SPT Energy Group Inc.
華油能源集團有限公司 *

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1251

2013 Annual Report

* For identification purpose only

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SPT Energy Group Inc.
Annual Report 2013

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang
(Chairman and Chief Executive Officer)
Mr. Wu Dongfang
Mr. Liu Ruoyan
Mr. Jin Shumao

Non-Executive Directors

Mr. Lin Yang
Ms. Chen Chunhua

Independent Non-Executive Directors

Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

AUDIT COMMITTEE

Mr. Wu Kwok Keung Andrew *(Chairman)*
Ms. Chen Chunhua
Mr. Wan Kah Ming

REMUNERATION COMMITTEE

Ms. Zhang Yujuan *(Chairman)*
Mr. Wang Guoqiang
Mr. Wu Kwok Keung Andrew

NOMINATION COMMITTEE

Mr. Wang Guoqiang *(Chairman)*
Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew

AUTHORISED REPRESENTATIVES

Mr. Wang Guoqiang
Ms. Mok Ming Wai

COMPANY SECRETARY

Ms. Mok Ming Wai *(FCIS, FCS)*

COMPANY WEBSITE

www.spt.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN PRC

7-8/F, Tower B
Desheng International Center
No. 83 Dewai Street
Xicheng District
Beijing 100088
The PRC

Corporate Information

REGISTERED OFFICE

Floor 4, Willow House,
Cricket Square,
P.O. Box 2804,
Grand Cayman KY1-1112,
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISOR

Morrison & Foerster

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
China Construction Bank
Huaxia Bank
CITIC Bank
Bank of Kunlun Company Limited
Bank of China

INVESTOR RELATIONS

Porda Havas

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

1251

DATE OF LISTING

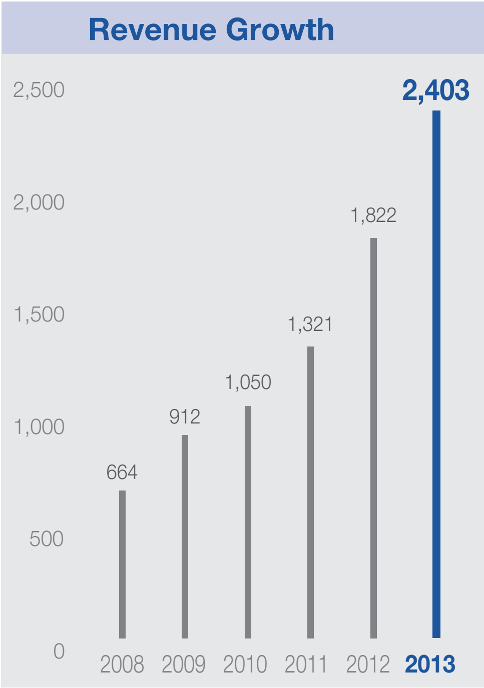
23 December 2011

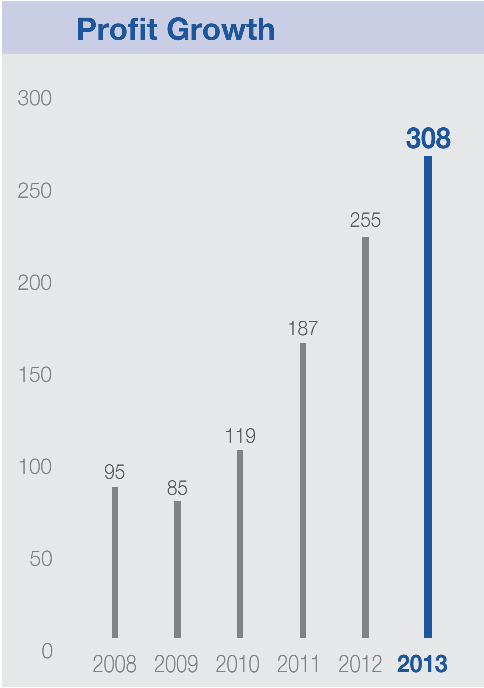
Financial Summary

The following financial information is extracted from the consolidated financial statements of the Group, which is prepared under the International Financial Reporting Standards:

CONDENSED CONSOLIDATED INCOME STATEMENT

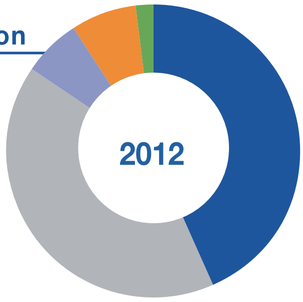
	For the year ended 31 December			
RMB'000	**2013**	2012	2011	2010
Revenue	**2,402,767**	1,821,661	1,321,260	1,050,432
Other (losses)/gains, net	**12,608**	(11,435)	(7,760)	4,206
Operating costs	**(2,001,247)**	(1,448,157)	(1,037,851)	(873,705)
Operating profit	**414,128**	362,069	275,649	180,933
Finance cost, net	**(24,638)**	(22,797)	(13,999)	(5,350)
Profit before income tax	**389,490**	339,272	261,650	175,583
Profit for the year	**308,397**	254,938	186,583	119,443
Attributable to:				
Equity owners of the Company	**300,377**	247,703	181,806	119,509
Non-controlling interests	**8,020**	7,235	4,777	(66)
Dividends proposed after balance sheet date	**76,520**	61,000	13,350	–



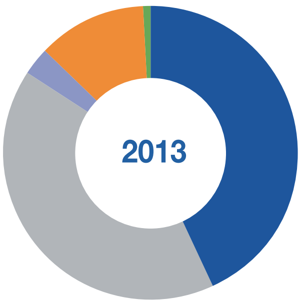


Financial Summary

Revenue by Region

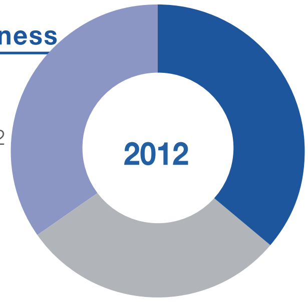


- China: 791,437
- Kazakhstan: 749,734
- Canada: 117,856
- Singapore: 131,244
- Others: 31,390

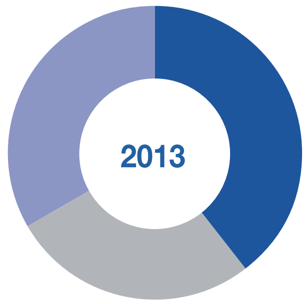


- China: 1,036,895
- Kazakhstan: 987,983
- Canada: 71,170
- Singapore: 288,890
- Others: 17,829

Revenue by Business



- Drilling: 658,850
- Well completion: 531,502
- Reservoir: 631,309



- Drilling: 953,778
- Well completion: 649,730
- Reservoir: 799,259

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December			
RMB'000	**2013**	2012	2011	2010
Asset				
Non-current assets	**544,272**	388,849	284,416	236,175
Current assets	**2,507,924**	2,106,196	1,184,351	929,510
Total assets	**3,052,196**	2,495,045	1,468,767	1,165,685
Total equity	**1,831,194**	1,628,174	903,789	601,950
Liability				
Non-current liabilities	**106,861**	151,394	16,700	434
Current liabilities	**1,114,141**	715,477	548,278	563,301
Total liabilities	**1,221,002**	866,871	564,978	563,735
Total equity and liabilities	**3,052,196**	2,495,045	1,468,767	1,165,685
Net current assets	**1,393,783**	1,390,719	636,073	366,209
Total assets less current liabilities	**1,938,055**	1,779,568	920,489	602,384

Chairman's Statement

We strive to become a first-class international energy services enterprise.

Wang Guoqiang
Chairman and Executive Director

Dear Shareholders,

On behalf of the board of directors of SPT Energy Group Inc. (the "Company" or "SPT Energy Group", together with its subsidiaries, the "Group"), I present the annual report of the Group for the year ended 31 December 2013 (the "Year") to the shareholders.

In 2013, the Group recorded a revenue of RMB2,402.8 million and profit attributable to the equity owners of the Company of RMB300.4 million, representing an increase of 31.9% and 21.3% respectively as compared to the previous year.

MARKET REVIEW

Over the past year, given the slow recovery of the global economy and the uncertainties in the marcoeconomic environment, China managed to maintain steady economic growth of 7.7% and made considerable progress in shifting the driver of economic growth and adjusting the economic structure amid complex and challenging conditions. Accordingly, the quality and efficiency of economic growth increased steadily. To satisfy the demand for energy development driven by steady economic growth, contain the increasing reliance on imported energy and ensure the energy safety issues, the Chinese government accelerated the development of clean energy (particularly natural gas) and unconventional energy during the year. According to the statistics published by the Ministry of Land and Resources, China's production output of petroleum and natural gas in 2013 set its record high. The production output of petroleum and natural gas for the year was 210 million tonnes, representing an increase of 1.8% as compared to the previous year; whereas the production output of natural gas was 120.9 billion cubic meters, of which the production output of conventional natural gas was 117.7 billion cubic meters, representing an increase of 9.8% as compared to the previous year, and the production output of coal-bed gas and shale gas was more than 3.0 billion cubic meters and 0.2 billion cubic meters respectively. Capitalising on the tremendous opportunities arising from the flourishing market demand and the promulgation of policies favourable to the energy services providers, SPT Energy as the leading non-state-owned provider of integrated oilfield services in China also leveraged on its own strengths in technical services and continued to improve the core market layout locally and abroad by riding on the growth opportunities in the energy industry.

In 2013, the Group continued to consolidate and enhance the technology strengths of its three major business segments, namely drilling services, well completion services and reservoir services, and pushed ahead the development of its integrated services. The Group also made strategic plans for new opportunities from turkey business and unconventional gas business. Domestically, the Group continued to focus on the projects in Tarim Basin, Ordos Basin and Sichuan Basin. Internationally, the Group further stepped up its expansion efforts into the central Asian markets, particularly Kazakhstan and Turkmenistan, and made significant breakthrough in the Middle East market.

Leveraging on its major technologies and on-site construction capacities necessary for oil exploration and production, particularly in acquiring core leading technology of drilling and completing in complex wells, complicated and difficult wells and unconventional oil and gas wells, coupled with the extensive experience in the research and assessment on oil and gas reservoir and fracturing technologies, the Group not only consolidated the leading position in its existing markets, but also further expanded its businesses into the emerging markets. The Group is one of the few private enterprises providing large-scale overseas oilfield services with business coverage throughout major oil and gas production regions in China, Central Asia, North America, Southeast Asia and the Middle East.

UNCONVENTIONAL ENERGY DEVELOPMENT – SHALE GAS

The industrialisation of unconventional energy, particularly share gas is conducive to improving China's energy structure, facilitating energy-saving and emission reduction and promoting energy safety, enjoying a bright and promising future. While the investment and growth prospects of gas shale is under global spotlight, SPT Energy will make use of its technology strengths and actively participate in the energy development revolution. In addition to participating in the domestic shale gas projects, the Group also endeavoured to promote the international exchange and cooperation for shale gas development and made significant progress in the research and development of a key technology – directional drilling tool and horizontal well multi-stage fracturing tool, as well as entered into cooperation agreements with a series of potential tender award customers.

PROSPECT

Going forward, non-state owned oil field service companies will usher in development opportunities against a backdrop of a gradual pickup in global economy, increasing demand for energy development, intensifying reforms for marketisation in China's oil and gas industry and rising number of overseas projects of state-owned enterprises. With the continuous release of demand for energy development, the increasingly complex drilling environment, the increase in technological development difficulties and the rising proportion of high-end projects, oil field service companies will face more demanding requirements.

Chairman's Statement

The Group will fully demonstrate its edges in turnkey operations and special technical services, further improve the product and service structure of the reservoir services segment, accelerate technological upgrade of the drilling and well completion segments, and reinforce its integrated service capabilities. The Group will continue to focus on personnel training and expand its high-end technical service and R&D personnel reserve for more sustained and positive contributions to our future business development. Aside from bringing into play its own technical advantages and rich experience in oil services, over the past few years, SPT Energy has continued to strengthen cooperation with large-size international oil service enterprises for its strategic transition to the complex high-end well service sector. The Group will continue to strengthen its strategic cooperation with the world's major oil field service provider Halliburton in order to obtain high-end projects and thus maintain profit margins.

In addition to our continuous consolidation of position in the conventional energy development market, the Group will actively invest in the development of unconventional energy resources, primarily shale gas, to achieve the annual shale gas production target of 6.5 billion cubic meters in 2015 in order to tie in with the "12th Five-Year" industrial planning. The Group will take this historical opportunities from revolution of oil and gas, thus to capture decisive opportunities in energy strategy.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to take this opportunity to express our heartfelt gratitude to all of our shareholders for their great support to the Group. We will strengthen investments in business development and corporate management, carefully listen to the opinions and recommendations from our honoured shareholders and the general public, and strive for a sustained growth in results in return to shareholders for their trust and to bring them better returns.

Wang Guoqiang
Chairman and Executive Director

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2013, revenue of the Group was RMB2,402.8 million, representing an increase of RMB581.1 million, or 31.9%, as compared with that of RMB1,821.7 million for the previous year. The increase was mainly due to business growth, especially substantial expansion in drilling segment.

Other gains/(losses), net

For the year ended 31 December 2013, other gains, net of the Group was RMB12.6 million, while the other (losses), net for the previous year was RMB11.4 million. The net gains for the reporting year was primarily in relation to the appreciation of our RMB-denominated assets against USD and USD-dominated assets against Canadian dollars.

Material costs

For the year ended 31 December 2013, material costs of the Group was RMB539.8 million, representing an increase of RMB79.6 million, or 17.3%, as compared with that of RMB460.2 million for the previous year. The increase of material costs was mainly driven by the growth of the Group's business.

Employee benefit expenses

For the year ended 31 December 2013, employee benefit expenses of the Group was RMB544.3 million, representing an increase of RMB129.5 million, or 31.2%, as compared with that of RMB414.8 million for the previous year. This was mainly due to the increase in employee numbers along with the business expansion and the increase of share-based payments in relation to share options granted in 2013.

Operating lease expenses

For the year ended 31 December 2013, operating lease expenses of the Group was RMB172.8 million, representing an increase of RMB93.5 million, or 118.0%, as compared with that of RMB79.3 million for the previous year. This was mainly due to that the Group leased from suppliers more equipment to meet the growth of Group's business.

Transportation costs

For the year ended 31 December 2013, transportation costs of the Group was RMB77.8 million, representing an increase of RMB1.9 million, as compared with that of RMB75.9 million for the previous year.

Depreciation and amortisation

For the year ended 31 December 2013, depreciation and amortisation of the Group was RMB70.7 million, representing an increase of RMB13.3 million, or 23.2%, as compared with that of RMB57.4 million for the previous year. The increase was mainly due to the procurement of more operating equipments to meet the business expansion.

Technical service expenses

For the year ended 31 December 2013, technical service expenses of the Group was approximately RMB322.5 million, representing an increase of RMB193.1 million, or 149.2%, as compared with that of RMB129.4 million for the previous year. The increase was mainly because the Group outsourced from suppliers more heavy equipment along with hiring of operators to meet the business requirements.

Impairment loss of assets

For the year ended 31 December 2013, impairment loss of assets was RMB25.8 million. The impairment loss of assets was in relation to the increase of bad-debt provision of receivables which the Group estimated uncollectable.

Others

For the year ended 31 December 2013, other operating costs of the Group was RMB247.6 million, representing an increase of RMB27.4 million, or 12.4%, as compared with that of RMB220.2 million for the previous year. This was mainly due to the increase of administrative expenses driven by the business expansion.

Operating profit

As a result of the aforementioned changes, operating profit of the Group increased from RMB362.1 million for the previous year to RMB414.1 million for the year ended 31 December 2013, representing an increase of RMB52.0 million, or 14.4%.

Finance costs, net

For the year ended 31 December 2013, the Group's finance costs, net was RMB24.6 million, representing an increase of RMB1.8 million, or 7.9%, as compared with that of RMB22.8 million for the previous year. This is mainly due to the increasing interest of the convertible bonds, partially offset by the decrease of bank loans interests.

Income tax expense

For the year ended 31 December 2013, income tax expense was RMB81.1 million, representing a decrease of RMB3.2 million, as compared with that of RMB84.3 million for the previous year. The effective income tax rate (income tax expense/profit before income tax) for the year of 2013 was 20.8% while the effective income tax rate for previous year was 24.9%. This was mainly because the Group did not recognise deferred tax liabilities in relation to certain subsidiaries' unremitted profit for the Reporting Year as the Group expected such profit will be re-invested in its operation.

Profit for the period

As a result of the aforementioned changes, the Group's profit for the year ended 31 December 2013 increased from RMB254.9 million for the previous year to RMB308.4 million, representing an increase of RMB53.5 million, or 21.0%.

Profit attributable to equity owners of the Company

For the year ended 31 December 2013, profit attributable to equity owners of the Company was RMB300.4 million, representing an increase of RMB52.7 million from that of RMB247.7 million for the previous year.

Property, plant and equipment

As at 31 December 2013, property, plant and equipment was RMB372.7 million, representing an increase of RMB95.2 million, or 34.3%, from RMB277.5 million as at 31 December 2012. This was mainly due to the purchases of equipment to meet the business expansion.

Inventories

As at 31 December 2013, inventories was RMB484.9 million, representing an increase of RMB169.6 million, or 53.8%, from RMB315.3 million as at 31 December 2012. The increase was mainly because the Group purchased more inventories to meet the business expansion.

Trade and notes receivables and trade payables

As at 31 December 2013, trade and notes receivables was RMB1,255.8 million, representing an increase of RMB212.5 million, or 20.4%, from RMB1,043.3 million as at 31 December 2012. The increase was due to the increase of revenue.

As at 31 December 2013, trade payables was RMB683.7 million, representing an increase of RMB358.3 million, or 110.1%, from RMB325.4 million as at 31 December 2012. The increase was mainly because the Group prepared for more inventories and purchased more equipments for the business expansion.

Management Discussion and Analysis

Liquidity and capital resources

As at 31 December 2013, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB660.8 million, representing a decrease of RMB11.7 million, from RMB672.5 million as at 31 December 2012.

As at 31 December 2013, the Group's short-term borrowings and current portion of long-term borrowings were RMB190.0 million, while the long-term borrowings was RMB84.8 million. As at 31 December 2012, the Group's short-term bank borrowings and the current portion of long-term bank borrowings were RMB196.8 million, while long-term borrowings were RMB125.7 million.

As at 31 December 2013, the Group's gearing ratio was 15.0%, representing a decrease of 24.2% as compared with 19.8% as at 31 December 2012. Gearing ratio was calculated as total borrowings divided by total equity. Total borrowings include long-term borrowings, short-term borrowings and current portion of long-term borrowings.

As at 31 December 2013, equity attributable to the equity owners of the Group was RMB1,784.1 million, representing an increase of RMB202.5 million, or 12.8%, as compared with RMB1,581.6 million as at 31 December 2012.

Cash flows from operating activities

For the year ended 31 December 2013, the Group's net cash generated from operating activities was RMB253.4 million, representing an increase of approximately RMB311.3 million as compared with the net cash used of RMB57.9 million in the previous year. The substantial improvement reflected the fact that the Group strengthened its cash management.

Cash flows from investing activities and financing activities

For the year ended 31 December 2013, the Group's net cash used in investing activities was RMB154.9 million, mainly including purchases of property, plant and equipment amounting to RMB134.1 million and intangible assets amounting to RMB28.1 million.

For the year ended 31 December 2013, the Group's net cash used in financing activities was RMB116.1 million, mainly resulting from the net decrease of borrowings of RMB49.0 million and payments of dividends to shareholders of RMB61.2 million.

Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, Singapore, Canada and Indonesia with most of the transactions denominated and settled in RMB, Kazakhstan Tenge ("KZT"), Singapore Dollar ("SGD"), Canadian Dollar ("CAD") and Indonesia Dollar ("IDR") respectively. Certain sales to and purchases from overseas are denominated in USD. Foreign exchange risk also arises from borrowings comprising bank borrowings and certain bank deposits denominated in foreign currencies. The Group is exposed to foreign currency exchange risk primarily with respect to USD.

During the financial year, the Group has not used any financial instrument to hedge the foreign exchange risk.

Devaluation of KZT after the balance sheet date

On 11 February 2014, Kazakhstan government announced, with effect from the same day, exchange rate of KZT to USD was devalued to KZT185 for USD1 ("Devalued Exchange Rate of KZT to USD"). As compared with the closing rate of KZT153.6 for USD1 on 31 December 2013, exchange rate of KZT to USD was devalued by approximately 20.4%. In addition, as the closing rate of USD to RMB changed from USD1 for RMB6.0969 on 31 December 2013 to USD1 for RMB6.1069 on 11 February 2014, exchange rate of KZT to RMB was devalued by 20.2% from KZT 25.19 for RMB1 to KZT30.29 for RMB1 ("Devalued Exchange Rate of KZT to RMB"). The calculation of exchange rate of KZT to RMB was used to translate Kazakhstan subsidiaries' financial statements from KZT to RMB when preparing the Group's consolidated financial statements. For presentation purpose, Tenge's devaluation against USD and RMB are collectively referred to as "Devaluation".

Assuming the exchange rate of KZT to USD and RMB during 2014 remains stable with all other variables held constant, the impact of the Devaluation on the Group's consolidated financial statements of 2014 will be reflected from the following aspects:

The USD-denominated assets and liabilities of the Kazakhstan subsidiaries arising from transactions before the Devaluation will be adjusted using the Devalued Exchange Rate of KZT to USD. The adjustments to such assets and liabilities will be (credited)/charged to Kazakhstan subsidiaries' income statements and ultimately reflected in the Group's consolidated income statement.

When preparing the Group's consolidated income statement, the Kazakhstan subsidiaries' revenue will be translated into RMB using the exchange rate when the revenue is recognised. Hence, revenue arising from KZT-denominated sale or service contracts which have been entered into but yet to complete before the Devaluation may decrease due to the translation using Devalued Exchange Rate of KZT to RMB, should the Company fails to re-negotiate contract-price with related customers to eliminate the Devaluation impact. This will lead to a decrease of the Group's consolidated net profit. However, as most of the costs and expenses of the Kazakhstan subsidiaries are also denominated in KZT and these costs and expenses will decrease as well in the same manner, the negative impact on the Group's consolidated net profit will be partially eliminated.

In addition, all the assets and liabilities denominated in KZT will also be translated into RMB using Devalued Exchange Rate of KZT to RMB and the resulting translation differences are recognised as "Equity – currency translated differences" account when preparing the Group's consolidated balance sheet.

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2013, the total number of ordinary shares of the Company in issue was 1,530,391,333 shares (31 December 2012: 1,525,000,000 shares). Total equity attributable to owners of the Company amounted to RMB1,784,060,000 (31 December 2012: RMB1,581,647,000).

Significant investment held

As at 31 December 2013, the Group did not hold any significant investment.

Management Discussion and Analysis

Material acquisitions and disposals of subsidiaries and associates

For the year ended 31 December 2013, the Group did not have material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 31 December 2013, the Group pledged parts of its property, plant and equipment, long-term prepayments and trade and note receivables to secure the Group's borrowings. The carrying values of the assets pledged are as follows:

	As at 31 December 2013 *RMB'000*	As at 31 December 2012 *RMB'000*
Property, plant and equipment	**2,643**	3,467
Long-term prepayments	**16,712**	17,844
Trade and note receivables	**22,000**	250,593
Land use right	**–**	23,689
Restricted bank deposits	**–**	12,000

Convertible bonds

For the Reporting Year, the movement in convertible bonds which were recognised partially as equity and partially as long-term borrowings is as follow:

	RMB'000
Face value of convertible bonds issued on initial recognition date	94,526
Less: Equity component	(32,370)
Liability component on initial recognition date	62,156

	2012 *RMB'000*
Liability component on initial recognition date	62,156
Add: Interest expense in 2012	4,131
Less: Interest paid and payable	(1,038)

Management Discussion and Analysis

	2013 *RMB'000*
Liability component as at 31 December 2012	**65,249**
Add: Interest expense in 2013	**12,096**
Less: Interest paid and payable	**(2,744)**
Less: Exchange difference	**(2,145)**
Liability component as at 31 December 2013	**72,456**

Contingent liabilities

As at 31 December 2013, the Group did not have material contingent liabilities.

Off balance sheet arrangement

As at 31 December 2013, the Group did not have off balance sheet arrangements.

Contractual obligations

Our contractual commitment mainly included capital commitments and operating lease commitments. As at 31 December 2013, the capital expenditure commitments were mainly acquisition of property, plant and equipment amounting to RMB5.6 million, while the operating lease commitments were mainly lease of offices, warehouses and equipments amounting to RMB443.0 million.

BUSINESS REVIEW

In 2013, SPT Energy Group Inc. recognised revenue of RMB2,402.8 million and net profits of RMB308.4 million, representing an increase of 31.9% and 21.0%, respectively from the previous year. Excluding the one-off expenses arising from the share options, the profit after tax grew by 30.5% yoy.

During the Reporting Year, the Group continued to focus on providing technical services to meet the needs of our clients. Against the backdrop of fast changing competitive landscape – the turnkey contract model and the beginning of the large scale shale gas development, the Group continuously optimised and reallocated its internal resources to enhance its integrated capabilities and gas operational abilities. With its continuous efforts, considerable progresses were made. During the Reporting Year, the Group continued to maintain fast growth in its businesses. As to the overseas market, the Group recognised revenue of RMB1,365.9 million, accounting for 56.8% of the total revenue of the Group and representing an increase of 32.6% from the previous year. As to the domestic market, the Group recognised revenue of RMB1,036.9 million, accounting for 43.2% of the total revenue of the Group and representing an increase of 31% from the previous year.

Management Discussion and Analysis

Integrated operation is the future mainstream project model for the exploration and development of oil and gas fields, particularly the development of unconventional oil and gas. Meanwhile, the more demanding requirements are imposed on the service companies in terms of their completeness of business operation provided, technological sophistication and communication as well as coordination skills. After years of experience, SPT Energy Group has possessed most of the abovementioned abilities. In March 2013, the Group won a bid for the drilling and well completion turnkey project in Tarim Oilfield. The well in the project is a ultra-deep 6,855m, ultra-high pressure and ultra-high temperature well. At the same time, the two newly acquired drilling rigs with 5,000m depth capacity have started their operation in Ordos Basin. During the year, the Group has successful completed several integrated drilling projects for a total of five wells, two of which are horizontal wells and three of which are vertical wells.

Given that the natural gas business will enter its fast growth era, the Group stepped up its expansion in this area and made considerable progress. On 9 April 2013, Turkmenistan Amu Darya Natural Gas Company (土庫曼斯坦阿姆河天燃氣公司) and SPT Energy Group. entered into a long-term strategic cooperation framework agreement. Amu Darya Natural Gas Company is the largest natural gas exploration and development cooperation project engaged by CNPC, and also one of the fastest-growing international petroleum and natural gas companies. Having leveraged on the comprehensive integrated services capabilities, and the management expertise, we can effectively organise, coordinate and implement a highly integrated technologically engineering operation so as to achieve strategic objective of oilfield exploration and development more effectively.

As to shale gas market, the Group has continually accumulated experiences, built track records and now the Group is well prepared for the full scale shale development. Firstly, the Group continued to provide high-quality drilling fluid technical services for the shale gas wells in Changning, Sichuan. Meanwhile, the Group has closely monitored and actively followed up any possible shale gas projects, and has entered into a series of cooperation framework agreements with some potential shale gas developers. Secondly, the Group has set up the Institute of Geology Engineering Technology (地質工程技術院) and the Unconventional Gas Project Department (非常氣項目部) to prepare for the Group's operation of unconventional gas business. Thirdly, some substantial progresses were made in the areas of R&D and manufacturing. With respect to the two core technologies of unconventional gas well construction, i.e. the directional drilling technology and multi-stage well completion technology, SPT has successfully researched and manufactured the MWD tools and oil swellable packer. These two breakthroughs have further enhanced the Group's comprehensive abilities in large-scale development of shale gas.

REVENUE ANALYSIS

For the year ended 31 December 2013, the analysis of the Group's revenue by business segment is as follows:

	2013 *RMB'000*	2012 *RMB'000*	Growth Rate
Drilling	**953,778**	658,850	44.8%
Well completion	**649,730**	531,502	22.2%
Reservoir	**799,259**	631,309	26.6%
Total	**2,402,767**	1,821,661	31.9%

Management Discussion and Analysis

In 2013, the three business segments of the Group, drilling, well completion and reservoir, have maintained steady growth as compared with the previous year. Among others, the drilling segment realised the highest growth as compared with the previous year and recognised a revenue of RMB953.8 million, accounting for 39.7% of the total revenue of the Group.

Reservoir Services Segment

Revenue	**2013** *RMB'000*	2012 *RMB'000*	Growth Rate
PRC	**298,652**	127,341	134.5%
Overseas	**500,607**	503,968	(0.7%)
Total	**799,259**	631,309	26.6%

For the year ended 31 December 2013, the reservoir services segment recognised revenue of RMB799.3 million, representing an increase of 26.6% from the previous year. The overseas Companies recognised a revenue of RMB500.6 million, representing a decrease of 0.7% from the previous year, whilst the domestic market contributed revenue of RMB298.7 million, representing an increase of 134.5% from the previous year.

Our reservoir operations focus on geological data gathering and evaluating in order to gain a deep, and hopefully, an accurate understanding of our clients' oil and gas reserves. Our ultimate objective is to help our clients formulate the most effective plans for exploration, development and production. Now after 20 years' evolution, our reservoir team has become the best team among Chinese independent services providers. Our business coverage includes reservoir research, dynamic monitoring, oil testing services, oil recovery technology as well as the operation and maintenance services for on-ground production devices.

Our reservoir team has achieved the following:

First of all, we have successfully penetrated into the Middle East market. The Group won the bid for a three-year dynamic monitoring contract with respect to Iraq AL-waha Petroleum Company in February 2013 and commenced on-site service in the same year. This marked the Group's significant strategic breakthrough in the Middle East and facilitated the Group to expand to other areas in the region.

Secondly, SPT has reinforced its position in Turkmenistan. After forming the pipeline gas sealing and testing operation team in 2012, we have completed the gas sealing and testing operation for ten wells. In November 2013, the Group won the bid for a two-year tube gas sealing and testing services contract from Turkmenistan Amu Darya Natural Gas Company. Meanwhile, the Group successfully provided profile control and water shut-off technical services for five wells in Karazhanbac Oilfield (卡拉贊巴斯油田) in Kazakhstan, which effectively reduced the water content and increased the oil production (降水增油) by 4,100 tonnes on an accumulated basis for the year. This has not only helped the Company earn the market recognition, but also generate good investment returns to the clients.

Management Discussion and Analysis

Thirdly, in order to further enhance our leading position in reservoir research and operations, we have consolidated our internal resources by recruiting some industry heavy-weight specialists. This newly established Institute of Geology Engineering Technology will enable us to provide our clients with more extensive and more sophisticated services as well as to enhance our leading position among the Chinese independent service providers for many years to come.

Well Completion Services Segment

Revenue	**2013** ***RMB'000***	2012 *RMB'000*	Growth Rate
PRC	**191,657**	350,466	(45.3%)
Overseas	**458,073**	181,036	153.0%
Total	**649,730**	531,502	22.2%

For the year ended 31 December 2013, the well completion services segment recognised revenue of RMB649.7 million, representing an increase of 22.2% from the previous year. The overseas market recognised revenue of RMB458.1 million, representing an increase of 153.0%, while the domestic market recognised a revenue of RMB191.7 million, representing a decrease of 45.3%. Considering the revenue recognized in Singapore company amounting to RMB232 million for which the relevant services were provided by the Singapore company to China customers, the actual revenue generated in China market increased by 11% while revenue generated in overseas market increased by 51%.

We have commenced our well completion operations since 2002 and has been one of the pioneers in this field, especially for high-end gas well work. We believe we are a truly integrated well completion service provider. The service operations we have provided included, but not limited to, project design, tools selections and procurements, perforation, multi-stage fracturing, ancillary materials and on-site constructions.

During the Reporting Year, the Group continued to remain its leading position in the high-end gas well completion services market. In August 2013, the Group won the bid for the service contract relating to 35 sets high-end well completion tools of Amu Darya natural gas company in Turkmenistan. The new project is located at Yaxi Jiepei gas field (亞西杰佩氣田) of Nabataean (納巴特) in Lebap Province (巴普州), Turkmenistan, which is the major gas source for West-East Gas Pipeline projects. In August, the Group won another bid for the contract relating to 38 sets high-end well completion tools at Longwangmiao block, Moxi segment, Anyue Gas Field in Sichuan. The project is close to Suining in the central Sichuan Basin with proven reserves of over 400 billion cubic meters, which is by far the single largest marine carbonate gas reservoir discovered in China. The gas field is also a key project of natural gas production and development in Sichuan in the future. Both Amu Darya Gas Field and Anyue Gas Field are characterised by ultra-high temperature, ultra-high pressure and ultra-deep depth. These two projects demanded the service provider not only for its integrated service capacities but also its perfect track records. The successful winning of these two bids further demonstrated the Group's leading position in providing services to natural gas well with critical conditions and laid a solid foundation for further expansion of related businesses in these two regions in the future.

Management Discussion and Analysis

In order to enhance the Group's integrated services capabilities in well stimulation, the Group purchased a set of fracturing equipment in September 2013 with a pumping capacity of 8,000 water horsepower. The equipment is mainly used in Kazakhstan where we have developed this kind of business for 3 years. Currently, the equipment has been delivered to the oilfield in Kazakhstan and put into operation.

Drilling Segment

Revenue	**2013** ***RMB'000***	2012 *RMB'000*	Growth Rate
PRC	**546,586**	313,630	74.3%
Overseas	**407,192**	345,220	18.0%
Total	**953,778**	658,850	44.8%

For the year ended 31 December 2013, the drilling service segment recognised revenue of RMB953.8 million, representing an increase of 44.8% from the previous year. The overseas market contributed a revenue of RMB407.2 million, representing an increase of 18.0% from the previous year, whilst the domestic market recognised revenue of RMB546.6 million, representing an increase of 74.3% from the previous year.

We are one of the most sophisticated independent drilling technology providers in China. In the past 8 years, we have kept innovating and experimenting to add service operations into our existing capacity. Now we can provide integrated drilling services covering drilling rig, vertical drilling, horizontal drilling, side tracking, under balance drilling, drilling fluid, cementing and fine managed pressure drilling (FMPD) technique.

Going forward, the Group expects increasing demand for integrated drilling service. In March 2013, the Group won the bid for an integrated drilling contract in Tarim Oilfield. The well has a designed depth of 6,855m, a wellhead pressure of 97MPa and a bottom hole with temperature of 165 degrees Celsius. It is a world-class, ultra-high pressure and ultra-high temperature well. The project was carried out under the environment that Tarim Oilfield planning to produce 3,170 tens of oil and gas, and also this is the first time Tarim Oilfield outsourced such a complex drilling turkey project to an independent third party. In the same year, in order to reinforce the Group's strength in drilling turnkey operations within China, the Group purchased two sets of 5,000m drilling rigs for such services. The rigs were delivered in May 2013 and commenced operation in Erdos basin in China. During the year, the drilling turnkey operation of three vertical wells and two horizontal wells was successfully completed and the quality of services was well received by the clients. Of which, a horizontal well completed has a drilling depth of 5,628m with a horizontal section length of 2,303m, setting a record in that area. Securing and completing the above-mentioned two turnkeys projects has indisputably demonstrated SPT's leadership in providing integrated services among Chinese independent services providers.

Due to the increasing social awareness on environment protection, formulating and implementing an environmentally friendly service operation has become one of the top items on our clients' agenda. In October 2013, the Group's drilling waste management technology had a field trial at the solid waste yard of Tarim Oilfield. The waste after treatment is in compliance with the GB 8978 "Integrated Sewage Discharge Standard" (污水綜合排放標準) which has also passed our clients' technology review. In the same year, the Group also provided biodegradable oil-based mud drill cuttings for our clients' oil fields in Sichuan and Bohai. The Group gained high recognition from its clients for its high standard of technology design and comprehensive technical services.

Management Discussion and Analysis

Market Environment

Looking forward, we are bullish about the year of 2014. China's oil and gas market will be liberalised and the large-scale shale operations will be kicked off. Under the guidance of the Third Plenary Session of 18th Central Committee of the Chinese Communist party, the top managements of our oil majors have expressed their plans to invite non-state-owned investments to participate in China's oil and gas exploration and development. At present, oil and gas market and oil field service market are respectively 85% and 15% monopolized by SOEs. Market liberalisation and democratization means much more market access for the independent companies and the more market-oriented mechanism will be introduced to the market, implying more transparent, fair and open competitive environment which will be quite favorable and which were otherwise not available to independent companies. As the reform unfolds, the Group believes that we shall be able to expand our business in relatively fast pace and in a much more fair terms to secure much more market opportunities.

The shale gas story should sound attracting. China needs the cleaner energy and is one of the largest energy consumption countries. A few years ago, Chinese government decided to tap its huge shale gas reserves to meet its needs for consumption and economic growth. In 2011, the Chinese government built a legal platform for shale development by reclassifying shale gas as an independent energy source, meaning it is not monopolized by Chinese oil majors. At about the same time, NDRC set a national shale production target of 6.5 bcm by 2015. A little while later, the China Ministry of Land and Resources organized two rounds of shale auctions and the third one will start very soon. The most important development has been that both Sinopec and CNPC, our two major clients, also the major shale players, released some very encouraging data about their pilot gas field production in Sichuan last November. The two major shale players expressed their confidence to build their shale gas production capacity of more than 7.5 bcm by the end of 2015. Meanwhile, they also published their shale gas work plan which includes drilling altogether 200 shale gas wells in 2014 and 2015. Simply put, China is almost ready to launch its full scale shale operation and undoubtedly SPT will be one of the few independent service providers which will benefit from this shale development for many years to come.

R&D AND MANUFACTURING

We always attach the great importance to R&D. Over the years, the Group has been focusing its efforts in the research and development of the tools required for oilfield on-site services and products. In 2013, with respect to the key technology for the exploration of natural gas, especially unconventional gas – horizontal drilling and fracturing, the Group successfully developed a directional drilling tool, MWD and a horizontal well multi-stage fracturing tool – oil swellable packer. These two products have successfully passed all the laboratory tests and on-site inspections has been satisfied, and satisfied the requirements for commercial production. The performance of the tools and the technology standards of these products has been above the industry standards.

In early 2013, the First Service and Innovation Technology Exchange Conference and Awards Presentation Ceremony were held by the Group at which 29 applications for technical services and innovation achievements were made by various departments, regional offices and the subsidiaries of the Group. The achievements cover the high and new technologies in oilfield exploration and development, including drilling, logging, well completion, oil recovery, well simulation, workover and reservoir studies. The experts comprising the Technology Committee of the Group carefully reviewed these achievements in four rounds, and elected 23 wining projects according to the level of innovation, contribution to the operating efficiency of the Company and market development thereafter. Three silver medal, five bronze, 15 memorable prize were issued to 135 employees.

HUMAN RESOURCES

To ensure the sustainability and rapid development of the Group in 2013, the Group continued to adhere to strengthening the development of its technologies and services capacity of various business segments, optimising the organisational structure, strengthening personnel training and development and continuing to recruit various talents for the Group.

Due to the rapid growth of its businesses at home and abroad, the number of staff has grown steadily. Domestically, the Group continued to provide training and recruit talent people with certain expertise in oilfield business, and particularly, to expand the talent pool for unconventional oil and gas business. At the same time, as to overseas operations, the Group continued to implement its localisation strategy to strengthen the training of local core personnel and optimise the regional talent structure.

In terms of remuneration policies and employee incentives, by adhering to the principle of attracting and retaining core employees in key positions, the Group continued to implement the share option scheme in 2013 and granted a total of 59.09 million share options to 115 core employees (excluding directors). To facilitate and cater for the needs of the speedy business development, the Group will further improve its employee remuneration management system, optimise the remuneration structure and standards and strengthen the incentive system for the frontline production workers. At the same time, to cater for the needs of international business expansion, the Group will continue to standardise and improve the policies of remuneration and benefits for the staff in different countries or regions.

In 2013, the Group conducted its training in adherence to the principle of "Internal Training Based on Business Needs and Sharing of Benefits with Customers through External Platform" (內部培養人才契合業務需求，外部設立平台分享惠及客戶). As to our internal staff, we continued our cooperation with Wilson Learning Skills Consultant, a US based company in 2013 and conducted training sessions to enhance sales skills of internal staff. Meanwhile, with respect to professional technology, we arranged our core technical staff to receive training on different service product line. As to our external customers, a shale gas advanced technology and management training seminar was held jointly with American Gas Research Institute and China University of Geosciences in June 2013 at which 35 industry renowned senior expert lecturers within and outside the Company were invited to deliver speeches on the successful operational experience and technology implementation of overseas shale gas development. The project received high recognition and support from the relevant government departments.

In terms of team building, to cope with the market needs of the oilfield integrated business development and to satisfy the needs of integrated business development, the Group formed an integrated project management team with professional management skills through internal training and various external channels, and played a key role in the development of the projects commenced during the year. At the same time, to build its core competitiveness, the Group further strengthened its R&D and human resources management. Through R&D system organisational development and R&D team building, the Group further optimised the R&D system organisational structure, and actively introduced and nurtured R&D and technology talents, which consolidated the foundation of organisation and talent pool for the Group's technology and product R&D development.

Management Discussion and Analysis

COMPLIANCE MANAGEMENT

As a multinational company, the Company endeavours to regulate its operation in accordance with the relevant regulatory requirements in and outside China. Pursuant to the Company's articles of association, applicable laws and regulations and the relevant requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), taking into consideration of the actual conditions of the Company, the Company gradually formulates and improves various work systems and procedures of the board of Directors (the "Board") and its committees thereunder and strictly implements them. Compliance management is one of the core management aspects of the Company. The purpose of compliance management of the Company is to identify, manage and control risks effectively through the establishment of a sound and compliance risk management framework and to facilitate the development of a comprehensive compliance management system so as to ensure that operations are in compliance with the laws. The Company's legal affairs department and internal audit department, as functional departments for compliance work, shall constantly review the relationship between the market risk, operational risk, litigation risk and compliance management; and shall continue to establish and improve the compliance management systems and procedures of the Company so as to ensure the smooth implementation of various management systems and procedures of the Company.

In the year of 2013, in order to facilitate smooth business operations, guide and regulate the legal and compliant operations of the Company and its employees in the countries and regions where they operate, and provide legal basis and protection for the development of the Company, the legal affairs department of the Company collected and compiled the national and regional laws and regulations relating to the business development of the Company and established a database on laws and regulations capitalising on the Company's synergistic management platform by capitalising on the growth strategies of the Company and based on its existing conditions. All employees of the Company may share the latest news on laws and regulations through the database on laws and regulations with a view to achieving compliant operations of the Company in a comprehensive manner. Currently, the database on laws and regulations covers the basic laws and regulations of China, Kazakhstan, Turkmenistan, Indonesia, Iraq, Singapore and Canada as well as the Listing Rules. The legal affairs department of the Company will closely monitor the latest updates on the laws of various countries and will continue to strengthen and improve the development of the database on laws and regulations according to the requirements of the business operations of the Company to ensure the legal and compliant operations of the Company in an ongoing manner.

Management Discussion and Analysis

OUR PLANS

The Group is optimistic about the potential growth of natural gas, in particular the shale gas.Looking ahead, we will continue our efforts in this segment. Meanwhile, we keep an eye on the changes triggered by the reform in the oil and gas industry. To better execute our stated strategies to achieve the long-term objectives of the Company, the Group will focus on the following aspects in 2014.

1. Continue to improve the strategic deployment of conventional gas and shale gas; accelerate technology research and development; further strengthen the expansion into markets of huge potentials; fully leverage on our own technology strengths to strengthen the cooperation with strategic partners with a view to laying a solid foundation for market expansion in the future.

2. Capture the unprecedented opportunities arising from the reform of the oil and gas industry; be fully prepared in various aspects such as organisation, personnel, equipment and technology, particularly capitalising on our technology strengths in the area of geology reservoir evaluation to achieve a better position in the market; and ensure the Group can benefit from the reform.

3. Accelerate the pace of technology innovation; improve the internal control system of the company; enhance the risk management standards of the Company; achieve refined and standardised internal operational management.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 51, is an executive Director and the chief executive officer of our Company, the chairman of the Board and the founder of our Group. He is also a member of the remuneration committee (the "Remuneration Committee") and chairman of the nomination committee (the "Nomination Committee") of the Company. He is responsible for the overall operation and management of our Group. Mr. Wang has over 29 years of experience in the petroleum industry. Prior to founding our Group, he served as an engineer of Huabei Petroleum Testing Company (華北石油測試公司), a subsidiary of CNPC, in charge of product design and research and development mainly relating to electro manometers and absorbers from July 1984 to August 1993. He obtained a diploma in field machinery from North China University of Petroleum Employees (華北石油職工大學) (currently known as Beijing Institute of Economic Management (北京經濟管理職業學院) in July 1984. Mr. Wang also obtained an MBA degree from The National University of Singapore in April 2007.

Wu Dongfang (吳東方), aged 42, is an executive Director and a deputy general manager of our Company. He is responsible for business development of our Group. Mr. Wu has over 22 years of experience in the petroleum industry. Prior to joining our Group in December 1993, Mr. Wu served as an assistant engineer of China Petroleum Huabei Oil Field Testing Company (中國石油華北油田測試公司) from March 1991 to November 1993. Mr. Wu obtained a bachelor's degree in electronic instrument and measuring technology from Xi'an Petroleum College (西安石油學院) of China in July 1991 and an EMBA degree from Tsinghua University (清華大學) of China in February 2006.

Liu Ruoyan (劉若岩), aged 66, is an executive Director and a deputy general manager of our Company. He is responsible for marketing of well drilling and workover business and management of production and operation. Mr. Liu has approximately 40 years of experience in the petroleum industry. Prior to joining our Group in July 2008, Mr. Liu served as the general manager of Sino-Kazakhstan Great Wall Drilling Co., Ltd. (中哈長城鑽井有限公司), a subsidiary of CNPC, in charge of marketing and project operations management involving drilling and workover business in Kazakhstan from November 1999 to December 2006. From March 1984 to October 1999, he served as a team leader and well drilling engineer and the chief commander of Jidong Front Line and the deputy general manager and the general manager of No. 2 Well Drilling Company of North China Petroleum Administrative Bureau, a subsidiary of CNPC. From March 1974 to August 1984, Mr. Liu served as a technician of North China Petroleum Campaign Headquarters (華北石油會戰指揮部), a subsidiary of CNPC. From July 1972 to February 1974, he served as an assistant technician of the well drilling team of the Geophysical Prospecting Bureau of the Ministry of Fuel and Chemical Industry of the PRC (中華人民共和國燃料化學工業部). Mr. Liu obtained a diploma in petroleum management and engineering from Fushun Petroleum College (撫順石油學院) of China in July 1984. He also obtained a bachelor's degree in economic management from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) in December 1997.

Directors' and Senior Management's Biographies

Jin Shumao (金樹茂), aged 64, joined the Company as a deputy general manager in February 2012 and was appointed as an executive Director of our Company on 27 March 2013. He is primarily responsible for assisting the general manager to develop and maintain the strategic customer relationship, formulate strategy plan, as well as develop and grow the strategic business and projects. He has over 41 years of experience in the global and china petroleum and gas industry. Prior to joining the Group, he served as Schlumberger China NOCs global account director, Schlumberger global account vice president, and Schlumberger China vice president (斯倫貝謝中國公司) from 2002 to 2011. Mr. Jin worked at Halliburton USA (哈裏伯頓美國公司) and Halliburton China (哈裏伯頓中國公司) from 1989 to 2002, during which he had served as director of executive business development for Emerging Markets, global account general manager for China NOCs, and business president for Halliburton China. He worked at China National Offshore Oil Company (中海油) from 1982 to 1988 and at China National Petroleum Corporation and China Petroleum & Chemical Corporation from 1971 to 1982, served in various technical and management positions. Mr. Jin obtained his bachelor's degree in petroleum mechanical engineering from Northeast Petroleum University and MBA from the University of Oklahoma USA (美國奧克拉哈馬州立大學), and is studying PhD program of finance economy in Chinese Academy of Social Sciences (中國社科院).

NON-EXECUTIVE DIRECTOR

Lin Yang (林煬), aged 39, is an Investment Director of China Everbright Investment Management Limited ("CEIM"), focusing on private equity transactions in the Greater China region. He is also a non-executive director of China Outfitters Holdings Limited, a company listed on the Main Board of the Stock Exchange. Prior to joining CEIM, Mr. Lin worked at the research department of China Everbright Limited. Mr. Lin graduated from South China University of Technology with a Bachelor's degree in Mechanical and Automation Engineering in 1997, and graduated from University of Ottawa with an MBA in 2003. He is a CFA charter holder and a member of the CFA Institute.

Chen Chunhua (陳春花), aged 50, was appointed as an independent non-executive Director of our Company on 1 December 2011 and was re-designated as non-executive Director on 27 March 2013. She is also a member of the audit committee of the Company (the "Audit Committee"). She has approximately 28 years of experience in academic education and practice in corporate operations and business management. Ms. Chen has served South China University of Technology (華南理工大學) since July 1986. Now she is a professor and a tutor of doctoral students in the Business Administration school. From March 2003 to December 2004, she served as the president of Shandong Liuhe Company Limited (山東六和集團有限公司) in charge of overall operations and development. Mr. Chen is currently a joint chairman and chief executive officer of New Hope Liuhe Co., Ltd. a company listed on the Shenzhen Stock Exchange (stock code: 000876) and an independent Director of VTRON Technologies LTD. Ms. Chen obtained a bachelor's degree of engineering in radio technology from South China Institute of Technology (華南工學院) in June 1986. She obtained a master's degree in business administration from The National University of Singapore in May 2000. Ms. Chen became a post-doctoral candidate in the Business Administration School of Nanjing University (南京大學) in September 2005.

Directors' and Senior Management's Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhang Yujuan (張渝涓), aged 40, was appointed as an independent non-executive Director of our Company on 27 March 2012. She is also the chairman of Remuneration Committee and a member of Nomination Committee. She has approximately 16 years of experience in practice in corporate operations and business management. Since 2011, she has been the general manager and director of Chengdu Tianxinyang Gold Industry Co., Ltd. and Hong Kong Tianxin Yang Co., Ltd. respectively. From 1999 to 2010, she served as the deputy general manager of Beijing Hua Zhang Information Co., Ltd. and the general manager of the Economic Management Publishing Division. From 1997 to 1999, she worked in the Chinese Cereals and Oils Association. She obtained a bachelor's degree in economics from the School of Economics of Wuhan University in 1997 and obtained a master's degree in business administration from the Chinese University of Hong Kong in 2009.

Wu Kwok Keung Andrew (胡國強), aged 60, was appointed as an independent non-executive Director of our Company on 1 December 2011. He is also a member of the Remuneration Committee and the Nomination Committee and the chairman of the Audit Committee. Mr. Wu had served Ernst & Young for over 32 years before retiring from the firm in January 2010. He served as the managing partner of the Beijing office from 1997 to 2000, the Quality & Risk Management Leader of the China firm of Ernst & Young in 2004 and 2005, managing partner of Assurance and Advisory Business Services ("AABS") for Greater China from 2005 to 2008, and the Far East Area managing partner of AABS in 2006 and 2007. Mr. Wu became a member of the management committee of the China firm in 2005. He was the regional managing partner of Hong Kong and Macau from July 2008 to December 2009. Mr. Wu is currently an independent non-executive director and the chairman of the Audit Committee of China Mengniu Dairy Company Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2319). Mr. Wu graduated from the University of Hong Kong with a bachelor's degree in science in 1974. He is a fellow of the Association of Chartered Certified Accountants, United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants.

Wan, Kah Ming (溫嘉明), aged 43, was appointed as an independent non-executive Director of our Company on 1 December 2011. He is also a member of Audit Committee. He has over 19 years of experience in legal practice focusing on China inbound and outbound investment, finance, mergers and acquisitions and restructuring. Mr. Wan has been the Principal Solicitor of Leung & Wan Solicitors since October 2001. He has been the Executive Chairman of Boen Capital Ltd. (邦溋資本有限公司), Boen Resources Ltd. (邦溋資源有限公司) and Boen Land Ltd. (邦溋建地有限公司) since May 2006, December 2007 and June 2008, respectively. Mr. Wan served as a Consultant of Chan & Chiu Solicitors (陳彼得趙國榮律師行) from January 1998 to September 2001 and an Assistant Solicitor of S.H. Chan & Co. (陳淑雄律師行) from June 1994 to December 1997. Mr. Wan was admitted as a Solicitor to the High Court of Hong Kong in 1996 and to the Supreme Court of Wales in 2000. He is the member of the law society of Hong Kong and the Chartered Institute of Arbitrators. Mr. Wan has been a China-Appointed Attesting Officer by the Ministry of Justice, PRC (中國司法部委認公證人) since April 2009. He is currently the vice chairman of China Council for the Promotion of Nationalities Trade Hong Kong Branch (中國民族貿易促進會香港分會), a Director of Hong Kong Association for the Promotion of Peaceful Reunification of China, an Adjudicator of Hong Kong Obscene Articles Tribunal and Hong Kong Registration of Persons Tribunal a Director of the China Industrial Overseas Development & Planning Association (中國產業海外規劃和發展協會) and a Director of China Merger & Acquisition Association (中國併購公會). Mr. Wan received his bachelor's degree (Hons) in laws and postgraduate certificate in laws from the University of Hong Kong in 1993 and 1994, respectively.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Shen Yi (沈翼), aged 59, is a deputy general manager of our Company. Ms. Shen joined us in September 2001. She is primarily responsible for financial management. Ms. Shen has approximately 40 years of experience in finance. She was a lecturer at Central University of Finance and Economics (中央財經大學) in China from July 1974 to September 2001. Ms. Shen obtained her certificates of Chinese certified public accountant and Chinese certified tax agent in June and December 1999, respectively. She also became a member of The China Certified Tax Agents Association (中國註冊稅務師協會). Ms. Shen obtained her bachelor's degree in economics from Central University of Finance and Economics (中央財經大學) in July 1983.

Sun Siu Kong (孫小鋼), aged 56, is the chief financial officer of our Company. Mr. Sun joined us in March 2008. He is primarily responsible for the financing and restructuring of our Group. Mr. Sun has approximately 28 years of experience in investment, corporate finance and corporate management. He worked in China Investment Corporation (中國投資有限責任公司) from November 2007 to February 2008. Mr. Sun served as the assistant to the chairman and the general manager of the Beijing subsidiary of China International Fund (中國國際基金) from February 2006 to November 2007. He served in various positions in China Scientific International Trust and Investment Company (中國科技國際信託投資有限責任公司) responsible for asset operations, financial management, industrial assets and corporate finance from May 1993 to February 2006. Mr. Sun established Microstep, Inc. in August 1991, and worked at Microstep, Inc. from August 1991 to January 1993. He served as an intern in the New York office of Debevoise & Plimpton LLP from June 1986 to June 1988. Mr. Sun obtained his bachelor's degree in political economics from Beijing Economic College (北京經濟學院) in the PRC in June 1983. He studied at Financial Research Institute of the People's Bank of China (中國人民銀行總行金融研究所) in international finance from September 1983 to April 1986. He also obtained his master's degree in U.S. economic law from the Law School of New York University in February 1988.

Wang Jinbo (王金波), aged 39, is a deputy general manager of our Company. Mr. Wang joined us in November 2004. He is primarily responsible for marketing and business development. Mr. Wang has over 16 years of experience in corporate management. He worked at the exchange centre of Xinjiang subsidiary of China Unicom Telecommunications Corporation Ltd. (中國聯合網絡通信股份有限公司新疆附屬公司) from 1998 to 2000. He served as a deputy manager, a manager and the manager of the major client department of China Unicom Telecommunications Corporation Ltd. (中國聯合網絡通信股份有限公司) from 2000 to 2004. Mr. Wang obtained his bachelor's degree in communication engineering from Northern Jiaotong University (中國北方交通大學) (currently known as Beijing Jiaotong University (北京交通大學)) in China in July 1998. He obtained his master's degree in management from BI Norwegian School of Management in August 2005.

Zhao Feng (趙峰), aged 48, is a deputy general manager of our Company. Mr. Zhao joined us in January 1999. He is primarily responsible for business development and management in Northern America and Singapore. He has approximately 28 years of experience in the petroleum industry. Mr. Zhao served as a reservoir engineer in Shell Canada Ltd. from May to August 1998. He served as a reservoir research engineer in the Langfang Branch of Research Institute of Petroleum Exploration and Development China National Petroleum Corporation (中國石油天然氣總公司石油勘探開發研究院廊坊分院) from August 1986 to October 1995. Mr. Zhao obtained his bachelor's degree in petroleum engineering from Southwest Petroleum Institute (西南石油學院) in China in July 1986. He obtained his master's degree in chemical and petroleum engineering from The University of Calgary, Canada in November 2002. Mr. Zhao obtained his master's degree in business administration from the Fuqua School of Business of Duke University in the U.S. in December 2009.

Directors' and Senior Management's Biographies

Wang Fan (王璠), aged 43, is a deputy general manager of our Company. Mr. Wang joined us in December 2004. He is primarily responsible for operation and management of our subsidiaries in East China. Mr. Wang has over 22 years of experience in marketing and management. Prior to joining our Group, he served as a deputy general manager in Changchun Aohua Group Company of Jilin Province (吉林省長春市澳華集團公司) from July 1997 to November 2004. Mr. Wang Fan served as the manager of the marketing department in Canada Sunwing Energy Co., Ltd. (加拿大皇朝能源有限公司) from April 1996 to June 1997. He served as an account manager in Beijing Inter Tech Computer Co., Ltd. (北京英特泰克計算機有限公司) from November 1993 to March 1996. Mr. Wang served as the manager of the technology department at Beijing Wanda Computer Development Co., Ltd. (北京萬達計算機開發公司) from October 1992 to October 1993. Mr. Wang obtained his diploma in marketing from Shanxi Electronic Information Specialised Institute (陝西電子信息專修學院) in China in July 1997.

Ong Cheng Suah Darry (王清山), aged 54, is a deputy general manager of our Company. Mr. Ong Cheng Suah Darry joined us in May 2011. He is primarily responsible is Technology and Manufacture of Downhole Completion Equipment. Mr. Ong has over 32 years of experience in oil gas industry. Prior to joining our Group, he served as a vice president of Zhejiang Wei Qi Xin Petroleum Machinery Co. Ltd. (浙江惟其信石油機械有限公司) from February 2010 to March 2011. Mr. Ong served as the regional manager of Smith International Inc. in Beijing, China from August 2007 to February 2010. He served in various positions (including Customer Service Coordinator, Senior Technical Tool specialist, Sales Manager, Operations Manager and Business Development Manager) of Baker Hughes Inc. from June 1980 to July 2007. He obtained the Singapore-Cambridge General Certificate of Education in December 1977. Mr. Ong obtained a certificate in Purchasing and Store Management from the Chartered Institute of Purchasing & Supply in Stamford, Lincolnshire, U.K. in January 1985. Mr. Ong also obtained a certificate in Business Code of Conduct & FCPA from Baker Hughes Legal Resources University in June 2002.

Wu Yulu (吳玉祿), aged 49, is a deputy general manager of our Company. Mr. Wu joined us in September 2012. He is primarily responsible for technology business in drilling and work-over engineering and regional management work for the Northern area. Mr. Wu has nearly 29 years of experience in the petroleum industry. From July 2007 to August 2012, Mr. Wu served as the chief engineer in Sinochem Petroleum Exploration and Development Company (中國中化集團石油勘探開發公司), in charge of overseas project evaluation and merger's and acquisitions, researching and promotion of engineering technology, management of drilling, work-over activities and ground facility construction as well as QHSE management. From January 1996 to June 2007, Mr. Wu served as the general manager of Drilling Service Company of CNPC Turkmenistan-Kazakhstan Petroleum Exploration and Development (中石油吐哈石油勘探開發指揮部鑽井公司). From March 1991 to December 1995, Mr Wu was the chief engineer of Drilling Department of CNPC Yumen Petroleum Administration Bureau (中石油玉門石油管理局鑽井處) and Yumen Drilling Department of Turkmenistan-Kazakhstan Petroleum Exploration and Development (吐哈石油勘探開發會戰指揮部玉門鑽井指揮部). In 1984, Mr. Wu graduated from China Petroleum University in Petroleum Engineering, and he also obtained a PHD degree in Mine Machinery (礦場機械) from South West Petroleum University. He is a senior engineer.

Report of the Directors

The board (the "Board") of directors (the "Directors") of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group's operations are substantially conducted through its subsidiaries in the PRC, Kazakhstan and Canada. The Group is principally engaged in the provision of integrated oilfield services. Analysis of the principal activities of the Group during the year ended 31 December 2013 is set out in the note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 56 of this annual report.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.05 (equivalent to HKD0.064) per share for the year ended 31 December 2013 (2012: RMB0.04 (HKD0.049)) to the shareholders of the Company (the "Shareholders"). The final dividend is subject to the approval of Shareholders at the forthcoming annual general meeting and will be payable before the end of July 2014 and paid out of share premium account.

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last four financial years are set out on page four to five of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The Company's shares were listed on The Stock Exchange on 23 December 2011 (the "Listing"). The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$372.4 million. On 31 December 2013, all of the net proceeds from the Listing was used by the Company in the manner consistent with that in the Prospectus for the purpose of purchase of manufacturing equipment for the oilfield services lines, acquisition of selected companies in the oilfield services or related businesses, enhancing our research and development capabilities, repaying outstanding bank loans and for additional working capital purpose.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the Group's five largest suppliers accounted for 37.63% (2012: 27.8%) of the Group's total purchases.

For the year ended 31 December 2013, the Group's sales to its five largest customers accounted for 94.42% (2012: 83.7%) of the Group's total sales.

None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2013 are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 14 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the issue of convertible bonds of the Company during the year are set out in note 17 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on page 59 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB951.0 million (as at 31 December 2012: RMB1,030.3 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2013 are set out in note 17 to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2013 and up to the date of this report were:

Executive Directors:
Mr. Wang Guoqiang *(Chairman and Chief Executive Officer)*
Mr. Wu Dongfang
Mr. Liu Ruoyan
Mr. Jin Shumao (appointed on 27 March 2013)

Non-executive Directors:
Mr. Lin Yang
Ms. Chen Chunhua (re-designated on 27 March 2013)

Independent non-executive Directors:
Ms. Zhang Yujuan (appointed on 27 March 2013)
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

In accordance with article 108 of the articles of association of the Company (the "Articles of Association"), Mr. Wang Guoqiang, Mr. Wu Dongfang and Mr. Liu Ruoyan will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting of the Company.

Details of the Directors to be re-elected at the forthcoming annual general meeting of the Company are set out in the circular to the Shareholders.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 24 to 28 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2013.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from their respective date of appointment. Each of the non-executive directors and the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing from their respective date of appointment.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year 2013.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

The Company has adopted a share option scheme as incentive to eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 22 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS SUBSEQUENT TO THE 2013 INTERIM REPORT

Up to the date of this report, there is no change to information which is required to be disclosed and has been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Mr. Wang Guoqiang	Beneficiary of trusts (note 1)	735,484,000 (L)	48.06%
	Beneficial owner (note 3)	1,090,000 (L)	0.07%
Mr. Wu Dongfang	Beneficiary of trusts (note 2)	735,484,000 (L)	48.06%
	Beneficial owner (note 3)	1,090,000 (L)	0.07%
Ms. Chen Chunhua (note 3)	Beneficial owner	2,000,000 (L)	0.13%
Mr. Liu Ruoyan (note 3)	Beneficial owner	2,390,000 (L)	0.16%
Mr. Wan Kah Ming (notes 3 & 4)	Beneficial owner	2,000,000 (L)	0.13%
Mr. Wu Kwok Keung Andrew (note 3)	Beneficial owner	2,000,000 (L)	0.13%
Mr. Jin Shumao (note 3)	Beneficial owner	1,090,000 (L)	0.07%
Mr. Zhang Yujuan (note 3)	Beneficial owner	1,000,000 (L)	0.07%

Notes:

1. Mr. Wang Guoqiang and his family members are the beneficiaries of Truepath Trust, a discretionary trust established by Mr. Wang Guoqiang, and therefore he is deemed to be interested in 487,512,000 shares of the Company held by Red Velvet Holdings Limited via Truepath Limited. Mr. Wang Guoqiang is also deemed to be interested in the shares held by Mr. Wu Dongfang as they are parties acting in concert.
2. (i) Mr. Wu Dongfang and his family members are the beneficiaries of Widescope Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 136,372,000 shares of the Company held by Elegant Eagle Investments Limited via Widescope Holdings Limited. (ii) Mr. Wu and six members of the Company's senior management are the beneficiaries of True Harmony Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 111,600,000 shares of the Company held by Best Harvest Far East Limited via True Harmony Limited. (iii) Mr. Wu Dongfang is also deemed to be interested in the shares held by Mr. Wang Guoqiang as they are parties acting in concert.
3. Mr. Wang Guoqiang, Mr. Wu Dongfang, Ms. Chen Chunhua, Mr. Liu Ruoyan, Mr. Wan Kah Ming, Mr. Wu Kwok Keung Andrew, Mr. Jin Shumao and Ms. Zhang Yujuan hold share options in respect of these shares. Details of the share options are set out below in the section headed "Share Option Scheme".
4. 333,333 shares are jointly held by Mr. Wan Kah Ming and his family member.
5. "L" denotes long position.

Save as disclosed above, as at 31 December 2013, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, no time during the year ended 31 December 2013 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Widescope Holdings Limited	Beneficial owner	136,372,000	8.91%
Elegant Eagle Investments Limited (note 1)	Interest of controlled corporation	247,972,000	16.20%
True Harmony Limited	Beneficial owner	111,600,000	7.29%
Best Harvest Far East Limited (note 2)	Interest of controlled corporation	111,600,000	7.29%
Truepath Limited	Beneficial owner	487,512,000	31.86%
Red Velvet Holdings Limited (note 3)	Interest of controlled corporation	487,512,000	31.86%
Credit Suisse Trust Limited (note 4)	Trustee	856,489,442	55.97%
Greenwoods Asset Management Limited	Investment Manager	90,718,000	5.93%
China Everbright Holdings Company Limited (note 5)	Interest of controlled corporation	91,568,272	5.98%
China Everbright Limited (note 5)	Interest of controlled corporation	91,568,272	5.98%

Name of Shareholder	Nature of Interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
China Special Opportunities Fund III, L.P. (note 5)	Interest of controlled corporation	91,568,272	5.98%
CSOF III GP Limited (note 5)	Interest of controlled corporation	91,568,272	5.98%
Forebright Partners Limited (note 5)	Interest of controlled corporation	91,568,272	5.98%

Notes:

1. Widescope Holdings Limited and Best Harvest Far East Limited are wholly owned by Elegant Eagle Investments Limited and therefore Elegant Eagle Investments Limited is deemed to be interested in 136,372,000 and 111,600,000 shares of the Company held by these two companies respectively.
2. True Harmony Limited is 73.3% owned by Best Harvest Far East Limited and therefore Best Harvest Far East Limited is deemed to be interested in 111,600,000 shares of the Company.
3. Truepath Limited is wholly owned by Red Velvet Holdings Limited and therefore Red Velvet Holdings Limited is deemed to be interested in 487,512,000 share of the Company.
4. Credit Suisse Trust Limited is the trustee of the Widescope Trust, the Truepath Trust, the Jumbo Wind Trust and the Windsorland Trust which are discretionary trusts holding the shares in the Company on trust for True Harmony Limited, Elegant Eagle Investments Limited, Red Velvet Holdings Limited, Starshine Investments Limited and Tarkin Investments Limited, respectively. Therefore, Credit Suisse Trust Limited is deemed to be interested in shares of the Company held by True Harmony Limited, Widescope Holdings Limited, Truepath Limited, Jumbo Wind Limited and Windsorland Limited.
5. The shares held by China Everbright Holdings Company Limited, China Everbright Limited, China Special Opportunities Fund III, L.P., CSOF III GP Limited and Forebright Partners Limited refer to the same parcel of shares of the Company. These shares include 70,730,727 underlying shares of the Company which may be issued by the Company upon conversion of the convertible bonds in the principal amount of USD15,000,000 issued by the Company to Everbright Inno Investments Limited (a corporation controlled by China Everbright Limited and China Everbright Holdings Company Limited) and CSOF Inno Investments Limited (a corporation controlled by China Special Opportunities Fund III, L.P., CSOF III GP Limited and Forebright Partners Limited).

Save as disclosed above, and as at 31 December 2013, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

NON-COMPETITION UNDERTAKING

Each of Mr. Wang Guoqiang, Truepath Limited, Red Velvet Holdings Limited, Mr. Wu Dongfang, True Harmony Limited, Best Harvest Far East Limited, Magic Flute Holdings Limited, Widescope Holdings limited and Elegant Eagle Investments Limited (the "Controlling Shareholders") has executed a deed of non-competition through which they have irrevocably and unconditionally warranted and undertaken to the Company not to, whether directly or indirectly or as principal or agent, and whether on its/his/her own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company), (i) carry on, engage, participate or hold any right or interest in or render any services to or provide any financial support to or otherwise be involved in the provision of integrated oilfield services or any other business which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with any business that may be carried on by any members of the Group of the Company from time to time whether as a Shareholder, Director, officer, partner, agent, lender, employee, consultant or otherwise and whether for profit, reward or otherwise; or (ii) take any action which interfere with or disrupt or may interfere with or disrupt the Group Business, including but not limited to, solicitation of any of the customers, suppliers or employees of any member of the Group of the Company.

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this annual report during the year ended 31 December 2013.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2013, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

During the year ended 31 December 2013, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) on 1 December 2011.

1. Purpose

The purpose of the Share Option Scheme is to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group.

2. Participants

The Board are authorised, at their absolute discretion and subject to the terms of the Share Option Scheme, to grant options to subscribe the shares of the Company to, inter alia, any Directors or any employees (full-time and part-time) of the Company or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

3. Total number of Shares available for issue under the Share Option Scheme

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the issued share capital of the Company as at the date of Listing (i.e. a total of 133,500,000 shares).

4. Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

5. Period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

6. Minimum period for which an option must be held before it can be exercised

The Board may in its absolute discretion set a minimum period for which an option must be held and performance targets that must be achieved before an option can be exercised.

7. **Time of acceptance and the amount payable on acceptance of the option**

An offer for the grant of options must be accepted within 8 days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

8. **Basis of determining the subscription price**

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

9. **Life of the Share Option Scheme**

The Share Option Scheme became unconditional on the date of Listing and shall be valid and effective for a period of ten years commencing on 1 December 2011, subject to the early termination provisions contained in the Share Option Scheme.

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme does not exceed 10% of the shares in issue on the date of Listing. The Company may at any time refresh such limit, subject to the Shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

Movements of the share options under the Share Option Scheme during the year ended 31 December 2013 are as follows:

Grantee	Outstanding as at 1 January 2013	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2013	Date of grant	Date of expiry	Exercise price per share
	Number of share options								
Directors									
Mr. Wang Guoqiang	–	1,090,000 (note 3)	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Mr. Wu Dongfang	–	1,090,000 (note 3)	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Mr. Liu Ruoyan	1,300,000 (note 1)	–	–	–	–	1,300,000	29/03/2012	28/03/2022	HK$1.360
	–	1,090,000 (note 3)	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Mr. Jin Shumao	–	1,090,000 (note 3)	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Ms. Chen Chunhua	1,000,000 (note 1)	–	–	–	–	1,000,000	29/03/2012	28/03/2022	HK$1.360
	–	1,000,000 (note 3)	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
Mr. Wu Kwok Keung Andrew	1,000,000 (note 1)	–	–	–	–	1,000,000	29/03/2012	28/03/2022	HK$1.360
	–	1,000,000 (note 3)				1,000,000	13/06/2013	12/06/2023	HK$4.694
Ms. Zhang Yujuan	–	1,000,000 (note 3)	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
Ms. Wan Kah Ming	1,000,000 (note 1)	–	333,333	–	–	666,667	29/03/2012	28/03/2022	HK$1.360
	–	1,000,000 (note 3)	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
Employees (in aggregate)	–	59,090,000 (note 3)	–	–	1,320,000	57,770,000	13/06/2013	12/06/2023	HK$4.694
	22,750,000 (note 2)	–	4,258,000	–	1,785,333	16,706,667	20/02/2012	19/02/2022	HK$1.292
	3,000,000 (note 1)	–	800,000	–	–	2,200,000	29/03/2012	28/03/2022	HK$1.360
Total	**30,050,000**	**67,450,000**	**5,391,333**	–	**3,105,333**	**89,003,334**			

Notes:

1. The closing price of the shares immediately before the date on which the share options granted on 29 March 2012 was HK$1.33. 1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
2. The closing price of the shares immediately before the date on which the share options granted on 20 February 2012 was HK$1.27. 1/3 of which are exercisable from 20/02/2013 to 19/02/2022; 1/3 of which are exercisable from 20/02/2014 to 19/02/2022; and remaining 1/3 are exercisable from 20/02/2015 to 19/02/2022.

3. The closing price of shares immediately before the date on which the share options granted on 13 June 2013 was HK$4.57. 1/3 of which are exercisable from 13/06/2014 to 12/06/2023; 1/3 of which are exercisable from 13/06/2015 to 12/06/2023; and remaining 1/3 are exercisable from 13/06/2016 to 12/06/2023.

Using the Binominal Valuation model, the fair value of 67,450,000 share options granted on 13 June 2013 was approximately RMB5 million for the year under review. The significant inputs into the model were share price as at the grant date, exercise price, volatility of 53.01%, dividend yield of 3%, an expected option life of 10 years and on normal risk-free interest rate of 1.637%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over a historical period with duration similar to the option life. The vesting period is between one year to three years. The value of the share options is subject to a number of assumptions and with regard to the limitation of model. Therefore, the value may be subjective and difficult to determine.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the year ended 31 December 2013 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2013, the Group made no charitable and other donations.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the year ended 31 December 2013.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 42 to 50 of this annual report.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this report.

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 December 2013.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and has been recommended by the Board for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Wang Guoqiang
Chairman

Hong Kong, 26 March 2014

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules as its own code of corporate governance. Save for the deviation disclosed in this report, the Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2013. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify the Directors of the Company for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

As at the date of this report, the Board comprises four executive Directors, namely Mr. Wang Guoqiang (Chairman), Mr. Wu Dongfang, Mr. Liu Ruoyan and Mr. Jin Shumao, two non-executive Directors, namely Mr. Lin Yang and Ms. Chen Chunhua, and three independent non-executive Directors, namely Ms. Zhang Yujuan, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming. The biographies of the Directors are set out under the section headed "Directors' and Senior Management's Biographies" of this annual report.

During the year of 2013, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to and have disclosed their commitments to the Company in a timely manner.

Continuous Professional Development

For the purposes of better corporate governance, the Company provides to every newly appointed Directors briefings and orientation on their legal and other responsibilities as a Director, the role of the Board and the Company's major areas of business operations and practices. An induction programme was provided to Mr. Jin Shumao and Ms. Zhang Yujuan shortly after their appointments in March 2013. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make informed decisions and to discharge their duties and responsibilities as Directors.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year of 2013, all Directors participated in various continuous professional development programmes. The Company's external advisors have facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. All Directors have received such training. The Company Secretary from time to time updates and provides written training material relating to the roles, functions and duties of a Director and all the aforesaid Directors study such materials and they are asked to submit a signed training record to the Company on annual basis.

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and performed by different individuals. Under the existing organization structure of the Company, Mr. Wang Guoqiang is our Chairman of the Board and the Chief Executive Officer. The Board believes that Mr. Wang's extensive experience in the oil industry is beneficial to the business and management of the Group, The Board and the senior management, which comprises experienced and high calibre individuals can ensure the balance of power and authority. The Board currently comprises four executive Directors (including Mr. Wang Guoqiang), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Corporate Governance Report

Appointment and Re-Election of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from their respective date of appointment, which is terminable by not less than three months' notice in writing.

Each of the non-executive Directors and the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing from their respective date of appointment, which is terminable by not less than three months' notice in writing.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with Article 108 of the Articles of Association, all Directors are subject to retirement by rotation at least once every three years, and according to Article 112 of the Article of Association, any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for election by Shareholders at the next following annual general meeting of the Company after appointment.

At the 2013 annual general meeting on 5 June 2013 (the "2013 AGM"), Ms. Chen Chunhua, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming retired by rotation pursuant to article 108 of the Articles and Association and Mr. Lin Yang, Mr. Jin Shumao and Ms. Zhang Yujuan retired pursuant to article 112 of the Articles of Association. All of them were re-elected as Directors. Please refer to the Report of the Directors for details of the members of the Board who will retire from office and offer for re-election/election at the 2014 annual general meeting pursuant to the Articles of Association.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles and Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company adopts the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice have been given to the Directors in general. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the board meetings and committee meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the year ended 31 December 2013, 6 Board meetings and two general meetings (2013 AGM) were held and the attendance of the individual Directors at these meetings is set out in the table below:

	Attended/Eligible to attend	
Directors	**Board Meeting**	**General Meeting**
Mr. Wang Guoqiang	6/6	2/2
Mr. Wu Dongfang	6/6	2/2
Mr. Liu Ruoyan	6/6	2/2
Mr. Jin Shumao (appointed on 27 March 2013)	4/4	1/1
Mr. Lin Yang	6/6	2/2
Ms. Chen Chunhua	6/6	2/2
Mr. Zhang Yujuan (appointed on 27 March 2013)	4/4	2/2
Mr. Wu Kwok Keung Andrew	6/6	2/2
Mr. Wan Kah Ming	6/6	2/2

During the year, the Chairman of the Company held one meeting with the non-executive Directors (including the independent non-executive Directors) without the other executive Directors.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rule as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code for the year ended 31 December 2013.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

(a) to develop, review and implement the Company's policy and practices on corporate governance;

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

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

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

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance Shareholders' relationship with the Company.

During the year, the Company has updated the compliance manuals on notifiable transactions and inside information in accordance with the Listing Rules as guideline for its employees to report unpublished inside information to the Company to ensure consistent and timely disclosure and fulfillment of the Company's continuous disclosure obligations.

BOARD COMMITTEES

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, namely Mr. Wang Guoqiang (Chairman), Mr. Zhang Yujuan (appointed as a member of the Nomination Committee on 27 March 2013) and Mr. Wu Kwok Keung Andrew, the majority of them are independent non-executive Directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes

- To identify suitable candidates for appointment as Directors

- To make recommendations to the Board on appointment or re-appointment of and succession planning for Directors

- To assess the independence of independent non-executive Directors

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. Their written terms of reference had been updated during the year in line with the CG code and are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2013, two meetings of the Nomination Committee were held on 26 March 2013 and 18 December 2013 and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wang Guoqiang	2/2
Mr. Zhang Yujuan (appointed as a member on 27 March 2013)	1/1
Mr. Wu Kwok Keung Andrew	2/2
Ms. Chen Chunhua (ceased to be a member on 27 March 2013)	1/1

The Nomination Committee assessed the independence of independent non-executive Directors and considered the re-election of the retired Directors.

Since 27 March 2013, the board has appointed Mr. Jin Shumao as the executive Director of the Company, and appointed Ms. Zhang Yujuan as the independent non-executive Director and the chairman of the Remuneration Committee and a member of the Nomination Committee.

The Board has adopted the Board Diversity Policy on 27 August 2013. All members of Directors have made contribution to their respective areas. All of the four executive Directors are professional and fellow members in the oil and gas industry, who have incisive understanding to the oil and gas industry and have extensive experience in the specialized knowledge and corporate management. The five non-executive Directors and independent non-executive Directors are experts in the areas of corporate operation, investment and financing management as well as law and financial management.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises three members, namely Ms. Zhang Yujuan (appointed as a member and the chairman of the Remuneration Committee on 27 March 2013.) Mr. Wang Guoqiang and Mr. Wu Kwok Keung Andrew, the majority of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management to determine remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for formulating such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. Their written terms of reference had been updated during the year in line with the CG code and are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2013, two meetings of the Remuneration Committee were held on 26 March 2013 and 13 June 2013 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Zhang Yujuan (appointed as a member and Chairman on 27 March 2013)	1/1
Mr. Wang Guoqiang	2/2
Mr. Wu Kwok Keung Andrew	2/2
Ms. Chen Chunhua (ceased as a member and Chairman on 27 March 2013)	1/1

The Remuneration Committee reviewed the appointment letter and terms of office of Mr. Jin Shumao and Ms. Zhang Yujuan in relation to their appointments as an executive Director and an independent non-executive Director of the Company respectively. The Remuneration Committee discussed and reviewed the remuneration policy for directors and senior management of the Company, and made recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

Details of the remuneration by band of the 7 members of the senior management of our Company, whose biographies are set out on pages 24 to 28 of this annual report, for the year ended 31 December 2013 are set out below:

Remuneration band (RMB)	Number of individual
400,000–1,000,000	**2**
1,000,001–1,500,000	**1**
1,500,001–2,000,000	**2**
2,000,001–2,500,000	**1**
2,500,001–3,000,000	**0**
3,000,001–3,500,000	**1**

Audit Committee

As at the date of this report, the Audit Committee comprises three members, namely Mr. Wu Kwok Keung Andrew (chairman), Ms. Chen Chunhua and Mr. Wan Kah Ming. The majority of them are independent non-executive Directors. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditor before submission to the Board

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures

During the year ended 31 December 2013, three meetings of the Audit Committee were held on 26 March 2013, 27 August 2013 and 18 December 2013 respectively and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wu Kwok Keung Andrew	**3/3**
Ms. Chen Chunhua	**3/3**
Mr. Wan Kah Ming	**3/3**

The Audit Committee reviewed the audit plan, the financial reporting system, compliance procedures, internal control (including the adequacy of resources of the Company's accounting and financial reporting functions, staff qualifications and experience, and the adequacy of training program and budget), risk management systems and processes and the re-appointment of the external auditor. They also reviewed interim and final results of the Company and its subsidiaries for the fiscal year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. The Audit Committee reviewed the whistleblowing system and recommended on its enhancement and related staff training. The written terms of reference is available on the websites of the Company and the Stock Exchange.

The Audit Committee met with the external auditor, in the absence of management, and discussed matters relating to audit and internal control on 18 December 2013.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2013 which give a true and fair view of the affairs of the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. During the year ended 31 December 2013, the Company provides all members of the Board with monthly updates on the Company's performance, position and prospects.

INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard Shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

The Board has conducted a review of the effectiveness of the internal control system of the Company and considered the internal control system to be effective and adequate. A compliance committee had been established for monitoring the inside information of the Group and making related disclosure as necessary and appropriate.

Corporate Governance Report

AUDITOR'S REMUNERATION

Annual audit fees of the Group for the year ended 31 December 2013 are RMB4.6 million.

COMPANY SECRETARY

The Company engages Ms. Mandy Mok Ming Wai, director of KCS Hong Kong Limited, (a company secretarial service provider) as its company secretary. Its primary corporate contact person at the Company is Mr. Sun Siu Kong, the Chief financial officer of the Company.

During the year ended 31 December 2013, Ms. Mok has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting (the "AGM") of the Company provides opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company, the chairmen of the Board Committees and the external auditor of the Company attend AGMs to answer Shareholders' questions.

A shareholders' communication policy was adopted pursuant to CG code which aims at establishing a two-way relationship and communication between the Company and its Shareholders. To promote effective communication, the Company maintains a website at www.spt.cn, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each issue at Shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting. At the 2013 AGM, all resolutions were passed by poll by the Shareholders.

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Company Law and the Articles of Association. As regards proposing a person for election as a director, the procedures are available on the websites of the Company and the Stock Exchange.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to IR@spt.cn.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2013, there is no significant change in constitutional documents of the Company.

Hong Kong, 26 March 2014

Independent Auditor's Report

羅兵咸永道

To the shareholders of SPT Energy Group Inc.
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of SPT Energy Group Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages 53 to 120, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report

羅兵咸永道

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2014

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	6	**372,721**	277,497
Land use right	7	**23,206**	23,689
Goodwill	32	**781**	781
Intangible assets	8	**34,860**	9,055
Deferred income tax assets	20	**70,877**	57,233
Available-for-sales financial assets		**1,680**	–
Prepayments	12	**40,147**	20,594
		544,272	388,849
Current assets			
Inventories	10	**484,947**	315,309
Trade and note receivables	11	**1,255,807**	1,043,269
Prepayments and other receivables	12	**106,376**	75,120
Restricted bank deposits	13	**24,840**	13,785
Cash and cash equivalents	13	**635,954**	658,713
		2,507,924	2,106,196
Total assets		**3,052,196**	2,495,045
Equity			
Equity attributable to the Company's equity owners			
Ordinary shares	14	**972**	968
Share premium	15		
– Proposed final dividend	27	**76,520**	61,000
– Others		**586,706**	654,963
Other reserves	16	**242,483**	211,889
Currency translation differences		**(109,577)**	(37,054)
Retained earnings	27	**986,956**	689,881
		1,784,060	1,581,647
Non-controlling interests		**47,134**	46,527
Total equity		**1,831,194**	1,628,174

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
Liabilities			
Non-Current liabilities			
Borrowings	*17*	**84,772**	125,730
Deferred income tax liabilities	*20*	**22,089**	20,666
Trade payables	*18*	**–**	4,998
		106,861	151,394
Current liabilities			
Borrowings	*17*	**142,000**	194,189
Trade payables	*18*	**683,680**	325,375
Accruals and other payables	*19*	**185,097**	162,175
Current income tax liabilities		**55,351**	31,134
Current portion of long-term borrowings	*17*	**48,013**	2,604
		1,114,141	715,477
Total liabilities		**1,221,002**	866,871
Total equity and liabilities		**3,052,196**	2,495,045
Net current assets		**1,393,783**	1,390,719
Total assets less current liabilities		**1,938,055**	1,779,568

The notes on pages 61 to 120 are an integral part of these financial statements.

The financial statements on pages 53 to 120 were approved by the Board of Directors on 26 March 2014 and were signed on its behalf.

Wang Guoqiang
Director

Liu Ruoyan
Director

Balance Sheet

	Note	As at 31 December **2013** ***RMB'000***	 2012 *RMB'000*
Assets			
Non-current assets			
Interests in subsidiaries	*9*	**925,269**	686,783
Current assets			
Cash and cash equivalents	*13*	**133,283**	411,760
Total assets		**1,058,552**	1,098,543
Equity			
Ordinary shares	*14*	**972**	968
Share premium	*15*		
– Proposed final dividend		**76,520**	61,000
– Others		**586,706**	654,963
Other reserves	*16*	**348,024**	316,755
Currency translation differences		**(22,994)**	(1,218)
Accumulated losses		**(4,839)**	(1,188)
Total equity		**984,389**	1,031,280
Liabilities			
Non-Current liabilities			
Borrowings	*17*	**72,456**	65,249
Current liabilities			
Accruals and other payables		**1,707**	2,014
Total liabilities		**74,163**	67,263
Total equity and liabilities		**1,058,552**	1,098,543
Net current assets		**131,576**	409,746
Total assets less current liabilities		**1,056,845**	1,096,529

The notes on pages 61 to 120 are an integral part of these financial statements.

The financial statements on pages 53 to 120 were approved by the Board of Directors on 26 March 2014 and were signed on its behalf.

Wang Guoqiang
Director

Liu Ruoyan
Director

Consolidated Income Statement

		Year ended 31 December	
	Note	**2013**	2012
		RMB'000	*RMB'000*
Revenue	*5*	**2,402,767**	1,821,661
Other gains/(losses), net	*21*	**12,608**	(11,435)
Operating costs			
Material costs		**(539,764)**	(460,223)
Employee benefit expenses	*22*	**(544,254)**	(414,764)
Operating lease expenses		**(172,818)**	(79,340)
Transportation costs		**(77,809)**	(75,899)
Depreciation and amortisation		**(70,706)**	(57,372)
Technical service expenses		**(322,500)**	(129,357)
Impairment loss of assets		**(25,844)**	(10,999)
Others		**(247,552)**	(220,203)
		(2,001,247)	(1,448,157)
Operating profit	*23*	**414,128**	362,069
Finance income	*24*	**6,672**	2,331
Finance costs	*24*	**(31,310)**	(25,128)
Finance costs, net		**(24,638)**	(22,797)
Profit before income tax		**389,490**	339,272
Income tax expense	*25*	**(81,093)**	(84,334)
Profit for the year		**308,397**	254,938
Attributable to:			
Equity owners of the Company		**300,377**	247,703
Non-controlling interests		**8,020**	7,235
		308,397	254,938
Dividends proposed after balance sheet date	*27*	**76,520**	61,000
Earnings per share for the profit attributable to the equity owners of the Company			
Basic earnings per share	*28*	**0.197**	0.184
Diluted earnings per share	*28*	**0.194**	0.183

The notes on pages 61 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2013 *RMB'000*	 2012 *RMB'000*
Profit for the year		**308,397**	254,938
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**(21,776)**	(1,058)
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**(50,553)**	(2,212)
Total comprehensive income for the year		**236,068**	251,668
Attributable to:			
Equity owners of the Company		**227,854**	244,245
Non-controlling interests		**8,214**	7,423
		236,068	251,668

The notes on pages 61 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Company							
					Currency			Non-	
		Ordinary	Share	Other	translation	Retained		controlling	Total
		shares	premium	reserves	differences	earnings	Total	interests	equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2012		849	275,455	159,349	(33,596)	468,212	870,269	33,520	903,789
Comprehensive income									
Profit for the year		–	–	–	–	247,703	247,703	7,235	254,938
Currency translation differences		–	–	–	(3,458)	–	(3,458)	188	(3,270)
Total comprehensive income		–	–	–	(3,458)	247,703	244,245	7,423	251,668
Transactions with owners									
Issue of ordinary shares	*14&15*	119	440,508	–	–	–	440,627	–	440,627
Convertible bond – equity portion, net of tax	*17*	–	–	32,370	–	–	32,370	–	32,370
2011 final dividend declared in June 2012	*27*	–	–	–	–	(13,350)	(13,350)	–	(13,350)
Share-based payments	*22*	–	–	7,486	–	–	7,486	–	7,486
Transfer to statutory reserves	*16*	–	–	12,684	–	(12,684)	–	–	–
Acquisition of a subsidiary	*32*	–	–	–	–	–	–	5,584	5,584
Total transactions with owners		119	440,508	52,540	–	(26,034)	467,133	5,584	472,717
Balance as at 31 December 2012		968	715,963	211,889	(37,054)	689,881	1,581,647	46,527	1,628,174

Consolidated Statement of Changes in Equity

	Note	Ordinary shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Equity attributable to owners of the Company							
Balance as at 1 January 2013		**968**	**715,963**	**211,889**	**(37,054)**	**689,881**	**1,581,647**	**46,527**	**1,628,174**
Comprehensive income									
Profit for the year		–	–	–	–	300,377	300,377	8,020	308,397
Currency translation differences		–	–	–	(72,523)	–	(72,523)	194	(72,329)
Total comprehensive income		–	–	–	(72,523)	300,377	227,854	8,214	236,068
Transactions with owners									
Share options exercised	*14&15*	4	8,421	(2,805)	–	–	5,620	–	5,620
2012 final dividend declared in June 2013	*15&27*	–	(61,158)	–	–	–	(61,158)	–	(61,158)
Share-based payments	*22*	–	–	34,074	–	–	34,074	–	34,074
Transfer to statutory reserves	*16*	–	–	3,302	–	(3,302)	–	–	–
Acquisition of non-controlling interests of a subsidiary	*32*	–	–	(3,977)	–	–	(3,977)	(7,607)	(11,584)
Total transactions with owners		4	(52,737)	30,594	–	(3,302)	(25,441)	(7,607)	(33,048)
Balance as at 31 December 2013		**972**	**663,226**	**242,483**	**(109,577)**	**986,956**	**1,784,060**	**47,134**	**1,831,194**

The notes on pages 61 to 120 are an integral part of these consolidated financial statements.

Consolidate Cash Flow Statement

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Net cash inflows from operations	*29*	**334,551**	54,174
Interest paid		**(18,927)**	(17,578)
Interest received		**7,384**	3,348
Income tax paid		**(69,606)**	(97,833)
Net cash generated from/(used in) operating activities		**253,402**	(57,889)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(134,104)**	(117,914)
Proceeds from disposal of property, plant and equipment	*29*	**8,977**	7,994
Purchase of land use right		**–**	(17,632)
Purchases of available-for-sale financial assets		**(1,680)**	–
Payments for intangible assets		**(28,080)**	(8,902)
Acquisition of a subsidiary, net	*32*	**–**	(6,754)
Net cash used in investing activities		**(154,887)**	(143,208)
Cash flows from financing activities			
Net proceeds from issuance of convertible bonds		**–**	94,526
Proceeds from bank borrowings		**182,250**	258,198
Repayments of bank borrowings		**(231,264)**	(220,744)
Dividends paid to shareholders		**(61,158)**	(13,350)
Proceeds from share options exercised		**5,620**	–
Proceeds from issuance of ordinary shares		**–**	446,778
Acquisition of non-controlling interests of a subsidiary	*32*	**(11,584)**	–
Payment of fees relating to issuance of ordinary shares		**–**	(6,151)
Net cash (used in)/generated from financing activities		**(116,136)**	559,257
Net (decrease)/increase in cash and cash equivalents		**(17,621)**	358,160
Cash and cash equivalents at beginning of the year		**658,713**	301,340
Exchange losses on cash and cash equivalents		**(5,138)**	(787)
Cash and cash equivalents at end of the year		**635,954**	658,713

The notes on pages 61 to 120 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

SPT Energy Group Inc. (the "Company") was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 4th Floor, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY-1112, Cayman Islands. The Company had its primary listing on the Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in provision of oilfield services including drilling, well completion, reservoir, with ancillary activities in trading and manufacturing of oilfield services related products mainly in the People's Republic of China (the "PRC"), Republic of Kazakhstan ("Kazakhstan"), Singapore and Canada. The ultimate controlling party of the Group is Mr. Wang Guoqiang (王國強) and Mr. Wu Dongfang (吳東方) (collectively referred to as the "Controlling Shareholders").

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 26 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 of the financial statements.

2.1.2 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group has included the disclosures for items that may or will not be classified to profit and loss in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 Changes in accounting policy and disclosures (continued)

(a) New and amended standards adopted by the Group (continued)

IFRS 10 'Consolidated financial statements'. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. This standard has no material impact on the consolidated financial statements.

IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. This standard has no material impact on consolidated financial statements.

IFRS 13 'Fair value measurement'. IFRS 13 measurement and disclosure requirements are applicable for the December 2013 year end. This standard has no material impact on consolidated financial statements.

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those that are relevant to the Group are set out below:

IFRS 9, 'Financial instruments', IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what an obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is in the process to assess the impact of IFRIC 21 and will adopted this on 1 January 2014.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

2.2.1 Subsidiaries

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

(a) Business Combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

2.2.1 Subsidiaries (continued)

(a) Business Combination (continued)

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and senior management that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is United States Dollar ("USD") and the consolidated financial statements are presented in RMB which is the Group's presentation currency. The reporting currency differs from Company's functional currency as management rely on management accounts prepared in RMB for review of historical performance and decision making.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "Finance income or costs, net". All other foreign exchange gains and losses are presented in the income statement within "Other gains/(losses), net."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income as a separate component in equity.

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

2.5 Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment, if any.

Construction-in-progress is stated at cost, including the costs of construction, machinery and other expenditures for the purpose of preparing the construction-in-progress for its intended use and borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction-in-progress is not depreciated until the asset is completed and ready for its intended use.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Estimated useful life
Buildings	10 to 20 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 to 7 years
Furniture, fixtures and others	3 to 10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains/(losses) on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses, net' in the income statement.

2.6 Land use right

Land use right is stated at prepaid lease cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the period of the lease. The carrying amount of the land use right is written down to its recoverable amount if its carrying amount exceeds its estimated recoverable amount (Note 2.9)

2.7 Goodwill

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets

(a) Computer softwares

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, ranging from 3 to 5 years.

(b) Technology

Technology assets were generated from the Group's research and development activities, only development costs that are directly attributable to the design, development and application of patents are recognised as intangible assets when the following criteria are met:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

(a) Classification, recognition and measurement

The Group's financial assets include loans and receivables and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as "cash and cash equivalents", "restricted bank deposits", "trade and note receivables" and "other receivables" in the balance sheet. Loans and receivables are recognised initially at fair value plus any transaction costs and subsequently measured at amortised cost using the effective interest method less provision for impairment.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are recognised initially at fair value plus any transaction costs and subsequently carried at fair value. Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "other gains/(losses)".

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(b) Impairment of financial assets

(i) Assets carried at amortised cost

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(b) Impairment of financial assets (continued)

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that an available-for-sale financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the acumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.11 Inventories

Inventories primarily consist of materials and work-in-progress for use in the provision of oilfield services and finished goods used for sales. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment amounts (Note 2.10).

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Ordinary shares

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

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting date.

2.17 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Compound financial instruments

Compound financial instruments issued by the Group are convertible bonds that can be converted to ordinary shares at the option of the bond holders, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Current and deferred income tax

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Offsetting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits

(a) *Pension obligations*

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Employees of entities located in countries other than PRC are covered by other defined-contribution pension plans sponsored by respective governments.

(b) *Housing benefits*

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(d) *Share-based compensation*

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

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (continued)

(d) Share-based compensation (continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to ordinary shares (nominal value) and share premium.

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

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Provision of services

The Group provides well drilling services, well completion services and reservoir services to its customers. Revenue is recognised using the percentage of completion method, however, should the services be completed within a relatively short period (usually one month), revenue is recognised upon completion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue recognition (continued)

(b) *Sales of goods*

Revenue associated with sales of pressure gauges, packers and other goods is recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods and collectability of the related receivables is reasonably assumed.

(c) *Lease income*

Operating lease income is recognised over the term of the lease, based on the standard unit charge prescribed in the lease contracts, number of equipment leased out and the duration of lease period. All contract terms are within for one year.

(d) *Interest income*

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

(e) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.22 Operating lease

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

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

2.23 Dividend distribution

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to equity owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting the profit or loss attributable to equity owners of the Company accordingly for related amounts. The effect of potentially dilutive ordinary shares are included only if they are dilutive.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, Singapore,Canada and Indonesia with most of the transactions denominated and settled in RMB, Kazakhstan Tenge ("KZT"), Singapore Dollar ("SGD"), Canadian Dollar ("CAD") and Indonesia Dollar ("IDR") respectively. Certain sales to and purchases from overseas are denominated in USD. Foreign exchange risk also arises from borrowings comprising bank borrowings and certain bank deposits denominated in foreign currencies. The Group is exposed to foreign currency exchange risk primarily with respect to USD.

During the financial year, the Group has not used any financial instrument to hedge the foreign exchange risk.

On 31 December 2013, if RMB, KZT, SGD, CAD and IDR had weakened/strengthened by certain percentage against the USD with all other variables held constant, translating the existing USD denominated cash and cash equivalents, trade receivables, payables and borrowings on 31 December 2013 at the assumed exchange rates would have the following impact on the Group's foreign exchange gains/losses accounts and profit before income tax.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Profit before income tax increase/(decrease) during the financial year:

	2013 *RMB'000*	2012 *RMB'000*
RMB against USD		
– Weakened 5%	**(10,656)**	13,010
– Strengthened 5%	**10,656**	(13,010)
KZT against USD		
– Weakened 5%	**(3,857)**	(17,610)
– Strengthened 5%	**3,857**	17,610
SGD against USD		
– Weakened 5%	**544**	(686)
– Strengthened 5%	**(544)**	686
CAD against USD		
– Weakened 5%	**3,472**	(207)
– Strengthened 5%	**(3,472)**	207
IDR against USD		
– Weakened 5%	**(2,969)**	(3,468)
– Strengthened 5%	**2,969**	3,468

(ii) Cash flow and fair value interest rate risk

Other than cash and cash equivalents, the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's short-term borrowings, majority of long-term bank borrowings and convertible bonds were obtained at fixed rates and expose the Group to fair value interest rate risk, while part of the long-term bank borrowings were obtained at floating rate and expose the Group to cash flow interest rate risk. The Group does not expect significant impact due to the changes in interest rate.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk is managed on group basis. The carrying amounts of bank deposits, trade receivables and other receivables except prepayments included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has concentrations of credit risk on trade receivables. Petro China Company Limited ("Petro China"), a PRC state owned enterprise with high credit rating, along with its related entities, represented approximately 83.4% and 78.3% of the revenue of the Group for the years ended 31 December 2013 and 2012 respectively. The Group has policies in place to ensure that services are rendered or sales of products are made to customers with an appropriate credit history. The Group's credit sales are only made to customers with appropriate credit history or their related parties who have no default history. Most of the credit period is six months. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

As at 31 December 2013 and 2012, cash and cash equivalents and restricted bank deposits, were deposited in the major financial institutions in the PRC, Kazakhstan, Canada, Hong Kong and Singapore, which the directors of the Company believe are of good credit quality. The table below shows the bank deposit balances as at 31 December 2013 and 2012:

	2013 ***RMB'000***	2012 *RMB'000*
PRC		
– State owned listed banks	**295,327**	112,568
– Other listed banks	**202,755**	455,317
	498,082	567,885
Kazakhstan government owned banks	**88,268**	34,373
Hong Kong listed banks	**3,521**	14,662
Singapore listed banks	**38,143**	14,356
Canada listed banks	**27,060**	33,498
Other listed banks	**4,743**	5,550
Others	**977**	2,174
Total	**660,794**	672,498

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) *Liquidity risk*

Cash flow forecasting is performed by Group finance department who monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, and legal requirements, for example, currency restrictions.

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group level	**Less than 1 year** *RMB'000*	**Between 1 and 2 years** *RMB'000*	**Between 2 and 5 years** *RMB'000*	**Over 5 years** *RMB'000*
As at 31 December 2013				
Borrowings	**154,677**	**122,602**	**3,913**	**6,153**
Trade payables	**683,680**	**–**	**–**	**–**
Accruals and other payables	**21,376**	**–**	**–**	**–**
As at 31 December 2012				
Borrowings	210,385	54,791	72,664	5,928
Trade payables	325,375	4,998	–	–
Accruals and other payables	24,043	–	–	–

Company level	**Less than 1 year** *RMB'000*	**Between 1 and 2 years** *RMB'000*	**Between 2 and 5 years** *RMB'000*	**Over 5 years** *RMB'000*
As at 31 December 2013				
Borrowings	**2,744**	**74,285**	**–**	**–**
Accruals and other payables	**1,707**	**–**	**–**	**–**
As at 31 December 2012				
Borrowings	2,828	2,828	67,134	–
Accruals and other payables	2,014	–	–	–
Financial guarantee contracts	12,533	–	–	–

The financial guarantee contracts were signed by the Company for the Group's subsidiaries.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost or capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio and normally maintain gearing ratio below 50%. This ratio is calculated as total borrowings divided by total equity. Total borrowings include 'borrowings' and 'current portion of long-term borrowings' as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2013 and 2012 are as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Total borrowings	**274,785**	322,523
Total equity	**1,831,194**	1,628,174
Gearing ratio	**15.0%**	19.8%

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and other receivables, financial assets; and financial liabilities including trade and other payables and borrowings except for the fixed rate borrowings, approximate their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

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

(b) Impairment of trade and other receivables

The Group's management makes provision for doubtful debts based on the assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

(c) Impairment of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realised. The identification of write-downs requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period which estimate has been changed.

5. SEGMENT INFORMATION

The executive directors and senior management are considered as CODM who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on these financial statements.

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services, which is the basis by which the CODM makes decisions about resources to be allocated to the segments and assesses their performance.

They are so managed according to different natures of products and services. Most of these entities are engaged in just single business, except for a few entities which deal with diversified operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

The CODM assesses performance of three reportable segments: drilling, well completion and reservoir. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

(a) Revenue

Revenue recognised during the years ended 31 December 2013 and 2012 are as follows:

	2013	2012
	RMB'000	*RMB'000*
Drilling	**953,778**	658,850
Well completion	**649,730**	531,502
Reservoir	**799,259**	631,309
	2,402,767	1,821,661

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the income statement. The CODM evaluates the performance of the reportable segments based on profit or loss before income tax expense, depreciation and amortisation, interest income, finance costs and certain unallocated expense ('EBITDA').

Revenue amounting to RMB2,004,124,000 (2012: RMB1,426,441,000) are derived from Petro China and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

The segment information for the years ended 31 December 2013 and 2012 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *RMB'000*
Year ended 31 December 2013				
Revenue from external customers	**953,778**	**649,730**	**799,259**	**2,402,767**
EBITDA	**247,346**	**166,357**	**244,901**	**658,604**
Total assets	**985,114**	**543,346**	**607,247**	**2,135,707**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**28,465**	**20,095**	**6,934**	**55,494**
Year ended 31 December 2012				
Revenue from external customers	658,850	531,502	631,309	1,821,661
EBITDA	190,917	144,484	214,774	550,175
Total assets	589,149	538,760	485,602	1,613,511
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	48,034	15,952	25,022	89,008

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	2013 *RMB'000*	2012 *RMB'000*
EBITDA for reportable segments	**658,604**	550,175
Unallocated expenses		
– Share-based payments	**(34,074)**	(7,486)
– Other gains/(losses), net	**12,608**	(11,435)
– Unallocated overhead expenses	**(152,304)**	(111,813)
	(173,770)	(130,734)
	484,834	419,441
Depreciation and amortization	**(70,706)**	(57,372)
Finance costs	**(31,310)**	(25,128)
Finance income	**6,672**	2,331
Profit before tax	**389,490**	339,272

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

	2013 *RMB'000*	2012 *RMB'000*
Segment assets for reportable segments	**2,135,707**	1,613,511
Unallocated assets		
– Deferred income tax assets	**70,877**	57,233
– Unallocated inventories	**66,573**	73,832
– Unallocated prepayment and other receivables	**116,565**	77,971
– Restricted bank deposits	**24,840**	13,785
– Available-for-sale financial assets	**1,680**	–
– Cash and cash equivalents	**635,954**	658,713
	916,489	881,534
Total assets per balance sheet	**3,052,196**	2,495,045

5. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment

The following table shows revenue by geographical segment according to the country of domicile (location of its main operation) of entities in the Group:

	2013	2012
	RMB'000	*RMB'000*
PRC	**1,036,895**	791,437
Kazakhstan	**987,983**	749,734
Canada	**71,170**	117,856
Singapore	**288,890**	131,244
Others	**17,829**	31,390
	2,402,767	1,821,661

The following table shows the non-current assets other than financial assets and deferred tax assets by geographical segment according to the country of domicile of the respective entities in the Group:

	2013	2012
	RMB'000	*RMB'000*
PRC	**255,051**	114,600
Kazakhstan	**123,523**	128,442
Canada	**13,027**	10,741
Singapore	**55,126**	43,137
Others	**24,988**	34,696
	471,715	331,616

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and others RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2012						
Opening net book value	47,456	122,523	20,046	24,437	163	214,625
Additions	7,426	78,609	5,835	16,875	9,562	118,307
Acquisition of a subsidiary (Note 32)	–	11,710	231	934	–	12,875
Depreciation charge	(4,981)	(38,065)	(5,720)	(8,108)	–	(56,874)
Disposals	–	(6,508)	(46)	(144)	–	(6,698)
Exchange differences	(266)	(4,112)	(173)	(187)	–	(4,738)
Closing net book value	49,635	164,157	20,173	33,807	9,725	277,497
At 31 December 2012						
Cost	65,529	272,629	51,707	72,903	9,725	472,493
Accumulated depreciation	(15,894)	(108,472)	(31,534)	(39,096)	–	(194,996)
Net book value	49,635	164,157	20,173	33,807	9,725	277,497
Year ended 31 December 2013						
Opening net book value	**49,635**	**164,157**	**20,173**	**33,807**	**9,725**	**277,497**
Additions	**4,261**	**159,759**	**9,169**	**10,732**	**8,333**	**192,254**
Depreciation charge	**(6,507)**	**(43,844)**	**(7,224)**	**(10,373)**	**–**	**(67,948)**
Disposals	**(907)**	**(7,106)**	**(598)**	**–**	**–**	**(8,611)**
Transfer from CIP	**5,441**	**–**	**–**	**–**	**(5,441)**	**–**
Exchange differences	**(1,045)**	**(17,498)**	**(577)**	**(1,351)**	**–**	**(20,471)**
Closing net book value	**50,878**	**255,468**	**20,943**	**32,815**	**12,617**	**372,721**
At 31 December 2013						
Cost	**73,279**	**407,784**	**59,701**	**82,284**	**12,617**	**635,665**
Accumulated depreciation	**(22,401)**	**(152,316)**	**(38,758)**	**(49,469)**	**–**	**(262,944)**
Net book value	**50,878**	**255,468**	**20,943**	**32,815**	**12,617**	**372,721**

For the year ended 31 December 2013, depreciation expenses amounting to RMB67,948,000 (2012: RMB56,874,000) has been charged in operating costs.

As at 31 December 2013, certain property, plant and equipment amounting to RMB2,643,000 have been pledged for the Group's bank borrowings (2012: RMB3,467,000) (Note 17).

7. LAND USE RIGHT

The Group's land use right represents operating lease prepayments for the leasehold land in the PRC over 50 years. The details are as follows:

	RMB'000
Year ended 31 December 2012	
Opening net book value	–
Additions	24,131
Amortisation charge	(442)
Closing net book value	23,689
At 31 December 2012	
Cost	24,131
Accumulated amortisation	(442)
Net book value	23,689
Year ended 31 December 2013	
Opening net book value	**23,689**
Amortisation charge	**(483)**
Closing net book value	**23,206**
At 31 December 2013	
Cost	**24,131**
Accumulated amortisation	**(925)**
Net book value	**23,206**

As at 31 December 2012, all land use right have been pledged for the Group's bank borrowings (2013: Nil) (Note 17).

All land use right are of remaining period 48 years.

Notes to the Consolidated Financial Statements

8. INTANGIBLE ASSETS

Intangible assets comprise technology and computer software. The details are as follows:

	Technology *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
Year ended 31 December 2012			
Opening net book value	–	229	229
Additions	8,902	–	8,902
Amortisation charge	–	(56)	(56)
Disposals	–	(20)	(20)
Closing net book value	8,902	153	9,055
At 31 December 2012			
Cost	8,902	2,056	10,958
Accumulated amortisation	–	(1,903)	(1,903)
Net book value	8,902	153	9,055
Year ended 31 December 2013			
Opening net book value	**8,902**	**153**	**9,055**
Additions	**27,710**	**370**	**28,080**
Amortisation charge	**(1,953)**	**(322)**	**(2,275)**
Closing net book value	**34,659**	**201**	**34,860**
At 31 December 2013			
Cost	**36,612**	**2,426**	**39,038**
Accumulated amortisation	**(1,953)**	**(2,225)**	**(4,178)**
Net book value	**34,659**	**201**	**34,860**

9. INTERESTS IN SUBSIDIARIES

Company

	2013 RMB'000	2012 RMB'000
Investment in subsidiaries(a)	**106,437**	72,363
Loans to subsidiaries (b)	**818,832**	614,420
	925,269	686,783

Note

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2013:

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Interest Held
北京華油油氣技術開發有限公司 (Sinopetroleum Technology Inc.)	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	95%
北京華油先鋒石油裝備技術有限公司 (Pioneer Sinopetroleum Equipment Inc.)	PRC, Limited liability entity	Manufacturing, PRC	RMB10,000,000	95%
北京華油油氣工程科技有限公司 (Sinopetroleum Engineering Technology Co., Ltd.)	PRC, Limited liability entity	Trading, PRC	RMB15,600,000	90.3%
廊坊華油能源石油設備有限公司 (Langfang SPT Energy Limited)	PRC, Limited liability entity	Trading, PRC	USD1,000,000	100%
諾斯石油工具(天津)有限公司 (North Resource Oil Tools Limited)	PRC, Limited liability entity	Manufacturing,PRC	RMB226,411,812	99.67%
新疆華油油氣工程有限公司 (Petrotech (Xinjiang) Engineering Co.,Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB43,220,000	95%
新疆華油能源工程服務有限公司 (Xinjiang SPT Engineering Service Co., Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	95%
德威興業(北京)油氣技術服務有限公司 (De Wei Oil & Gas technologies Services Co., Ltd.)	PRC, Limited liability entity	Oil field services and trading, PRC	RMB10,000,000	70%
新疆華油新海石油工程技術有限公司 (Petrotech (Xinjiang) Xinhai Petroleum Engineering Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB36,000,000	95%

Notes to the Consolidated Financial Statements

9. INTERESTS IN SUBSIDIARIES (CONTINUED)

Company (continued)

Note (continued)

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2013: (continued)

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest Held
M-Tech service Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT87,200	100%
CNEC Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT150,000	100%
FD Services Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT110,000	100%
OS Services (Kazakhstan) Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
Dowell LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT500,000	70%
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
HY Oil Technology Service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
NE TKM Hyzmat Limited	Turkmenistan, Limited liability entity	Oil field services, Turkmenistan	Manats142,500	100%
DFW Oil Mechanical Services LLC	Uzbekistan, Limited liability entity	Oil field services, Uzbekistan	USD10,000	100%
Pioneer Petrotech Services Inc.	Canada, Limited liability entity	Manufacturing, Canada	CAD15	100%
Enecal Canada Corporation	Canada, Limited liability entity	Trading, Canada	CAD86	100%
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%
SPT Oil Field Service Inc. Limited	Hong Kong, Limited liability entity	Trading, Hong Kong	HKD100,000	100%
PT. Enecal Indonesia	Indonesia, Limited liability entity	Oil field services, Indonesia	USD1,000,000	100%

9. INTERESTS IN SUBSIDIARIES (CONTINUED)

Company (continued)

Note (continued)

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2013: (continued)

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest Held
Enecal PTE. Limited	Singapore, Limited liability entity	Trading, Singapore	SGD3,550,000*	63.2%
AWP Precision Engineering Pte. Ltd.	Singapore, Limited liability entity	Manufacturing, Singapore	SGD360,000	100%
Chongqing huayou energy techonology services co.ltd	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	100%
Shanxi huayou energy techonology services co.ltd	PRC, Limited liability entity	Oil field services, PRC	RMB4,000,000	100%

* The issued share capital includes preferred shares amounting to SGD 3,200,000 (equivalent to RMB16,302,000) (2012: SGD 3,200,000,equivalent to RMB16,302,000) contributed by the Controlling Shareholders and other two shareholders ("Preference Shareholders") of the Company. The Preference Shareholders have neither dividends rights (unless the distributable profits of Enecal Pte. Limited available for distribution as dividends for the financial year in question exceed SGD 10 billion) nor voting rights (save and except for matters specifically set out in the Singapore Companies Act which principally including (i) any resolution which varies the rights attached to the preference shares; or (ii) any resolution for the winding up of the company). Hence, the Group consolidated 100% profit of Enecal Pte. Limited while the amount received for the preferred shares are reflected as "Non-controlling interests".

(b) Loans to subsidiaries reflect part of the Company's net investment in subsidiaries. These loans to subsidiaries are unsecured, interest-free and its repayment is neither planned nor likely to occur in the foreseeable future.

10. INVENTORIES

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**447,065**	318,431
Work-in-progress	**63,727**	24,537
Finished goods	**1,972**	4,875
	512,764	347,843
Less: Provision for impairment of raw materials	**(27,817)**	(32,534)
	484,947	315,309

10. INVENTORIES (CONTINUED)

The cost of inventories charged in "operating costs" amounted to RMB539,764,000 (2012: RMB460,223,000).

As at 31 December 2012, a provision amounted to RMB32,534,000 has been made as the carrying amount of respective raw materials has exceeded their realisable value for such amount. During the year ended 31 December 2013, a portion of the impaired raw materials were sold. As such, the relevant provision amounted to RMB4,717,000 was written-off against the original value.

11. TRADE AND NOTE RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables (a)	**1,292,003**	1,054,439
Less: impairment of trade receivables	**(36,196)**	(13,170)
Trade receivables – net	**1,255,807**	1,041,269
Note receivables	**–**	2,000
	1,255,807	1,043,269

Notes

(a) Trade and note receivables are financial assets classified as "loan and receivables". The fair value of trade and note receivables approximated their carrying values due to their short maturity.

(b) Most of the trade receivables are with the expected credit terms of six months, except for retention money amounting to RMB8,094,000 (2012: RMB11,909,000). Except for those disclosed in (d) and (e) below, for trade receivables that are neither past due nor impaired, management considered these were receivables from customer with long cooperation history and no default history, therefore the risk of impairment was low.

(c) Ageing analysis of gross trade receivables as at 31 December 2013 and 2012 is as follows:

	2013	2012
	RMB'000	*RMB'000*
Up to 6 months	**1,185,920**	958,293
6 months – 1 year	**24,224**	48,673
1 – 2 years	**76,509**	37,576
2 – 3 years	**5,264**	9,419
Over 3 years	**86**	478
Trade receivables, gross	**1,292,003**	1,054,439
Less: Impairment of trade receivables	**(36,196)**	(13,170)
Trade receivables, net	**1,255,807**	1,041,269

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

(d) Trade and note receivables of RMB66,358,000 (2012: RMB75,326,000) were past due but not impaired. These receivables relate to a number of independent customers for whom there were no recent history of default. The ageing analysis of these trade receivables which were past due but not impaired is as follows:

	2013	2012
	RMB'000	*RMB'000*
Up to 1 year	**43,503**	60,069
1 to 2 years	**22,832**	15,243
2 to 3 years	**23**	14
	66,358	75,326

(e) As at 31 December 2013, trade receivables amounted to RMB36,196,000 (2012: RMB13,170,000) were impaired and fully provided. The individually impaired trade and note receivables mainly related to certain customers who are in unexpectedly difficult financial situations and certain receivables with long ageing which the Company considered difficult to recover.

Movements of impairment of trade receivables are as follows:

	2013	2012
	RMB'000	*RMB'000*
As at 1 January	**(13,170)**	(9,274)
Add: provision for impairment of trade receivables	**(23,026)**	(3,896)
As at 31 December	**(36,196)**	(13,170)

(f) The carrying amounts of the Group's trade and notes receivables are denominated in the following currencies:

	2013	2012
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**702,605**	502,072
KZT	**436,306**	358,075
USD	**109,328**	175,958
SGD	**4,060**	4,847
CAD	**3,508**	2,317
	1,255,807	1,043,269

(g) Trade receivables of RMB22,000,000 (2012: RMB250,593,000) have been pledged for the Group's borrowings (Note 17).

Notes to the Consolidated Financial Statements

12. PREPAYMENTS AND OTHER RECEIVABLES

Group

	2013 RMB'000	2012 RMB'000
Current		
Advances to suppliers	**36,876**	29,478
Prepayment for taxes	**20,731**	–
Total non-financial assets	**57,607**	29,478
Deposits and other receivables	**59,325**	53,380
Less: impairment of other receivables	**(10,556)**	(7,738)
Total financial assets	**48,769**	45,642
	106,376	75,120
Non-current		
Advances to suppliers (Non-financial assets)	**23,435**	2,750
Prepayment for operating lease (Non-financial assets)	**16,712**	17,844
	40,147	20,594
Total	**146,523**	95,714

12. PREPAYMENT AND OTHER RECEIVABLES (CONTINUED)

Group (continued)

Notes

(a) No deposits and other receivables as at 31 December 2013 and 2012 were past due but not impaired

(b) The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	2013 Equivalent in *RMB'000*	2012 Equivalent in *RMB'000*
RMB	**65,084**	38,263
KZT	**17,832**	22,051
CAD	**674**	–
SGD	**28,431**	19,262
USD	**29,149**	14,035
Others	**5,353**	2,103
	146,523	95,714

(c) Rental deposits and other receivables are financial assets classified under "loan and receivables". The fair values of other receivables approximated their carrying values due to their short maturity.

(d) For other receivables that are neither past due nor impaired, management considered these were prepayment and other receivables from customers with long cooperation history and no default history, therefore the risk of impairment was low. Movements in impairment of other receivables representing those that were past due are as follows:

	2013 *RMB'000*	2012 *RMB'000*
As at 1 January	**(7,738)**	(635)
Add: provision for impairment of other receivables	**(2,818)**	(7,103)
As at 31 December	**(10,556)**	(7,738)

(e) As at 31 December 2013, non-current prepayments amounting to RMB16,712,000 (2012: RMB17,844,000) has been pledged for the Group's borrowings (Note 17).

13. CASH AND CASH EQUIVALENTS

Group

	2013 *RMB'000*	2012 *RMB'000*
Restricted bank deposits (a)	**24,840**	13,785
Cash and cash equivalents		
– Cash on hand	**999**	1,061
– Deposits in banks	**634,955**	657,652
	635,954	658,713
	660,794	672,498

Notes

(a) As at 31 December 2013, the restricted bank deposits comprised deposits of RMB24,840,000 (2012: RMB1,785,000) held as securities for issuance of bank letter of credit and no deposits have been pledged for the Group's bank borrowings (2012: RMB12,000,000) (Note17).

(b) Restricted bank deposits and cash and cash equivalents which are financial assets classified as "loan and receivables" are denominated in the following currencies:

	2013 Equivalent in *RMB'000*	2012 Equivalent in *RMB'000*
RMB	**385,328**	343,627
USD	**180,672**	70,573
KZT	**83,778**	51,781
CAD	**4,080**	4,886
HKD	**2,760**	196,610
SGD	**2,803**	2,530
Others	**1,373**	2,491
	660,794	672,498

13. CASH AND CASH EQUIVALENTS (CONTINUED)

Company

The Company's bank deposits are financial assets classified as "loan and receivables" and denominated in the following currencies:

	2013 Equivalent in *RMB'000*	2012 Equivalent in *RMB'000*
RMB	**83,981**	200,538
USD	**47,286**	14,721
HKD	**2,016**	196,501
	133,283	411,760

14. ORDINARY SHARES

	Number of share *(Thousands)*	**Nominal value *RMB'000***
Authorised shares:		
Ordinary shares of US$0.0001 each as at 31 December 2012 and 2013	2,000,000	1,295
Issued shares:		
As at 31 December 2011	1,335,000	849
Add: new issuance of ordinary shares (a)	190,000	119
As at 31 December 2012	1,525,000	968
As at 31 December 2012	1,525,000	968
Add: share options exercised	5,391	4
As at 31 December 2013	**1,530,391**	**972**

Notes

(a) On 4 December 2012, the Company issued 190,000,000 ordinary shares at the price of HKD2.9 per share to certain independent third parties.

15. SHARE PREMIUM

	2013 RMB'000	2012 RMB'000
As at 1 January	**715,963**	275,455
Issuance of ordinary shares (Note 14)	**–**	446,659
Share options exercised	**8,421**	–
Share issue costs	**–**	(6,151)
Dividends declared (Note 27)	**(61,158)**	–
As at 31 December	**663,226**	715,963

16. OTHER RESERVES

Group

	2013 RMB'000	2012 RMB'000
Merger reserves (a)	**(148,895)**	(148,895)
Equity component of convertible bonds (Note 17)	**32,370**	32,370
Share-based payments (b)	**102,755**	71,486
Statutory reserves (c)	**47,331**	44,029
Capital reserves (d)	**208,922**	212,899
	242,483	211,889

Company

	2013 RMB'000	2012 RMB'000
Equity component of convertible bonds (Note 17)	**32,370**	32,370
Share-based payments (b)	**102,755**	71,486
Capital reserves (d)	**212,899**	212,899
	348,024	316,755

16. OTHER RESERVES (CONTINUED)

Notes

(a) Merger reserves

As at 31 December 2013 and 2012, the merger reserves balances represented the aggregate of consideration paid for the acquisitions of subsidiaries under common control pursuant to the reorganisation of the Group which was completed on 14 February 2011.

(b) Share-based payments

Pursuant to the share option scheme, the Company granted on 20 February 2012 a total of 26,500,000 share options to 86 employees to subscribe for 26,500,000 ordinary shares of US$0.0001 each at an exercise price of HKD1.292. On 29 March 2012, another 7,300,000 share options were granted by the Company to four directors and one senior management member of the Company to subscribe for 7,300,000 ordinary shares of US$0.0001 each at an exercise price of HKD1.36. The Company further granted on 13 June 2013 a total of 67,450,000 share options to directors and employees to subscribe for 67,450,000 ordinary shares of US$0.0001 each at an exercise price of HKD4.694. These share options will be evenly vested over 3 years from the first anniversary of the grant date and exercisable within 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2013		2012	
	Weighted average exercise price per share options ***HKD***	**Share options** ***(Thousands)***	Weighted average exercise price per share options *HKD*	Share options *(Thousands)*
As at 1 January	**1.31**	**30,050**	–	–
Granted	**4.69**	**67,450**	1.31	33,800
Forfeited	**1.31**	**(3,106)**	1.31	(3,750)
Exercised	**1.31**	**(5,391)**	–	–
As at 31 December	**4.24**	**89,003**	1.31	30,050

As at 31 December 2013, there were 4,030,000 outstanding share options with exercise price HKD1.31 per share option which were exercisable (2012: Nil).

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

For the year ended 31 December 2013, the total expense recognised in the income statement for share options granted was RMB34,074,000 (2012: RMB7,486,000) (Note 22). The fair value of share options granted in 2013 using the Binomial valuation model was RMB90,469,000 (2012: RMB14,779,000). The significant inputs used in the valuation are as below:

	Share options granted in	
	2013	2012
Share price as of the valuation date (HK$)	**4.57**	1.28-1.36
Exercise price (HK$)	**4.69**	1.31
Expected dividend yield	**3.00%**	1.84%-1.87%
Maturity years	**10.0**	10.0
Risk free rate	**1.637%**	1.247%-1.351%
Annualised volatility	**53.01%**	61.34%-61.56%

(c) Statutory reserves

Subsidiaries incorporated in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When balance of such reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of registered capital after such usage. For the years ended 31 December 2013 and 2012, 10% of statutory net profit of each entity was appropriated to this reserve. This reserve is non-distributable. The movement is as follows:

	RMB'000
As at 31 December 2011	31,345
Add: Appropriation	12,684
As at 31 December 2012	44,029
Add: Appropriation	3,302
As at 31 December 2013	**47,331**

(d) Capital reserves

The capital reserves balances as at 31 December 2013 and 2012 arose from the Controlling Shareholders taking over the Company's certain payables amounting to RMB212,899,000 with a nominal consideration of USD1 on 31 December 2010 during the Group's reorganisation. In 2013, the Group paid SGD2,384,000 (RMB11,584,000) for acquisition of 40 percent of certain subsidiary's non-controlling interests with carrying amount of RMB7,607,000.Therefore,the difference of RMB3,977,000 was charged to capital reserves account.

17. BORROWINGS

Group

	2013 *RMB'000*	2012 *RMB'000*
Long-term borrowings:		
Secured bank borrowings (a)(i)(iv)	**12,316**	13,745
Unsecured bank borrowings (a)(ii)	**–**	46,736
Unsecured liability component of convertible bonds (b)	**72,456**	65,249
	84,772	125,730
Short-term borrowings:		
Short-term bank borrowings		
– Secured (a)(iii)(iv)	**22,000**	97,189
– Unsecured (a)(iii)	**120,000**	97,000
	142,000	194,189
Current portion of long-term borrowings:		
Secured bank borrowings (a)(i)(iv)	**2,552**	2,604
Unsecured bank borrowings (a)(ii)	**45,461**	–
	48,013	2,604
	274,785	322,523

Company

	2013 *RMB'000*	2012 *RMB'000*
Long-term borrowings:		
Unsecured liability component of convertible bonds (b)	**72,456**	65,249

17. BORROWINGS (CONTINUED)

Note

(a) Bank borrowings

(i) As at 31 December 2013, long-term secured bank borrowings amounting to RMB9,259,000 (2012: RMB9,242,000), comprising long-term bank borrowings amounting to RMB8,621,000 (2012: RMB8,563,000) and its current portion amounting to RMB638,000 (2012: RMB679,000), will mature until 2026 and bear floating interest rate with repricing period of 3 months and the effective interest rate for the year ended 31 December 2013 is 3.71% per annual (2012: 2.75%), while long-term secured bank borrowings amounting to RMB5,609,000 (2012: RMB7,107,000) comprising long-term bank borrowings amounting to RMB3,695,000 (2012: RMB5,182,000) and its current portion amounting to RMB1,914,000 (2012: RMB1,925,000) will mature until 2016 and bear effective interest rate of 2.99% per annual (2012: 2.90%).

(ii) As at 31 December 2013, current portion of long-term unsecured bank borrowings amounting to RMB45,461,000 bear annual interest rate of 5.00%+LIBOR (2012: RMB46,736,000 bear annual interest rate of 5.00%+LIBOR).

(iii) As at 31 December 2013, short-term bank borrowings amounting to RMB142,000,000 (2012: RMB194,189,000) will mature in 1 year and bear annual interest rate ranging from 6.00% to 6.90% (2012: 5.60% to 10.00%).

(iv) The collaterals of the Group's secured bank borrowings are as follows:

	2013	2012
	RMB'000	*RMB'000*
Long-term bank borrowings		
Secured by:		
– Property, plant and equipment	**2,643**	3,467
– Long-term prepayments	**16,712**	17,844
	19,355	21,311
Short-term bank borrowings		
Secured by:		
– Trade and note receivables	**22,000**	250,593
– Land use right	**–**	23,689
– Restricted bank deposits	**–**	12,000
	22,000	286,282

17. BORROWINGS (CONTINUED)

Note (continued)

(a) Bank borrowings (continued)

(v) The short-term bank borrowings of the Group are wholly repayable within 1 year, while the long-term bank borrowings will be repaid during the maturity period ranging from 2 years to 13 years. The Group's bank borrowings were repayable as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 1 year	**144,552**	196,793
Between 1 and 2 years	**48,012**	49,340
Between 2 and 5 years	**3,695**	5,294
Over 5 years	**6,070**	5,847
	202,329	257,274

	2013	2012
	RMB'000	*RMB'000*
Wholly repayable within 5 years	**193,070**	248,032
Wholly repayable after 5 years	**9,259**	9,242
	202,329	257,274

(vi) The carrying amounts of the Group's long-term bank borrowings and short-term bank borrowings approximate their fair value.

(vii) The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2013	2012
	RMB'000	*RMB'000*
RMB	**142,000**	176,000
USD	**45,461**	46,736
SGD	**14,868**	16,349
KZT	**–**	18,189
	202,329	257,274

17. BORROWINGS (CONTINUED)

Note (continued)

(b) Convertible bonds

During the year ended 31 December 2012, the Company and certain independent parties (the "Bond Holders") entered into an agreement (the "Agreement") pursuant to which the Company issued USD15,000,000 unsecured and non-redeemable convertible bonds with a coupon rate of 3% per annum (the "Bonds"). The Bonds are due on 20 August 2015 (the "Maturity Date"). The Bond Holders have the right to convert the Bonds into ordinary shares of the Company at a conversion price of HKD1.65 per share at any time commencing from 20 February 2013 up until to five business days before the Maturity Date. The Bonds were initially partially recognised as a liability which was subsequently re-measured at amortised cost and partially as a derivative liability which was subsequently re-measured at fair value through profit and loss.

Subsequently and before 31 December 2012, the Company and the Bond Holders entered into a supplemental deed whereby the conditions creating the partial derivative liability were extinguished and replaced by a new equity component (the "Supplemental Agreement"), while other Bonds' conditions remained the same. As such the carrying value of the original Bonds was de-recognised and replaced by the fair value of the new Bonds. As at 31 December 2013 and 2012, the new Bonds are recorded in the balance sheet as follows:

Face value of convertible bonds issued on initial recognition date	94,526
Less: Equity component (Note 16)	(32,370)
Liability component on initial recognition date	62,156

	2012 *RMB'000*
Liability component on initial recognition date	62,156
Add: Interest expense in 2012 (Note 24)	4,131
Less: Interest paid and payable	(1,038)
Liability component as at 31 December 2012	65,249

	2013 ***RMB'000***
Liability component as at 31 December 2012	**65,249**
Add: Interest expense in 2013 (Note 24)	**12,096**
Less: Interest paid and payable	**(2,744)**
Less: Exchange difference	**(2,145)**
Liability component as at 31 December 2013	**72,456**

Notes to the Consolidated Financial Statements

18. TRADE PAYABLES

	2013 RMB'000	2012 RMB'000
Current	**683,680**	325,375
Non-current	**–**	4,998
	683,680	330,373

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

	2013 RMB'000	2012 RMB'000
Up to 6 months	**578,018**	247,973
6 months to 1 year	**52,566**	43,871
1 – 2 years	**33,472**	11,014
2 – 3 years	**1,234**	27,515
Over 3 years	**18,390**	–
	683,680	330,373

19. ACCRUALS AND OTHER PAYABLES

	2013 RMB'000	2012 RMB'000
Interest payable	**1,598**	3,008
Others	**19,778**	21,035
Total financial liabilities	**21,376**	24,043
Customer deposits and receipts in advance	**1,470**	14,841
Payroll and welfare payable	**57,446**	42,856
Taxes other than income taxes payable	**104,805**	80,435
Total non-financial liabilities	**163,721**	138,132
	185,097	162,175

20. DEFERRED TAXATION

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2013	2012
	RMB'000	*RMB'000*
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**29,855**	27,222
Deferred tax assets to be recovered within 12 months	**41,022**	30,011
	70,877	57,233
Deferred tax liabilities:		
Deferred tax liabilities to be settled after 12 months	**(21,877)**	(20,666)
Deferred tax liabilities to be settled within 12 months	**(212)**	–
	(22,089)	(20,666)
	48,788	36,567

The gross movements on the deferred income tax account are as follows:

	2013	2012
	RMB'000	*RMB'000*
As at 1 January	**36,567**	34,442
Income statement credit (Note 25)	**12,730**	3,562
Currency translation difference	**(509)**	(357)
Acquisition of a subsidiary (Note 32)	**–**	(1,080)
As at 31 December	**48,788**	36,567

20. DEFERRED TAXATION (CONTINUED)

The movement in deferred income tax assets and liabilities for the years ended 31 December 2012 and 2013, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred Tax Assets

	Tax losses *RMB'000*	Impairment of assets *RMB'000*	Unrealised profit* *RMB'000*	Accrual expense *RMB'000*	Total *RMB'000*
As at 1 January 2012	1,329	12,511	22,539	5,692	42,071
Income statement credit/(charge)	6,288	(2,619)	8,891	2,959	15,519
Currency translation difference	–	–	(357)	–	(357)
As at 31 December 2012	7,617	9,892	31,073	8,651	57,233
Income statement credit	1,602	6,260	5,771	520	14,153
Currency translation difference	–	–	(509)	–	(509)
As at 31 December 2013	**9,219**	**16,152**	**36,335**	**9,171**	**70,877**

* Deferred income tax assets in relation to unrealised profit mainly resulted from the unrealised profit on intra-group transfer of property, plant and equipment and inventories.

Deferred Tax Liabilities

	Accelerated tax depreciation *RMB'000*	Withholding tax of the unremitted earnings of certain subsidiaries* *RMB'000*	Fair value gains *RMB'000*	Others *RMB'000*	Total *RMB'000*
As at 1 January 2012	1,128	6,382	–	119	7,629
Income statement charge/(credit)	(149)	12,260	(96)	(58)	11,957
Acquisition of a subsidiary (Note 32)	–	–	1,080	–	1,080
As at 31 December 2012	979	18,642	984	61	20,666
Income statement charge/(credit)	1,620	–	(203)	6	1,423
As at 31 December 2013	**2,599**	**18,642**	**781**	**67**	**22,089**

* Deferred tax liabilities in relation to unremitted earnings of certain subsidiaries resulted from certain subsidiaries' accumulated profit which are expected to be distributed as dividends in the future. Pursuant to the local tax regulations where such subsidiaries operate, when such subsidiaries declare or paid dividends, withholding tax will be imposed on these dividends.

20. DEFERRED TAXATION (CONTINUED)

Details of unrecognised deferred tax are as follows:

(a) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB14,901,000 as at 31 December 2013 (2012: RMB7,320,000), in respect of losses amounting to RMB69,199,000 (2012: RMB38,875,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2014 and 2018.

(b) As at 31 December 2013, the Group did not recognise deferred tax liabilities of RMB36,384,000 (2012: RMB22,120,000) on withholding tax of unremitted earnings of certain subsidiaries earned prior to 1 July 2011 and during 2013, as such unremitted earnings amounting to RMB761,755,000 (2012: RMB442,392,000) are expected to be retained in the respective subsidiaries for their future investment and expansion activities.

21. OTHER GAINS/(LOSSES), NET

	2013	2012
	RMB'000	*RMB'000*
Net foreign exchange gains/(losses)	**10,006**	(13,241)
Others	**2,602**	1,806
	12,608	(11,435)

22. EMPLOYEE BENEFITS EXPENSES

	2013	2012
	RMB'000	*RMB'000*
Wages, salaries and allowances	**454,659**	361,061
Housing benefits	**9,475**	7,911
Pension costs	**34,087**	27,644
Share-based payments (Note 16)	**34,074**	7,486
Welfare and other expenses	**11,959**	10,662
	544,254	414,764

22. EMPLOYEE BENEFITS EXPENSES (CONTINUED)

Note

(a) Directors' and chief executive's remuneration

The remuneration of every director and the chief executive for the year ended 31 December 2012 and 2013 is as follows:

	Basic salaries and allowances *RMB'000*	Discretionary Bonus *RMB'000*	Share-based payments *RMB'000*	Retirement benefits and others *RMB'000*	Total *RMB'000*
Year ended 31 December 2012					
Executive Directors					
Mr. 王國強 (Mr. Wang Guoqiang)*	1,062	–	–	53	1,115
Mr. 吳東方 (Mr. Wu Dongfang)	1,062	–	–	54	1,116
Mr. 劉若岩 (Mr. Liu Ruoyan)	422	–	343	–	765
Non-executive Directors					
Mr. 林煬 (Mr. Lin Yang)	–	–	–	–	–
Independent Non-Executive Directors					
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	240	–	267	–	507
Ms. 陳春花 (Ms. Chen Chunhua)	240	–	267	–	507
Mr. 溫嘉明 (Mr. Wan Kah Ming)	240	–	267	–	507
	3,266	–	1,144	107	4,517
Year ended 31 December 2013					
Executive Directors					
Mr. 王國強 (Mr. Wang Guoqiang)*	**1,457**	**230**	**616**	**90**	**2,393**
Mr. 吳東方 (Mr. Wu Dongfang)	**1,457**	**–**	**616**	**94**	**2,167**
Mr. 劉若岩 (Mr. Liu Ruoyan)	**701**	**208**	**883**	**3**	**1,795**
Mr. 金樹茂 (Mr. Jin Shumao)**	**1,915**	**–**	**616**	**88**	**2,619**
Non-executive Directors					
Mr. 林煬 (Mr. Lin Yang)	**–**	**–**	**–**	**–**	**–**
Ms. 陳春花 (Ms. Chen Chunhua)****	**561**	**–**	**771**	**–**	**1,332**
Independent Non-Executive Directors					
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	**240**	**–**	**771**	**–**	**1,011**
Mr. 溫嘉明 (Mr. Wan Kah Ming)	**240**	**–**	**771**	**–**	**1,011**
Ms. 張渝涓 (Ms.Zhang Yujuan)***	**183**	**–**	**565**	**–**	**748**
	6,754	**438**	**5,609**	**275**	**13,076**

* Mr. 王國強 (Mr. Wang Guoqiang) is also the chief executive of the Company. The remuneration reflected his total emoluments as both the director and the chief executive for the years ended 31 December 2013 and 2012.

** Mr. 金樹茂 (Mr. Jin Shumao) was appointed as an executive director of the Company on 27 March 2013.

*** Ms. 張渝涓 (Ms. Zhang Yujuan) was appointed as an independence non-executive director on 27 March 2013.

**** Ms. 陳春花 (Ms. Chen Chunhua) was appointed as a non-executive director on 27 March 2013.

22. EMPLOYEE BENEFITS EXPENSES (CONTINUED)

Note (continued)

(a) Directors' and chief executive's remuneration (continued)

	2013 RMB'000	2012 RMB'000
Basic salaries and allowances	**9,955**	13,075
Discretionary bonuses	**650**	–
Share-based payments	**4,918**	1,451
Retirement benefits and others	**184**	–
	15,707	14,526

(b) The emoluments of the five highest paid individuals, of which fell within the following bands:

	2013	2012
Emolument band		
HKD2,000,001 to HKD2,500,000 (equivalent to RMB1,621,000 to RMB2,026,000)	**–**	1
HKD3,000,001 to HKD3,500,000 (equivalent to RMB2,431,000 to RMB2,836,000)	**2**	1
HKD3,500,001 to HKD4,000,000 (equivalent to RMB2,836,000 to RMB3,242,000)	**1**	2
HKD4,000,001 to HKD4,500,000 (equivalent to RMB3,242,000 to RMB3,647,000)	**–**	1
HKD4,500,001 to HKD7,500,000 (equivalent to RMB3,647,000 to RMB6,078,000)	**2**	–
	5	5

(c) For the year ended 2012 and 2013, no director or other member of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

23. EXPENSES BY NATURE

Operating profit is arrived at after charging the following:

	2013 RMB'000	2012 RMB'000
Gains on disposal of property, plant and equipment	**(904)**	(6,118)
Sales tax and surcharges	**6,586**	8,451
Depreciation	**67,948**	56,874
Amortisation of land use right and intangible assets	**2,758**	498
Auditor's remuneration	**4,600**	3,980

24. FINANCE COSTS, NET

	2013 RMB'000	2012 RMB'000
Finance income:		
– Interest income on short-term bank deposits	**7,384**	3,348
– Net foreign exchange losses on financing activities	**(712)**	(1,017)
Finance income	**6,672**	2,331
Interest expense:		
– Bank borrowings	**(14,773)**	(18,864)
– Bank charges	**(4,441)**	(2,133)
– Liability component of convertible bonds	**(12,096)**	(4,131)
Total finance costs	**(31,310)**	(25,128)
Net finance costs	**(24,638)**	(22,797)

25. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Current taxation	**93,823**	87,896
Deferred taxation	**(12,730)**	(3,562)
Income tax expense	**81,093**	84,334

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

b. Subsidiaries established in Netherlands and Luxemburg are subject to Netherland and Luxemburg profit tax at a rate of 20% and 30% respectively.

25. INCOME TAX EXPENSE (CONTINUED)

c. Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%.

d. The subsidiaries established in Singapore are subject to Singapore profit tax at 16.5% and an preferential tax rate at 10% respectively.

e. PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in PRC for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the years ended 31 December 2013 and 2012, certain subsidiaries established in the western area of the PRC were subject to an preferential tax rate of 15% while other subsidiaries established in the PRC are subject to income tax rate of 25%.

f. The corporate income tax rate for subsidiaries established in Kazakhstan is 20%. Income tax is charged on all business income generated in Kazakhstan with relief for tax deductible expenses.

g. The corporate income tax rate for subsidiaries established in Canada is 25%.

h. The corporate income tax rate for subsidiaries established in Indonesia is 25%.

The income tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2013	2012
	RMB'000	*RMB'000*
Profit before income tax	**389,490**	339,272
Tax calculated at domestic tax rates applicable to profits in the respective countries	**65,416**	62,601
Expenses not deductible for taxation purposes	**5,590**	4,802
Losses not recognised as deferred tax assets	**7,581**	752
Accrued withholding tax of the unremitted earnings of certain subsidiaries	**–**	12,260
Withholding tax paid in foreign jurisdiction not deductible against local tax	**2,506**	3,919
Income tax expense	**81,093**	84,334

26. PROFIT/(LOSSES) ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

The losses attributable to equity owners of the Company is dealt with in the financial statements of the Company to the extent of RMB3,652,000 (2012: profit of RMB18,464,000).

27. DIVIDENDS

A dividend in respect of the year ended 31 December 2013 of RMB0.05 (equivalent to HKD0.064) per share, amounting to a total dividend of RMB76,520,000 (equivalent to HKD97,325,000), is to be proposed at the next annual general meeting. The dividend will be paid out of the share premium account of the Company. The financial statements do not reflect this dividend payable.

A dividend in respect of the year ended 31 December 2012 of RMB0.04 (equivalent to HKD0.049) per share, amounting to a total dividend of RMB61,158,000 (equivalent to HKD74,725,000), has been approved at the annual general meeting and paid during the year ended 31 December 2013.

28. EARNINGS PER SHARE

(a) Basic earnings per share

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

	2013 *RMB'000*	2012 *RMB'000*
Profit attributable to equity owners of the Company	**300,377**	247,703
Weighted average number of ordinary shares in issue (thousands)	**1,527,973**	1,345,932
Basic earnings per share (RMB per share)	**0.197**	0.184

28. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by assuming conversion of all dilutive ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2013	2012
	RMB'000	*RMB'000*
Earnings		
Profit attributable to equity owners of the Company	**300,377**	247,703
Add: Interest expense on convertible bonds (Note 24)	**12,096**	4,131
	312,473	251,834
Weighted average number of ordinary shares in issue (thousands)	**1,527,973**	1,345,932
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**71,779**	25,227
– Share options (thousands)	**15,460**	2,161
	1,615,212	1,373,320
Diluted earnings per share	**0.194**	0.183

29. CASH GENERATED FROM OPERATIONS

	2013	2012
	RMB'000	*RMB'000*
Profit before income tax	**389,490**	339,272
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 23)	**67,948**	56,874
– net gains on disposals (Note 23)	**(904)**	(6,118)
Land use right and intangible assets		
– amortisation (Notes 7&8)	**2,758**	498
Provision for impairment of assets	**25,844**	10,999
Net foreign exchange (gains)/losses (Notes 21 & 24)	**(9,294)**	14,258
Interest income (Note 24)	**(7,384)**	(3,348)
Interest expenses on borrowing (Note 24)	**14,773**	18,864
Interest expenses on convertible bonds (Note 24)	**12,096**	4,131
Share-based payments	**34,074**	7,486
Changes in working capital:		
Inventories	**(169,638)**	(69,349)
Trade receivables	**(235,564)**	(464,845)
Prepayments and other receivables	**(33,538)**	(17,979)
Trade payables	**271,244**	119,913
Accruals and other payables	**(16,299)**	55,272
Restricted bank deposits	**(11,055)**	(11,754)
Net cash inflows from operations	**334,551**	54,174

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2013	2012
	RMB'000	*RMB'000*
Net carrying value (Note 6)	**8,611**	6,698
Gain on disposal of property, plant and equipment (Note 23)	**904**	6,118
Less: unsettled receivables in relation to the disposal	**(538)**	(4,822)
Proceeds from disposal of property, plant and equipment	**8,977**	7,994

30. CONTINGENCIES

As at 31 December 2013 and 2012, the Group did not have any significant contingent liabilities.

31. COMMITMENT

(a) Capital commitments

Capital expenditure contracted for but not incurred at the end of the reporting period is as below:

	2013	2012
	RMB'000	*RMB'000*
Property, plant and equipment	**5,572**	2,736

(b) Operating lease commitments – where the Group is the lessee:

The Group leases various offices, warehouses and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013	2012
	RMB'000	*RMB'000*
No later than 1 year	**18,690**	17,691
Later than 1 year and no later than 5 years	**88,708**	11,069
Later than 5 years	**335,567**	–
	442,965	28,760

32. BUSINESS COMBINATIONS

On 27 June 2012, the Group acquired 60% of the ordinary shares in AWP Precision Engineering Pte. Ltd. ("AWP"), a company that is engaged in engineering works for a consideration of SGD 1,800,000 (equivalent to RMB9,157,000). The acquisition is expected to increase the Group's market share and reduce cost through economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill of RMB781,000 arises from the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies through combining a highly skilled workforce and obtaining economies of scale.

As at 31 December 2012 and 2013, the Company has reviewed the business performance of AWP. Pursuant to the review, the recoverable amount which was determined as the higher of value in use and the fair value less costs to sell exceeded the carrying amount. Accordingly, no impairment loss of goodwill was recognised.

On 3 October 2013, the Group further acquired 40% of the ordinary shares in AWP (Note 16(d)).

33. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties for the year ended 31 December 2013 and 2012:

(a) Indemnity provided by Controlling Shareholders

The Controlling Shareholders have provided indemnity in favour of the Company for any claim prior to the Group's reorganisation against the Company for any losses, liabilities and cost arising from claims by third parties including tax authorities.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

Key management includes executive directors and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2013	2012
	RMB'000	*RMB'000*
Basic salaries, allowances and bonuses	**19,965**	18,778
Share-based payments	**8,248**	1,795
Pension	**541**	221
	28,754	20,794

34. EVENTS AFTER BALANCE SHEET DATE

On 11 February 2014, Kazakhstan government announced with effect from the same day, exchange rate of Tenge to USD was devalued to 185 Tenge for 1 USD. As compared with the exchange rate of 153.6 Tenge for 1 USD on 31 December 2013, Tenge's exchange rate to USD was devalued by approximately 20.4%.

SPT Energy Group Inc.
華油能源集團有限公司 *