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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL SUMMARY

The Group's consolidated revenue decreased by 14.0% from RMB3,589.5 million in 2019 to RMB3,087.7 million in 2020. Profit/loss attributable to the equity holders of the Company changed from a profit of RMB268.6 million in 2019 to a loss of RMB95.8 million in 2020.

The Group's net operating cash flow increased by 32.0% from a net inflow of RMB610.3 million in 2019 to RMB805.4 million in 2020.

The Board does not recommend the payout of a final dividend for the 12 months ended 31 December 2020.

RESULTS AND PERFORMANCE

The Board of Directors (the "**Board**") of Anton Oilfield Services Group (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2020 (hereinafter referred to as the "**current year**" or the "**reporting period**") and the comparable figures for 2019 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	Year ended 31 December 2020	2019
Revenue			
Goods and services	*5*	**2,823,638**	3,328,839
Rental	*5*	**264,014**	260,658
Total revenue	*5*	**3,087,652**	3,589,497
Cost of sales	*6*	**(2,277,830)**	(2,308,042)
Gross profit		**809,822**	1,281,455
Other gains, net		**40,279**	176
Impairment losses under expected credit loss model, net of reversal	*6*	**(83,437)**	(87,693)
Selling expenses	*6*	**(175,487)**	(193,298)
Administrative expenses	*6*	**(198,959)**	(215,403)
Research and development expenses	*6*	**(56,327)**	(51,682)
Sales tax and surcharges	*6*	**(11,360)**	(13,973)
Operating profit		**324,531**	719,582
Interest income	*7*	**18,760**	3,367
Finance expenses	*7*	**(312,693)**	(298,500)
Finance costs, net	*7*	**(293,933)**	(295,133)
Share of profit of a joint venture		**141**	762
Profit before income tax		**30,739**	425,211
Income tax expense	*8*	**(114,499)**	(142,791)
(Loss)/profit for the year		**(83,760)**	282,420
(Loss)/profit attributable to:			
Owners of the Company		**(95,844)**	268,583
Non-controlling interests		**12,084**	13,837
		(83,760)	282,420
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company for the year (expressed in RMB per share)			
– Basic	*9*	**(0.0322)**	0.0894
– Diluted	*9*	**(0.0322)**	0.0889

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Year ended 31 December	
	2020	2019
(Loss)/profit for the year	**(83,760)**	282,420
Other comprehensive (expense)/income, net of tax:		
Items that may be reclassified subsequently to profit or loss		
Net investment hedge	**111,612**	(30,239)
Financial instruments measured at fair value through other comprehensive income	**(7,512)**	–
Currency translation differences	**(269,051)**	16,859
Other comprehensive expense for the year, net of tax	**(164,951)**	(13,380)
Total comprehensive (expense)/income for the year	**(248,711)**	269,040
Total comprehensive (expense)/income attributable to:		
– Owners of the Company	**(260,795)**	255,203
– Non-controlling interests	**12,084**	13,837
	(248,711)	269,040

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

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

		As at 31 December	
	Note	**2020**	2019
ASSETS			
Non-current assets			
Property, plant and equipment		**2,099,390**	2,137,866
Right-of-use assets		**137,951**	189,901
Goodwill		**242,004**	242,004
Intangible assets		**273,652**	259,986
Interest in a joint venture		**3,949**	3,808
Interest in an associate		**2,000**	2,000
Prepayments and other receivables		**66,428**	155,696
Deferred income tax assets		**21,993**	34,637
		2,847,367	3,025,898
Current assets			
Inventories		**930,618**	765,496
Trade and notes receivables	*10*	**2,133,789**	2,200,247
Contract assets		**30,618**	75,519
Prepayments and other receivables		**605,475**	648,048
Restricted bank deposits		**454,169**	368,730
Cash and cash equivalents		**879,085**	2,422,874
		5,033,754	6,480,914
Total assets		**7,881,121**	9,506,812

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Notes	**As at 31 December**	
		2020	2019
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**268,179**	276,273
Reserves		**2,357,933**	2,625,865
		2,626,112	2,902,138
Non-controlling interests		**137,609**	55,525
Total equity		**2,763,721**	2,957,663
LIABILITIES			
Non-current liabilities			
Long-term bonds		**1,855,625**	2,028,423
Long-term borrowings		**131,388**	202,426
Lease liabilities		**31,771**	69,259
Deferred income tax liabilities		**9,998**	10,219
		2,028,782	2,310,327
Current liabilities			
Short-term borrowings		**763,953**	497,749
Current portion of long-term bonds		**11,034**	2,116,445
Current portion of long-term borrowings		**163,639**	92,174
Trade and notes payables	*11*	**1,403,295**	957,406
Accruals and other payables		**534,581**	404,528
Lease liabilities		**34,384**	45,834
Contract liabilities		**37,982**	13,976
Current income tax liabilities		**139,750**	110,710
		3,088,618	4,238,822
Total liabilities		**5,117,400**	6,549,149
Total equity and liabilities		**7,881,121**	9,506,812

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Year ended 31 December	
	2020	2019
Cash flows from operating activities		
Net cash inflows from operations	**859,642**	684,514
Interest received	**18,760**	3,367
Income tax paid	**(73,036)**	(77,631)
Net cash generated from operating activities	**805,366**	610,250
Cash flows from investing activities		
Purchase of property, plant and equipment	**(138,485)**	(86,105)
Proceeds from disposal of property, plant and equipment	**7,558**	21,461
Purchase of intangible assets	**(38,992)**	(35,240)
Investment in an associate	**–**	(2,000)
Net cash used in investing activities	**(169,919)**	(101,884)
Cash flows from financing activities		
Proceeds from short-term borrowings	**993,653**	865,147
Repayments of short-term borrowings	**(728,194)**	(1,246,543)
Proceeds from long-term borrowings	**147,000**	100,000
Repayments of long-term borrowings	**(146,915)**	(135,714)
Proceeds from long-term bonds	**–**	2,037,836
Repayments of long-term bonds	**(685,367)**	–
Repurchase of long-term bonds	**(1,418,078)**	–
Repayments of lease liabilities	**(43,535)**	(45,094)
Net cash paid to non-controlling interests for additional interest in subsidiaries	**–**	(920)
Proceeds from share options exercised	**–**	2,001
Capital injection from a non-controlling interest	**70,000**	–
Interest paid	**(325,568)**	(269,584)
Repurchase of ordinary shares	**(32,600)**	–
Dividends distribution	**–**	(92,818)
Placement of restricted bank deposits	**–**	(10,260)
Withdrawal of restricted bank deposits	**10,260**	–
Net cash (used in)/generated from financing activities	**(2,159,344)**	1,204,051
Net (decrease)/increase in cash and cash equivalents	**(1,523,897)**	1,712,417
Cash and cash equivalents at beginning of the year	**2,422,874**	686,636
Exchange (loss)/gain on cash and cash equivalents	**(19,892)**	23,821
Cash and cash equivalents at end of the year	**879,085**	2,422,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

1. GENERAL INFORMATION

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

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

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

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

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

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

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

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

	Drilling technology	Well completion	Oil production services	Total
For the year ended 31 December 2020				
Revenue *(Note)*	**1,303,840**	**749,986**	**1,033,826**	**3,087,652**
EBITDA	**412,548**	**276,457**	**376,534**	**1,065,539**
Depreciation and amortisation	**(186,957)**	**(121,574)**	**(31,047)**	**(339,578)**
Asset impairment provision of				
– Inventories	**(6,598)**	**(10,646)**	**(2,727)**	**(19,971)**
– Trade receivables	**(64,552)**	**(16,616)**	**(2,269)**	**(83,437)**
Interest income	**232**	**2,631**	**4**	**2,867**
Finance expenses	**(11,578)**	**(6,322)**	**(7,857)**	**(25,757)**
Share of profit of a joint venture	**141**	**–**	**–**	**141**
Income tax expense	**(28,380)**	**(17,697)**	**(68,422)**	**(114,499)**
For the year ended 31 December 2019				
Revenue *(Note)*	1,624,203	836,028	1,129,266	3,589,497
EBITDA	684,516	352,190	468,693	1,505,399
Depreciation and amortisation	(169,923)	(125,119)	(26,803)	(321,845)
Asset impairment provision of				
– Inventories	(16,559)	(15,380)	(5,050)	(36,989)
– Trade receivables	(26,122)	(17,812)	(18,999)	(62,933)
– Other receivables	(10,327)	(14,433)	–	(24,760)
Interest income	269	1,372	508	2,149
Finance expenses	(8,536)	(6,418)	(6,122)	(21,076)
Share of profit of a joint venture	762	–	–	762
Income tax expense	(50,332)	(30,976)	(61,483)	(142,791)

Note: Sales between segments, with details set out in Note 5, are carried out at terms mutually agreed between relevant group entities. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss.

	Drilling technology	Well completion	Oil production services	Total
As at 31 December 2020				
Total assets	**2,573,139**	**2,533,969**	**920,734**	**6,027,842**
Total assets include:				
Capital expenditures	**186,049**	**101,779**	**49,523**	**337,351**
As at 31 December 2019				
Total assets	2,304,384	2,786,231	712,727	5,803,342
Total assets include:				
Capital expenditures	122,618	65,984	32,106	220,708

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

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

	Year ended 31 December	
	2020	2019
EBITDA for reportable segments	**1,065,539**	1,505,399
Corporate overheads	**(569,065)**	(615,496)
Depreciation		
– Property, plant and equipment	**(271,744)**	**(255,815)**
– Right of use assets	**(39,570)**	**(38,224)**
Amortisation	**(28,264)**	(27,806)
Asset impairment provisions	**(103,408)**	(124,682)
Interest income	**2,867**	2,149
Finance expenses	**(25,757)**	(21,076)
Share of profit of a joint venture	**141**	762
Profit before income tax	**30,739**	425,211

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

	As at 31 December	
	2020	2019
Assets for reportable segments	**6,027,842**	5,803,342
Corporate assets for general management	**1,853,279**	3,703,470
Total assets	**7,881,121**	9,506,812

Note:

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

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

Geographical Information

	Revenue Year ended 31 December		Non-current assets As at 31 December	
	2020	2019	**2020**	2019
PRC	**1,832,837**	1,683,365	**1,938,609**	2,069,023
Republic of Iraq ("Iraq")	**961,079**	1,419,755	**723,292**	741,214
Other countries	**293,736**	486,377	**163,473**	167,524
Total	**3,087,652**	3,589,497	**2,825,374**	2,977,761

Client information

For the year ended 31 December 2020, revenues of approximately RMB1,465,289,000 (2019: RMB1,666,245,000) were derived from two external independent customers, which contributed 31.40% and 16.06% (2019: 32.17% and 14.25%) to the total revenue respectively. These revenues were mainly attributable to drilling technology and well completion segments (2019: drilling technology and well completion segments).

5. REVENUE

	Year ended 31 December	
	2020	2019
Sales of goods	**21,190**	163,157
Provision of services	**2,802,448**	3,165,682
Rental	**264,014**	260,658
	3,087,652	3,589,497

(i) Disaggregation of revenue

	For the year ended 31 December 2020		
Segments	**Drilling technology**	**Well completion**	**Oil production services**
Types of goods or service			
Sales of goods	**410**	**20,780**	**–**
Provision of services	**1,067,264**	**701,358**	**1,033,826**
Total	**1,067,674**	**722,138**	**1,033,826**
Geographical markets			
PRC	**879,630**	**561,441**	**127,752**
Iraq	**117,804**	**119,166**	**724,109**
Other countries	**70,240**	**41,531**	**181,965**
Total	**1,067,674**	**722,138**	**1,033,826**
Timing of revenue recognition			
A point in time	**1,067,674**	**722,138**	**209,655**
Over time	**–**	**–**	**824,171**
Total	**1,067,674**	**722,138**	**1,033,826**

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

	For the year ended 31 December 2020		
	Drilling technology	**Well completion**	**Oil production services**
Revenue disclosed in segment information			
External customers	**1,303,840**	**749,986**	**1,033,826**
Inter-segment	**1,064,901**	**668,212**	**795,287**
Total	**2,368,741**	**1,418,196**	**1,829,113**
Adjustments and eliminations	**(1,064,901)**	**(668,212)**	**(795,287)**
Rental income	**(236,166)**	**(27,848)**	**–**
Revenue from contracts with customers	**1,067,674**	**722,138**	**1,033,826**

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

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

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

(ii) Performance obligations for contracts with customers

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

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

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

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

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

b. Provision of oilfield-related operation and maintenance services

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

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

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

c. Sales of oilfield-related goods

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

Since the goods are not self-manufactured and the Group is not entitled to payment until the customer receives and accepts the goods, revenue will be recognised at a point when control over the corresponding goods is transferred to the customer.

The Group's contracts for such sales of goods include payment in the normal credit term granted to customers.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and the expected timing of recognising revenue are as follows:

	PRC	**Iraq**	**Other countries**
Within one year	**2,138,123**	**1,152,292**	**183,416**
More than one year but not more than two years	**543,576**	**769,502**	**272,616**
More than two years	**–**	**379,207**	**30,477**
	2,681,699	**2,301,001**	**486,509**

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and the expected timing of recognising revenue are as follows:

	PRC	Iraq	Other countries
Within one year	1,705,460	1,634,561	231,619
More than one year but not more than two years	208,903	959,039	155,709
More than two years	60,423	681,998	158,685
	1,974,786	3,275,598	546,013

(iv) Leases

	Year ended 31 December 2020	Year ended 31 December 2019
For operating leases:		
Lease payments that are fixed or depend on an index or a rate	**264,014**	260,658
Total revenue arising from leases	**264,014**	260,658

6. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Year ended 31 December 2020	2019
Materials and services purchased	**1,020,668**	1,010,288
Staff costs	**738,742**	768,784
In which:		
– Salaries and other staff expenses	**721,373**	739,617
– Share-based compensation	**17,369**	29,167
Depreciation	**336,274**	341,805
In which:		
– Property, plant and equipment	**294,422**	301,429
– Right-of-use assets	**41,852**	40,376
Less: Capitalised in inventories	**(23,180)**	(21,854)
	313,094	319,951
Amortisation	**34,744**	36,226
Less: Capitalised in inventories	**(3,810)**	(3,591)
	30,934	32,635
In which:		
– Cost of sales	**26,370**	26,490
– Administrative expenses	**189**	160
– Selling expenses	**19**	18
– Research and development expenses	**4,356**	5,967
Sales tax and surcharges	**11,360**	13,973
Auditor's remuneration		
– Audit and related services	**4,700**	4,600
– Other services	**300**	300
Other operating expenses	**683,602**	719,560
In which:		
– Impairment of receivables	**83,437**	87,693
– Impairment of inventories	**19,971**	36,989

7. FINANCE COSTS, NET

	Year ended 31 December	
	2020	2019
Interest expenses		
– on bank borrowings	**(56,932)**	(77,667)
– on bonds	**(300,126)**	(219,534)
– on lease liabilities	**(6,847)**	(7,477)
Exchange gain, net	**85,270**	19,334
Others	**(34,058)**	(13,156)
Finance expenses	**(312,693)**	(298,500)
Interest income	**18,760**	3,367
	(293,933)	(295,133)

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
Current income tax		
– PRC enterprise income tax	**28,394**	20,681
– Iraq corporate income tax	**67,275**	98,289
– Others	**6,407**	6,603
Deferred income tax	**12,423**	17,218
	114,499	142,791

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

PRC enterprise income tax ("EIT") is provided on the basis of estimated taxable profits of PRC established subsidiaries at applicable tax rate of 25% in 2020 (2019: 25%), based on the relevant PRC tax laws and regulations. Certain subsidiaries have been granted a preferential rate of 15% as high technology enterprises or as enterprises set up in western area of the PRC.

The corporate income tax of Iraq entities is levied at the higher of 7% on the total turnover, or 35% on the net taxable profit.

The taxation of the Group's profit before income tax differs from the theoretical amount that would arise using applicable tax rates of the Group companies as follows:

	Year ended 31 December	
	2020	2019
Profit before income tax	**30,739**	425,211
Tax calculated at applicable tax rates	**83,654**	123,614
Income not subject to taxation	**(7,357)**	(3,593)
Expenses not deductible for taxation purposes	**861**	1,283
Additional deduction of research and development expense	**(5,030)**	(4,468)
Tax losses and deductible temporary difference for which no deferred income tax was recognised	**33,968**	32,109
Utilisation of unused deductible tax losses previously not recognised as deferred income tax	**(8,515)**	(6,405)
Revesal of the deferred tax assets from prior years	**14,387**	–
Effect of share of profit of a joint venture	**(21)**	(114)
Others	**2,552**	365
	114,499	142,791

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2020	2019
(Loss)/profit attributable to the owners of the Company	**(95,844)**	268,583
Weighted average number of ordinary shares in issue (thousands of shares)	**2,977,620**	3,005,255
Basic (loss)/earnings per share (expressed in RMB per share)	**(0.0322)**	0.0894

(b) Diluted

Diluted (loss)/earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2019, the only dilutive factor of the Company was the outstanding share options.

	Year ended 31 December	
	2020	2019
(Loss)/profit attributable to the owners of the Company	**(95,844)**	268,583
Weighted average number of ordinary shares in issue (thousands of shares)	**2,977,620**	3,005,255
Adjustments for assumed conversion of share options (thousands of shares)	**–**	17,260
Weighted average number of ordinary shares for computation of diluted (loss)/earnings per share (thousands of shares)	**2,977,620**	3,022,515
Diluted (loss)/earnings per share (expressed in RMB per share)	**(0.0322)**	0.0889

10. TRADE AND NOTES RECEIVABLES

	As at 31 December 2020	2019
Trade receivables, net *(a)*		
– contracts with customers	**1,803,419**	1,944,361
– lease receivables	**49,287**	75,671
	1,852,706	2,020,032
Notes receivable *(e)*	**281,083**	180,215
	2,133,789	2,200,247

Notes:

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

	As at 31 December 2020	2019
1 – 6 months	**921,222**	1,233,147
6 months – 1 year	**396,445**	362,996
1 – 2 years	**335,267**	390,047
2 – 3 years	**199,772**	33,842
	1,852,706	2,020,032

(b) Most of the Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB369,932,000 (31 December 2019: RMB423,889,000) which are past due but not considered as in default as at the reporting date because the management considered such long ageing items were receivables from customers with good cooperation and would be collected subsequently.

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

As at 31 December 2020, trade receivables of RMB754,199,000 (31 December 2019: RMB265,986,000) were pledged as security for short-term borrowings of RMB500,189,000 (31 December 2019: RMB128,263,000).

As at 31 December 2020, trade receivables from a customer up to RMB282,420,000 (31 December 2019: RMB282,420,000) were pledged as security for long-term borrowings of RMB97,213,000 (31 December 2019: RMB99,217,000).

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

	2020	2019
As at 1 January	**(185,053)**	(122,120)
Addition	**(83,437)**	(62,933)
As at 31 December	**(268,490)**	(185,053)

(e) As at 31 December 2020, total notes received amounting to RMB281,083,000 (31 December 2019: RMB180,215,000) are held by the Group as settlement of corresponding trade receivables. During the current year, in order to more effectively manage the overall cashflows under COVID-19, the Group further endorsed certain notes for settlement of trade payables and a new business model was adopted by the management whose objective is achieved by both selling and collecting contractual cash flows; therefore, notes receivable was subsequently measured at fair value through other comprehensive income from 1 July 2020 (31 December 2019: amortised cost). All notes received by the Group are with a maturity period of less than one year.

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

	As at 31 December	
	2020	2019
RMB	**1,163,195**	1,071,422
United States dollar ("US$")	**954,609**	975,246
Others	**15,985**	153,579
	2,133,789	2,200,247

11. TRADE AND NOTES PAYABLES

	As at 31 December	
	2020	2019
Trade payables	**590,670**	546,945
Notes payable	**812,625**	410,461
	1,403,295	957,406

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

	As at 31 December	
	2020	2019
Less than 1 year	**1,195,605**	790,866
1 – 2 years	**98,618**	77,348
2 – 3 years	**50,903**	30,371
Over 3 years	**58,169**	58,821
	1,403,295	957,406

Trade and notes payables were denominated in the following currencies:

	As at 31 December	
	2020	2019
RMB	**1,285,721**	868,702
US$	**103,241**	80,105
Others	**14,333**	8,599
	1,403,295	957,406

12. DIVIDENDS

No dividend was declared or paid for ordinary shareholders of the Company during 2020 (2019: RMB30,107,000).

The Directors have determined that no dividend will be proposed in respect of the current year (Year ended 31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2020, the onslaught of the COVID-19 pandemic plunged the world economy into a downturn. Oil prices fell precipitously and the oil and gas industry faced huge challenges.

In the Chinese market, benefiting from the government's swift response to the epidemic and outstanding control measures, the Chinese economy reopened and recovered after the first quarter. Meanwhile, China remained anchored in its strategy to improve oil and gas self-sufficiency and ensure national energy security. As a result, oil company clients in the domestic market accelerated the development of oil and gas resources while strictly complying with COVID-19 control policies. The demand for oilfield services in the domestic market remained buoyant, but due to the significant dips in oil prices, clients reduced significantly the rates of service fulfillment. In the overseas markets, in order to contain the spread of the virus, countries around the world introduced travel restrictions and quarantine procedures, which prevented oil companies and service providers from deploying personnel to the field or moving equipment as freely as they did in normal times, and forced the suspension of many large-scale, asset-heavy projects. This had significant impact on the Group's business in Iraq and other Belt and Road countries.

In the face of this challenging industry climate, the Group seized the opportunities in natural gas and unconventional resources development in the domestic market, and leveraged its technological strengths to actively secure service orders. In the overseas markets, the Group prioritized the uncompromised high-quality execution of asset-light oilfield management projects and the further rollout this business model. During 2020, the Group's integrated oilfield management contract at the Majnoon oilfield in Iraq was renewed by the client for service excellence; the oilfield management project in Chad in West Africa was successfully commissioned. Despite the tough market conditions, the Group's oilfield management business model demonstrated resilience and delivered growth during the reporting period, which provided welcome cushion against the full-blown impact of the pandemic on the Group's overseas business.

The Group firmly implemented a management approach with cash flow management at the core and tight control throughout the lifecycle of projects and with accelerated turnover in working capital. At the same time, the Group strengthened its partnership with Chinese banks and increased its available credit lines to ensure ample liquidity on the book. In addition, the Group carried out proactive debt management, repurchased USD300 million 9.75% senior notes (the "**2020 Notes**") due December 2020 by tender offer at accommodating capital market conditions to alleviate the financial stress of a concentrated repayment-at-maturity. The Group also made multiple repurchases of the 2020 Notes and USD300 million 7.5% senior notes due 2022 (the "**2022 Notes**") in the secondary market to reduce financing costs. During the year, the Group had successfully completed the repayment of the 2020 Notes in full.

The Group actively promoted "digitalization" construction, made full use of information platforms to optimize its management models, streamline its management structures, improve management efficiency, and reduce labor costs.

The Group also made active progress in developing synergies between industry and finance and adopted a platform and ecosystem-based strategy. On 21 December 2020, the Group signed an investment agreement with Chengdu Xiangtou Group, the largest state-owned investment group in Xindu District, Chengdu, and introducing Xiangtou as the Group's strategic partner. Xiangtou will invest RMB70.0 million to establish a joint venture with the Group where both parties can combine their comparative advantages to grow the Group's financial leasing business.

Thanks to strong efforts throughout the year, the Group withstood the heavy blow of the pandemic to its business and mitigated the impact to a manageable level. Moreover, despite the difficult market environment, the Group achieved a net operating cash inflow of RMB805.4 million, an increase of RMB195.1 million compared to 2019.

BUSINESS ANALYSIS

Geographical Market Analysis

In 2020, the Group's total revenue amounted to RMB3,087.7 million, representing a decrease of 14.0% compared to the full year of 2019. In breakdown, revenue from the domestic market amounted to RMB1,832.9 million, representing an increase of 8.9% compared to 2019 and accounting for 59.4% of the Group's total revenue; revenue from the overseas markets amounted to RMB1,254.8 million, representing a decrease of 34.2% compared to 2019 and accounting for 40.6%% of the Group's total revenue. In particular, revenue from the Iraqi market amounted to RMB961.1 million, representing a decrease of 32.3% compared to 2019 and accounting for 31.1% of the Group's total revenue; revenues from other overseas markets amounted RMB293.7 million, representing a decrease of 39.6% compared to 2019 and accounting for 9.5% of the Group's total revenue.

Breakdown of Revenue by Market

	Twelve months ended 31 December			**% of total revenue of the Group Twelve months ended 31 December**	
	2020	2019	Change	**2020**	2019
	(RMB'mn)	*(RMB'mn)*	*(%)*		
Overseas	**1,254.8**	1,906.2	-34.2%	**40.6%**	53.1%
Domestic	**1,832.9**	1,683.3	8.9%	**59.4%**	46.9%
Total	**3,087.7**	3,589.5	-14.0%	**100.0%**	100.0%

Overseas Market

	Twelve months ended 31 December			% of total revenue of the Group Twelve months ended 31 December	
	2020	2019	Change	**2020**	2019
	(RMB'mn)	*(RMB'mn)*	*(%)*		
Iraq	**961.1**	1,419.8	-32.3%	**31.1%**	39.6%
Other overseas markets	**293.7**	486.3	-39.6%	**9.5%**	13.5%
Total	**1,254.8**	1,906.1	-34.2%	**40.6%**	53.1%

Domestic Market

In 2020, China was first hit by COVID-19 epidemic, but thanks to the Chinese government's effective epidemic prevention and control, the situation came under control quickly and production activities resumed across the country in the second quarter. The Group's project execution across regions also resumed in the second quarter. Throughout the year, the Group fully complied with the COVID-19 prevention and control policies of the local governments and ensured work safety, and on the other hand, maintained a relatively full execution of projects.

In addition, the Chinese government further intensified the development of oil and gas resources, staying the course of maintaining energy security. Oil companies responded to the government's call to continue scaling up reserves and production. The domestic market saw such strong momentum throughout the year, and demand for oilfield services remained strong. However, the plunge in oil prices led to a large drop in service price.

The Group seized market opportunities and focused on natural gas and unconventional oil and gas segments, focusing on high-quality orders that could meet the Group's cash flow policy. During the year, the Group won multiple large orders for asset-light leasing contracts in the Xinjiang market by virtue of its technical and resource advantages; in the shale gas market in Southwest China, the Group continued to maintain its leading market position as an independent provider and helped clients enhance production and reduce costs through precise engineering services that combine geological and engineering expertise. Its value proposition was highly recognized by the clients and recorded revenue growth in the year; in Shanxi and Erdos Basin, the Group was awarded multiple coal-bed methane and tight gas-related orders.

For the full year of 2020, the Company received new orders of approximately RMB2,494.1 million in the domestic market, representing a decrease of approximately 9.7% from RMB2,763.0 million recorded in 2019. The domestic market posted revenue of approximately RMB1,832.9 million for the year, up approximately 8.9% from RMB1,683.3 million in 2019.

Overseas Market

In 2020, the Group was hit by the confluence of COVID-19 and low international oil prices. As COVID-19 spread further and affected more countries for an extended period last year, many countries imposed quarantine requirements and traffic restrictions, which prevented the normal movement of people, transfer of equipment and shipment of materials, and forced many asset-heavy projects to a halt in the overseas markets. Therefore, the Group's overseas business was hit hard.

In response to COVID-19, the Group complied with the strict local epidemic prevention policies where it had activities to ensure the health and safety of its overseas employees. At the same time, it actively performed corporate social responsibility by preparing PPE and other essential goods and delivering them through its global supply chain to reach the local governments, communities, and partners in need of COVID control and livelihood protection. On the other hand, the Group focused on the continuity of its oilfield management service, while maintaining close communication with oilfield clients to prepare for the resumption of all suspended projects.

Iraqi Market

During the year, after a surge of COVID-19 cases, the Iraqi government enforced strict control measures by closing borders, cutting off international flights and imposing strict travel restrictions between provinces within Iraq to minimize the movement of people. In light of these developments, the management of the Group consciously and prudently reduced the order backlog in Iraq by RMB1,201.9 million in the first quarter of 2020 to cope with such changes and their likely impact on the Group's business in the country.

Multiple asset-heavy projects in Iraq, such as drilling, were suspended one after another as the pandemic unfolded, but the Majnoon oilfield, an important source of fiscal revenue for Iraq, kept producing steadily and continuously and the Group's revenue and cash flow from oilfield management service onsite remained stable. Thanks to the Group's excellent services, the client extended the service contract in the first quarter of 2020, allowing automatic extension of the existing two-year contract for another twelve months till 1 July 2021 upon expiration. The Group is also in the process of negotiating with the client for a new contract cycle and is confident that its excellent services in managing the project will continue to create value for the client in the long run, helping the client achieve efficient and top-quality development of resources.

In 2020, the Company received new orders of approximately RMB1,190.0 million in Iraq, a decrease of approximately 44.3% from RMB2,137.2 million in 2019, and recorded revenue of approximately RMB961.1 million, a decrease of approximately 32.3% from RMB1,419.8 million in 2019.

Other Overseas Markets – Emerging Markets

During the year, the execution of the Group's business activities in other overseas markets was similarly affected by the spread of COVID-19, and the construction of drilling and completion projects across multiple markets, including Kazakhstan and Pakistan, was postponed. However, the Group's oilfield management project in Chad in West Africa started producing smoothly during the year and operated stably during the year.

In 2020, the Group's other overseas markets together received new orders of approximately RMB623.7 million, representing a decrease of approximately 34.7% from RMB955.2 million in 2019; the combined revenue reached approximately RMB293.7 million, representing a decrease of approximately 39.6% from RMB486.3 million in 2019.

Business Cluster Analysis

Due to COVID-19, the Group's business clusters experienced varying degrees of decline during the year. During the reporting period, the Group's revenue from the drilling technology services cluster amounted to RMB1,303.9 million, representing a decrease of approximately 19.7% compared to 2019 and accounting for 42.2% of the Group's revenue for 2020; revenue from the well completion cluster amounted to RMB750.0 million, representing a decrease of approximately 10.3% compared to 2019 and accounting for 24.3% of the Group's total revenue for 2020. The oil production service cluster reported revenue of RMB1,033.8 million for the year, representing a decrease of approximately 8.5% from RMB1,129.3 million in 2019 and accounting for 33.5% of the Group's total revenue.

Revenue Breakdown by Cluster

	Twelve months ended 31 December			**% of total revenue Twelve months ended 31 December**	
	2020	2019	Change	**2020**	2019
	(RMB'mn)	*(RMB'mn)*	*(%)*		
Drilling technology cluster	**1,303.9**	1,624.2	-19.7%	**42.2%**	45.2%
Well completion cluster	**750.0**	836.0	-10.3%	**24.3%**	23.3%
Oil production service cluster	**1,033.8**	1,129.3	-8.5%	**33.5%**	31.5%
Total	**3,087.7**	3,589.5	-14.0%	**100.0%**	100.0%

Drilling Technology Cluster

In 2020, the Group's revenue from the drilling technology cluster was registered at RMB1,303.9 million, representing a decrease of 19.7% from the revenue of RMB1,624.2 million in 2019.

Analysis of major product lines in this cluster:

1) Integrated drilling service: During the reporting period, revenue from the integrated drilling service amounted to RMB124.2 million, representing a decrease of approximately 66.2% from revenue of RMB367.7 million in 2019. The decline was mainly due to the suspension of large integrated drilling projects in the overseas markets such as Iraq due to the pandemic.

2) Directional drilling services: During the reporting period, directional drilling services recorded revenue of RMB84.9 million, representing a decrease of approximately 54.4% from RMB186.3 million in 2019. The decline was mainly due to the suspension of directional drilling projects in the overseas markets such as Iraq and Chad.

3) Drilling rig services: During the reporting period, drilling rig services recorded revenue of RMB601.4 million, representing an increase of approximately 64.0% from RMB366.6 million in 2019. The growth was mainly attributable to the Group's initiative to seek breakthroughs in a difficult climate. The Group designed financing solutions and secured access to financing for clients and won a large drilling rig services contract in Pakistan.

4) Oilfield waste management services: In 2020, oilfield waste management services recorded revenue of RMB118.0 million, representing a decrease of approximately 45.6% from RMB216.9 million in 2019, mainly due to reduced overseas demand for drilling fluid and completion fluid services and the reduced service price from domestic clients.

Note: As a result of the restructuring of the Group's product lines, the "drilling and completion fluid services" product line was merged into the "oilfield waste management services" product line in 2020. The revenue from the "drilling and completion fluid services" product line was incorporated into the "oilfield waste management services" product line for 2019 to allow like-for-like comparison.

5) Drilling tool rental and services: During the reporting period, this product line recorded revenue of RMB251.9 million, representing a decrease of approximately 17.6% from RMB305.6 million in 2019, mainly due to the reduction in service price by clients.

6) Oil production facilities inspection and evaluation services: In 2020, this product line recorded revenue of RMB123.5 million, a decrease of 27.3% from RMB169.9 million in 2019. The decrease was mainly due to the reduction in service price by clients.

The EBITDA of the drilling technology cluster decreased by 39.7% to RMB412.5 million in 2020 from RMB684.5 million in 2019, with an EBITDA margin of 31.6%, a decrease of 10.5% percentage points from 42.1% in 2019, mainly due to the disruptions of the Group's high-margin drilling service projects as a result of COVID-19 and the lower service price offered by some domestic clients.

Well Completion Cluster

In 2020, the Group's well completion technology cluster posted revenue of RMB750.0 million, a decrease of 10.3% from RMB836.0 million in 2019.

Analysis of major product lines in this cluster:

1) Well completion integration: During the reporting period, well completion integration services recorded revenue of RMB101.0 million, representing a decrease of approximately 49.6% from RMB200.4 million in 2019. The decrease was mainly due to delays in the implementation of overseas projects as a result of the pandemic.

2) Pressure pumping services: In 2020, pressure pumping services recorded revenue of RMB331.7 million, representing an increase of 21.1% from RMB274.0 million in 2019. The increase was mainly attributable to the execution of many new orders for pressure pumping services secured by the Group in the Shanxi coalbed methane and Erdos tight gas markets during the year.

3) Coiled tubing services: In 2020, this product line recorded revenue of RMB106.4 million, a decrease of 47.0% from RMB200.8 million in 2019. The decrease was mainly the result of delayed construction of the coiled tubing project in Iraq due to the pandemic.

4) Fracturing/acidizing and chemical materials: During the reporting period, this product line recorded revenue of RMB66.7 million, up 40.4% from RMB47.5 million in 2019, mainly from the growth of fracturing services in Shanxi and Erdos in China.

5) Gravel packing services: This product line recorded revenue of RMB144.2 million in 2019, an increase of 28.1% compared to RMB112.6 million in 2019.

The EBITDA of the well completion cluster decreased by 21.5% to RMB276.5 million in 2020 from RMB352.2 million in 2019, with an EBITDA margin of 36.9%, a decrease of 5.2 percentage points from 42.1% in 2019, mainly due to the suspension of some higher-margin overseas projects due to COVID-19.

Oil Production Service Cluster

In 2020, revenue from the oil production services cluster reached RMB1,033.8 million, a decrease of 8.5% from RMB1,129.3 million in 2019.

Analysis of major product lines in this cluster:

1) Production operation services: During the reporting period, production operation services recorded revenue of RMB823.3 million, up 4.4% from RMB788.5 million in 2019, mainly benefiting from the smooth operation of the Majnoon oilfield management project in Iraq and oilfield management project in Chad throughout the year.

2) Workover services: During the reporting period, workover services recorded revenue of RMB161.3 million, a decrease of 43.0% from RMB283.2 million in 2019, mainly suffering from delayed execution of overseas projects.

3) Oil tubing and casing and anti-corrosion technology services: During the reporting period, this product line recorded revenue of RMB49.2 million, a decrease of 14.6% from RMB57.6 million in 2019.

The EBITDA of the oil production services cluster decreased by 19.7% to RMB376.5 million in 2020 from RMB468.7 million in 2019, with an EBITDA margin of 36.4%, a decrease of 5.1 percentage points from 41.5% last year. The decline in EBITDA for the oil production services cluster was mainly due to construction delays of some of the higher-margin workover projects relative to the asset-light oilfield management business. The two large asset-light management projects in this cluster contributed stable revenue streams and cash flows to the Group throughout the year.

Strategic Resources Alignment

In 2020, the Group continued to maintain tight control on new capital expenditures and maintain safe levels of liquidity in strict accordance with the "asset-light" business model guideline and firmwide discipline with cash flow management at the core, while, as part of the payment the Group had made for the previous investment was done through notes, which due in the first half of 2020, was recorded as outflow in this year, net capital expenditure for the year amounted to RMB169.9 million, representing an increase of 66.7% from RMB101.9 million in 2019.

Alignment of Investment

In 2020, the Group's investments were mainly in supplementary equipment for projects under implementation.

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

In 2020, recognizing clients' practical needs for production increase and cost reduction, and along with the increasing demand for efficient and environmentally friendly products under the Group's sustainable development concept, the Group improved and reinvented relevant technologies and tools and promoted the optimization and upgrade of the Group's products through technical cooperation. In 2020, the Group invested RMB56.3 million in research and development, an increase of 8.9% from RMB51.7 million in 2019. Key research pipelines include:

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

Alignment of Human Resources

In 2020, in the face of the sudden outbreak of COVID-19, the Group responded swiftly and adequately complied with the rigorous COVID control policies to fully protect the health and safety of its employees. At the same time, recognizing the broad impact of the pandemic on the Group's overseas business, the Group promptly updated its HR policies by introducing flexible office and minimum pay leave depending on the specific circumstances of the business line. Such practices kept payroll costs moderate while maintaining business continuity. Further optimization was made towards employees that were unable to deliver business outcomes for a certain period of time. As at 31 December, 2020, the Group has a total workforce of 4,005, a decrease of 321 compared to 31 December, 2019.

During COVID-19, the Group intensified comprehensive training to upskill its workforce. During the year, the Group provided a full range of online training courses through its HR training platform, the Anton Academy, powered by digital tools. During the year, Anton Academy offered 212 training courses on subjects such as COVID prevention knowledge, information technology, language skills, finance, oil expertise and management skills, which were highly praised by the employees. Employee attendance of these training sessions reached 356,160.

During 2020, the Group implemented the Restricted Share Incentive Scheme for the first time and used the Company's own cash to purchase a total of 95,226,000 shares of the Company in the secondary market to incentivize employees during a period of low oil prices and encourage them to make a positive impact and thrive together with the Group in the long run.

Outlook

In 2021, new vaccines have been marketed and mass vaccination campaigns are starting one after another. The world economy is showing incipient signs of recovery. OPEC's continued discipline on crude production propped up crude oil prices significantly. In this context, the Group will continue to execute its upgrading strategy to create a brand new Anton, fully leverage its strengths, seize the opportunity of industry recovery, and promote high-quality business growth.

In terms of markets, the Group will continue to exploit its global markets and develop its all-round services. In the domestic market, the Group will continue to focus on natural gas and unconventional oil and gas development, and provide comprehensive services to help its clients achieve efficient oil and gas development. At the same time, driven by China's commitment to carbon neutrality by 2060, the Group will provide low-carbon solutions to our customer, actively explore the carbon capture and storages, geothermal energy and gas storage market. In the overseas markets, the Group will closely monitor the post-pandemic recovery of oil and gas development and further pursue partnership opportunities with more international oil companies and venture into new regional markets in Iraq. Meanwhile, it will engage closely with the client in the Majnoon oilfield and work towards the renewal of the oilfield management contract. The Group is confident that through quality management, it will continue to create value for the client and provide premier services of oilfield management for the long term. In other overseas markets, the Group is well positioned under the current oil price dynamics for promising growth in West Africa. In addition, the Group will establish a global strategy consulting team to help it to identify and capture market opportunities in a timely manner in emerging markets around the world, further expand its market footprint while unlocking value in mature regional markets. The Group will pursue large-scale integrated projects by providing a full spectrum of solutions around the diverse client needs while strictly managing risks and maintaining a safe liquidity position.

In terms of products, technologies and service capabilities, the Group will focus on precise engineering services that combine geological engineering and digital technology and closely align reservoir survey results with clients' engineering needs for oil and gas development. It will help maximize the value of oil and gas resources for its clients; make every effort to build an efficient solution-driven execution team, develop proprietary technologies with strong advantages, and achieve differentiation vis-à-vis its competition. It will enable and collaborate with its clients and partners to fully mobilize internal and external resources and progress towards a platform and ecosystem vision.

In terms of strategic resource alignment, the Group remains committed to positive free cash flow and high return on equity as its core objectives. It will make high-return investment and align strategic resources, increase technology investment and project investment, resolutely eliminate inefficient investment, and achieve optimal allocation of resources. It will adopt diverse and open forms of cooperation, engage the most advanced players in the oilfield service industry and beyond as strategic partners, establish a thriving ecosystem of partners. In terms of human resources, it will nurture fully committed entrepreneurs, put talent to productive use, share resources, drive synergies and collaboration, and share the fruits of success through targeted incentives.

On the financial side, the Group will aim towards its pre-pandemic performance as the baseline, seize market opportunities, set ambitious targets, embrace challenges and drive topline growth. It will continue to focus on free cash flow and return on equity as the core parameters of operations management, target premium clients and premium products, select projects wisely and develop an asset-light business model while improving margin through management fine-tuning and feedback. The Group will further deepen the integration of industry and finance, enlist external financial resources and assets, and drive large projects.

In terms of environmental, social and governance (ESG), the Group will continue to focus on its corporate vision of becoming "a model of harmonious development between man and environment", actively develop its new businesses in low-carbon and digital intelligence fields, and actively fulfill its corporate social responsibility, fully advancing for its sustainable development.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2020 was RMB3,087.7 million, representing a decrease of RMB501.8 million or 14.0% from RMB3,589.5 million for 2019. The revenue decline was largely due to the broad-based impact of COVID-19 on the Group's overseas operations.

Costs of Sales

Cost of sales decreased by 1.3% from RMB2,308.0 million in 2019 to RMB2,277.8 million in 2020, lower than the pace of revenue decrease, mainly due to the increase of project operation costs affected by the pandemic, which leaded to the increase of lower gross margin projects.

Other Gains

Other gains increased by RMB40.1 million from RMB0.2 million in 2019 to RMB40.3 million in 2020, mainly gains on the Group's repurchase of 2020 USD-denominated bonds in the secondary market and from government grants and subsidies received during the year.

Impairment Loss on Financial Assets

Impairment loss on financial assets decreased from RMB87.7 million in 2019 to RMB83.4 million in 2020, down 4.9%. The impairment loss was mainly from the Group provides for impairment of accounts receivable in accordance with the expected credit loss model under IFRSs.

Selling Expenses

Selling expenses were RMB175.5 million in 2020, representing a decrease of RMB17.8 million, or 9.2%, from RMB193.3 million in 2019, mainly benefited from the Group's optimization of staffs, adjustment of salary structure and tight control on business expenses.

Administrative Expenses

Administrative expenses were RMB199.0 million in 2020, a decrease of RMB16.4 million, or 7.6%, compared to RMB215.4 million in 2019, mainly due to the savings on staff's expenses and strengthened control on various expenses.

R&D Expenses

Research and development expenses were RMB56.3 million in 2020, an increase of RMB4.6 million, or 8.9%, compared to RMB51.7 million in 2019.

Sales Tax and Surcharges

Sales tax and surcharges amounted to RMB11.4 million in 2020, representing a decrease of RMB2.6 million, or 18.6 percent, from RMB14.0 million in 2019.

Operating Profit

Operating profit in 2020 was RMB324.5 million, a decrease of RMB395.1 million, or 54.9%, from RMB719.6 million in 2019. The operating profit margin in 2020 was 10.5%, down 9.5 percentage points from 20.0% in 2019, mainly due to the lower than expected project executions affected by the COVID-19 pandemic, which resulted in a decrease in revenue, while fixed costs such as depreciation and labor costs still need to be recorded, operating profit decreased significantly.

Net Finance Costs

In 2020, net finance costs were RMB293.9 million, representing a decrease of approximately RMB1.2 million compared to RMB295.1 million in 2019.

Income Tax Expense

In 2020, income tax expense was RMB114.5 million, a decrease of RMB28.3 million from RMB142.8 million in 2019.

Profit/Loss for the Year

The Group reported a loss of RMB83.8 million in 2020, compared to a net profit of RMB282.4 million in 2019.

Profit/Loss Attributable to Equity Holders of the Company

In 2020, the Group's loss attributable to equity holders of the Company was RMB95.8 million, compared to a profit of RMB268.6 million in 2019.

Trade and Notes Receivables

As at 31 December 2020, the Group's net trade and notes receivables amounted to RMB2,133.8 million, representing a decrease of RMB66.4 million as compared to 31 December 2019. The average trade receivable turnover days for the year was 226 days, representing an increase of 30 days as compared to 2019.

Inventories

As at 31 December 2020, the value of the Group's inventories was RMB930.6 million, representing an increase of RMB165.1 million compared to that of 31 December 2019, mainly due to the effect of the slower overseas projects' execution which slowed down the turnover of the inventory, caused by the continuous global-wise spread of the COVID-19 pandemic.

Liquidity and Capital Resources

As at 31 December 2020, the Group had cash and bank deposits of approximately RMB1,333.3 million (including: restricted bank deposits, cash and cash equivalents), representing a decrease of RMB1,458.3 million as compared to 31 December 2019. This was mainly due to the Group's repayment in full of USD300 million worth of bonds during the year.

The Group's outstanding short-term borrowings as at 31 December 2020 amounted to approximately RMB764.0 million. Approximately RMB929.8 million of the credit facilities underwritten to the Group by domestic banks remained unused.

As at 31 December 2020, the Group's gearing ratio was 61.4%, representing a decrease of 5.6 percentage points from the gearing ratio of 67.0% as at 31 December 2019. The calculation of gearing is based on total borrowings divided by total capital. Total borrowings include borrowings, bonds, lease liabilities and trade and notes payables (as shown in the consolidated statement of financial position). Total capital is calculated based on equity (as shown in the consolidated statement of financial position) plus total borrowings.

As at 31 December 2020, equity attributable to equity holders of the Company was RMB 2,626.1 million, a decrease of RMB 276.0 million from RMB 2,902.1 million in 2019.

Acquisition and Disposal of Major Subsidiaries, Associates and Joint Ventures

During the twelve months ended 31 December 2020, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Exchange Risk

The Group conducts its business mainly in RMB and USD, and some of its import and export purchases are settled in foreign currencies. The Group maintains that the exchange risk involved in the Group's settlement amounts denominated in foreign currencies is not material. The Group's exchange risk mainly arises from its foreign currency deposits, trade receivables, and long-term bonds denominated in foreign currencies. Fluctuations in the exchange rate of RMB against USD may adversely affect the Group's operating results and financial position.

Cash Flow from Operating Activities

For the twelve months ended 31 December 2020, the Group's net cash flow from operating activities was a net inflow of RMB805.4 million for the year, representing an increase of RMB195.1 million over 2019, mainly due to the Group increased the proportion of notes payments to suppliers, resulted in a decrease in the amount of cash payments.

Capital Expenditure and Investment

The Group's net capital expenditure for the year 2020 was RMB169.9 million, of which RMB130.9 million was invested in fixed assets and RMB39.0 million in intangible assets.

Contractual Commitments

The Group's contractual commitments mainly comprise its capital commitments, which stood at approximately RMB79.6 million as at 31 December 2020 (but not yet provisioned for in the consolidated statement of financial position).

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 31 December 2020, the Group's assets pledged for bank financing were property, plant and equipment with a net book value of RMB328.1 million, right-of-use assets with a net book value of RMB5.5 million, and trade receivables with a net book value of RMB1,036.7 million.

Off-Balance Sheet Arrangements

As at 31 December 2020, the Group did not have any off-book arrangements.

FINAL DIVIDENDS

The Board does not recommend the payout of a final dividend for the year ended 31 December 2020 (2019: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on 25 May 2021 (Tuesday) and the notice of the AGM will be published and dispatched to the shareholders of the Company in due course in the form prescribed under the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May 2021 (Thursday) to 25 May 2021 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2021 AGM, all transfers accompanied by the relevant documentation and share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 18 May 2021 (Tuesday).

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2020.

DIRECTOR'S 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 securities transactions by the Directors. Having made specific inquiry with all the Directors, the Company confirms that all Directors have fully complied with the applicable requirements stipulated in the said Code throughout the reporting period.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the reporting period, the Group repurchased through tender offer USD102,737,000 aggregate principal amount of the Group's 9.75% senior notes due 2020 (the "**2020 Notes**"), repurchased USD92,638,000 aggregate principal amount of the 2020 Notes in the secondary market, and repaid the remaining USD104,625,000 aggregate principal amount of the 2020 Notes in cash on their maturity date in December 2020, thus completing the repayment of all the 2020 Notes.

During the reporting period, the Group repurchased USD10,100,000 aggregate principal amount of the 7.5% senior notes due 2022 (the "**2022 Notes**") in the secondary market.

During the reporting period, the Group through the trustee purchased a total of 95,226,000 shares of the Company, representing 3.17% of the total number of issued shares of the Company as at the date of this announcement, in the secondary market for the Restricted Share Incentive Scheme of the Company.

Save as disclosed, neither the Company nor any of its subsidiaries has purchased, sold or repurchased any of the Company's listed securities during the year ended 31 December 2020.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2020 as set out in the announcement of the Company dated 28 March 2021 in relation to the annual results of the Group for the year ended 31 December 2020 (the "2020 Results Announcement") have been agreed by the Company's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the 2020 Results Announcement."

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") consists of all the Independent Non-executive Directors of the Company, namely Mr. ZHU Xiaoping, Mr. ZHANG Yongyi and Mr. WEE Yiaw Hin. The chairman of the Audit Committee is Mr. ZHU Xiaoping. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2020.

PUBLICATION OF ANNUAL REPORT

This audited annual results announcement is published on the websites of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and the Company (http://www.antonoil.com). The annual report of the Company for the year ended 31 December 2020, which contains all the data required by the Listing Rules, will be distributed in due course to the shareholders of the Company and posted on the above-mentioned websites for review.

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

Hong Kong, 28 March, 2021

As at the date of this announcement, the Executive Directors are Mr. LUO Lin, Mr. PI Zhifeng and Mr. FAN Yonghong; the Non-Executive Director is Mr. HUANG Song; and the Independent Non-executive Directors are Mr. ZHANG Yongyi, Mr. ZHU Xiaoping and Mr. WEE Yiaw Hin.