 2) Pressure pumping services: In the first half of the year, pressure pumping services recorded revenue of RMB101.3 million, a significant increase of 110.2% from RMB48.2 million for the same period last year, benefitting mainly from the substantial increase in business volume in the southwest shale gas market.
- 3) Coiled tubing services: in the first half of the year, the Group actively provided project services to customers in northwest and southwest China domestically and in Iraq overseas. Due to decrease of projects in other emerging markets, this product line recorded revenue of RMB95.7 million in the first half of the year, a decrease of 5.9% from RMB101.7 million for the same period of last year.
- 4) Fracturing/acidizing technique and chemical materials: during the reporting period, this product line recorded revenue of RMB18.7 million, an increase of 1.1% from RMB18.5 million in the same period last year;
- 5) Gravel packing services: this product line strengthened cooperation with SOE oil company customers in the first half of the year. During the reporting period, it recorded revenue of RMB36.9 million, a significant increase of 67.0% from RMB22.1 million in the same period last year.

EBITDA of the completion technology cluster increased from RMB130.4 million in the same period last year to RMB156.3 million in the first half of 2019, an increase of 19.9%. In the first half of the year, the EBITDA margin was 41.8%, a decrease of 3.8 percentage points from the 45.6% for the same period of last year, mainly due to the decrease in some high margin but low-cash-flow overseas emerging market projects of the Group under the consideration of cash flow, and the margin of large increased domestic pressure pumping projects are relatively lower.

Oil production services cluster

In the first half of the year, benefiting from the smooth operation of the Group's large-scale integrated oilfield management project in the Iraqi market, the oil production services cluster recorded revenue of RMB535.1 million, a significant increase of 102.7% from RMB264.0 million for the same period last year. In addition, the Group's asset-light production business in the Chad market in Africa has also maintained stable operation. The Group is actively promoting further breakthroughs in the asset-light integrated oilfield management model.

Analysis of product lines in this cluster:

- 1) Production operation services: in the first half of the year, the Group's integrated oilfield management service project in the Majnoon oilfield in Iraq was operating efficiently. During the reporting period, the product line recorded revenue of RMB392.3 million, a significant increase of 160.8% from RMB150.4 million for the same period last year.
- 2) Workover service: during the reporting period, the product line maintained a stable operation as a whole and recorded revenue of RMB113.2 million, up 12.6% from RMB100.5 million in the same period last year.
- 3) Oil tubing and casing and anti-corrosion technology services: during the reporting period, the product line recorded revenue of RMB29.6 million, up 126.0% from RMB13.1 million in the same period last year.

The EBITDA of the oil production services cluster increased from RMB126.5 million in the same period last year to RMB217.6 million in the first half of 2019, an increase of 72.0%. The EBITDA margin of oil production technology services clusters in the first half of the year was 40.7%, down 7.2 percentage points from last year's 47.9%. The decline in EBITDA margin is mainly due to the profit margin of large oilfield management projects is relatively lower than that of previous traditional technology services projects, but such projects are "asset-light" management projects, which do not require capital expenditures and contribute higher return on assets as well as providing stable free cash flow for the Group.

Strategic Resources Alignment

In the first half of 2019, despite the substantial increase in its overall business volume, the Group continued to control capital expenditures in accordance with the "asset-light" business model and the comprehensive control requirements with "cash flow" as its core. The large-scale equipment required for operation is procured by establishing a "equipment alliance" model with domestic independent service companies and allocating partner resources. Capital expenditures in the first half of the year were RMB69.9 million, strictly controlled within the budget, and an increase of 50.3% from RMB46.5 million in the first half of 2018.

Alignment of Investment

In the first half of 2019, the Group's investment was mainly supplemental equipment investment for ongoing projects.

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

In the first half of 2019, the Group focused on the improvement and innovation of related technologies or tools in conjunction with the actual needs of customers to increase production and reduce costs, and promoted the optimization and upgrading of the Group's products through technical cooperation. In the first half of 2019, the Group invested RMB13.9 million in research

and development, an increase of 75.9% from RMB7.9 million for the same period last year. Key research pipelines include:

- Nano-stimulation and injection technology
- Biosynthesis-based drilling fluid technology
- High-temp high-density environment-friendly water-based drilling fluid technology
- Regular-temp low-density environment-friendly drilling fluid technology
- LWD technology
- High-end production and completion tools

Alignment of Human Resources

In the first half of 2019, the Group continued to focus on strategic development goals and promote talent internationalization to support the rapid development of international business. At the same time, through incentive mechanisms, the Group continued to promote its talents to exert their initiative and create value for the Group's business growth. Major developments in human resources in 2019 include:

- With the rapid development of the Group's overseas business, we will comprehensively promote talent upgrading and strengthen the introduction of core overseas management talents of globalization, specialization and informatization. In the first half of 2019, the total number of employees of the Group increased by 135. As of June 30 2019, the total number of employees was 4,175, of which overseas employees increased by 86 to 2,342, and overseas employees accounted for 56.1% of the Group. With the increase of large-scale overseas projects, the Group established a "project-based" employment system to ensure efficient operation of the project and talent use efficiency. At the same time, the Group comprehensively strengthened its international training, improved the internationalization level of the company's overall employees, and provided talent foundation for the Group's international development.
- We continued to strengthen the floating incentives linked to performance appraisal by incentive mechanisms to enhance employee enthusiasm. The Group began in 2018 to fully implement the incentive mechanisms for operations, production and projects, and to give full play to the initiative of employees and promote management upgrades.
- We promoted the cultural mechanism of the "honor system", strengthen the process incentives, fully tap outstanding teams and individuals within the group, promptly commend and motivate, and form a good cultural orientation.

- The Company continues to adopt long-term incentive mechanism for share options to encourage employees to grow with the Group in the long term. A total of 95,000,000 shares of the Company’s common share options were granted to approximately 108 core employees and directors in January 2019 at an exercise price of HK\$0.79 per share. The grantee other than the independent non-executive directors may exercise the options after the first anniversary of the grant date, with one-third of the share options available for further exercising after each full anniversary thereafter.

Outlook

The Group’s long-term strategic goal is to become “the world’s leading oilfield technology service company”. The strategic goal of 2019 is “to become the leading production-increasing cost-reducing integrated technology service company in global emerging markets”. The Group will continue to focus on emerging markets for global oil and gas development, provide integrated technology services to increase production and reduce costs, continue to increase market share and improve business quality, increase return on assets, and create good free cash flow for healthy leap-forward development.

In terms of market, in Iraq, the Group will continue to provide integrated management services to customers in the Majnoon oilfield to help customers maintain efficient oilfield operations and expand production capacity while leveraging on the driving forces of the Majnoon project to win more project opportunities. In addition, the Group will spare no efforts to expand into the market of other international oil company customers in Iraq, and strive for the replication of the “integrated turn-key” model project; in other overseas markets, under the premise of controlling risks and ensuring safety of funds, we will strive for quality projects, occupy a core market position while controlling risks and achieving rapid growth under the premise of security. In the Chinese market, the Chinese government plans to further increase oil and gas resources development in 2019 to ensure national energy security. The major oil company customers in China are expected to further increase oil and gas development capital expenditures significantly. The Group will seize this market opportunity and provide high-end technical services in new technology markets, natural gas markets, unconventional markets, and high-quality international oil company customer markets to help customers rapidly increase production capacity.

In terms of product, technology and service capabilities, the Group will strive to create a full range of products and services to help customers achieve their strategic goals through full process, full series and integrated services. At the same time, we will focus on the development of specialized technologies for increasing production and reducing costs with reservoir geology technology as the core.

In terms of strategic resources alignment, the Group will focus on technology and talent development. In terms of technology, we will be focusing on technical cooperation and independent research and development; in terms of talents, we will be leveraging the brand advantages of the Group and attract industry leaders with international vision while boosting cultivation of talents. In terms of capital expenditure, the Group will adhere to the “asset-light” model. Conventional equipment is mainly sourced from external cooperation and leasing, and we will only invest in assets and projects with high returns and good cash flow.

In terms of finance, the Group will continue to improve the quality of its business, achieving good return on assets and free cash flow to carry out various tasks for the ultimate financial goal. Quality will take precedence over growth, but we must maintain rapid growth of various indicators. At the same time, we will continue to deepen good cooperation with financial institutions such as commercial banks to ensure sufficient liquidity of the Group and to obtain financial institutions' support for the Group's overseas development.

FINANCIAL REVIEW

Revenue

The Group's revenue for the first half of the year was RMB1,650.6 million, an increase of RMB484.7 million, or 41.6%, from RMB1,165.9 million for the same period in 2018. The increase in operating revenue of the Group was mainly attributable to the growth of its business in the Iraqi market and the substantial growth of domestic business under the market environment in which China fully promoted oil and gas development.

Cost of Sales

The cost of sales increased from RMB705.7 million for the same period in 2018 to RMB1,091.0 million in the first half of 2019, an increase of 54.6%, mainly due to the increase in revenue.

Other Gains, Net

Other gains decreased from RMB7.4 million for the same period in 2018 to RMB5.3 million in the first half of 2019, a decrease of 28.4%.

Impairment Loss of Financial Assets

The Group's impairment loss of financial assets increased by 20.0% from RMB22.0 million for the same period in 2018 to RMB26.4 million in the first half of 2019. The main increase was the increased provision for impairment of other receivables' individual assets according to the expected credit loss model, and the provision for impairment of trade receivables was reduced.

Selling Expenses

Selling expenses in the first half of the year was RMB80.8 million, representing an increase of The Group

Sales Tax and Surcharges

In the first half of 2019, the Group's tax and surcharges was RMB6.5 million, an increase of RMB1.6 million, or 32.7%, from RMB4.9 million for the same period in 2018, which was mainly due to increase in business of the Group.

Operating Profit

Based on the above, the operating profit for the first half of 2019 was RMB366.3 million, an increase of RMB58.8 million, or 19.1%, compared with RMB307.5 million for the same period in 2018. The operating margin for the first half of 2019 was 22.2%, which was 4.2 percentage points lower than 26.4% for the same period in 2018. This was mainly due to the Group's cooperation with third parties to provide related services for customers. In this way, although the Group obtained better cash flow, the profit margin was lower than the same period of 2018. However, operating profit still has a large increase benefiting from the substantial increase in the Group's revenue.

Finance Cost, Net

The net finance costs for the first half of 2019 was RMB153.9 million, a decrease of approximately RMB1.5 million from RMB155.4 million for the same period in 2018.

Income Tax Expense

In the first half of 2019, the Group's income tax expense was RMB67.4 million, an increase of RMB28.7 million from RMB38.7 million for the same period in 2018, mainly due to the increase in operating profit of the Group.

Profit for the Period

Based on the above, the Group's profit for the first half of 2019 was RMB145.3 million, an increase of RMB31.9 million, or 28.1%, from the profit of RMB113.4 million for the same period of 2018.

Profit Attributable to the Owners of the Company

In the first half of 2019, profit attributable to the owners of the Company was RMB145.4 million, an increase of RMB60.4 million compared with the same period in 2018.

Trade and Notes Receivables

As at 30 June 2019, the Group's net trade and notes receivables amounted to RMB2,041.6 million, an increase of RMB93.6 million from that of 31 December 2018. The average trade receivables turnover days for the first half of 2019 was 212 days, a decrease of 53 days compared with the same period in 2018, mainly due to the Group's enhanced cash flow management and increase in amounts collected from trade receivables.

Inventories

As at 30 June 2019, the Group's inventories amounted to RMB737.9 million, a decrease of RMB36.5 million from that of 31 December 2018.

Liquidity and Capital Resources

As at 30 June 2019, the Group's cash and bank deposits were approximately RMB1,038.1 million (including: restricted bank deposits, cash and cash equivalents), an increase of RMB20.5 million from that of 31 December 2018.

The bank borrowings outstanding of the Group as at 30 June 2019 were approximately RMB869.9 million. The credit line granted by domestic banks to the Group was RMB1,374.3 million, of which approximately RMB610.0 million was unused.

As at 30 June 2019, the Group's gearing ratio was 59.9%, which was 0.2 percentage points higher than the gearing ratio of 59.7% as at 31 December 2018. The gearing ratio is calculated based on the total borrowings divided by the total capital. Total borrowings include borrowings, bonds, lease liabilities, trade payables and notes payable (as shown in the condensed consolidated statement of financial position). Total capital is calculated based on equity (as shown in the condensed consolidated statement of financial position) plus total borrowings.

The equity attributable to the Company's owners increased from RMB2,645.9 million as at 31 December 2018 to RMB2,782.7 million as at 30 June 2019.

Acquisition and Disposal of Major Subsidiaries, Associates and Joint Ventures

For the six months ended 30 June 2019, the Group has no major acquisition or disposal of subsidiaries, associates and joint ventures.

Exchange Risk

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

Cash Flow from Operating Activities

For the six months ended 30 June 2019, the Group's cash flow from operating activities was RMB268.0 million, an increase of RMB222.5 million compared with the same period in the first half of 2018, which was mainly due to the Group adopted a strict cash flow management policy, the amount of trade receivables collected has increased and the inventory turnover rates have been lifted under the strict management of inventory.

Capital Expenditure and Investment

The Group's capital expenditure for the first half of 2019 was RMB69.9 million, of which fixed assets investment was RMB52.2 million and intangible assets investment was RMB17.7 million.

Contractual Commitments

The Group's contractual commitments mainly include the Group's capital commitments. As at the balance sheet date (i.e. 30 June 2019), the Group's capital commitments (but not yet provisioned on the condensed consolidated statement of financial position) amounted to approximately RMB75.3 million.

Contingent Liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2019, assets pledged for bank financing of the Group were buildings, plant, machinery and equipment with a net book value of RMB436.2 million, right-of-use assets with a net book value of RMB8.6 million as well as trade receivables with a net book value of RMB478.1 million.

Off-Balance Sheet Arrangements

As at 30 June 2019, the Group did not have any off-balance sheet arrangements.

INTERIM DIVIDEND

The board of directors (the "Board") of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2019 (For the six months ended 30 June 2018: Nil).

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") under Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 June 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors of the Company (the "Directors") 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 Directors. After specific enquiry with all members of the Board, the Company confirms that all 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 six months ended 30 June 2019, neither the Company nor its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

AUDIT COMMITTEE

Pursuant to the requirements of the CG Code and the Listing Rules, the Company has established an audit committee (the “**Audit Committee**”) comprising all three incumbent Independent Non-executive Directors, namely, Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Dato Wee Yiau Hin. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company’s website at www.antonoil.com. The interim report of the Company for the six months ended 30 June 2019 will be dispatched to the shareholders of the Company and will be available on the above websites in due course.

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

Hong Kong, 26 August 2019

As at the date of this announcement, the executive Directors of the Company are Mr. LUO Lin, Mr. PI Zhifeng and Mr. FAN Yonghong; the non-executive Director is Mr. John William CHISHOLM; and the independent non-executive Directors are Mr. ZHANG Yongyi, Mr. ZHU Xiaoping and Dato WEE Yiau Hin.