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

2015
Annual Report

* For identification purpose only

CONTENTS

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

Building 3
Chaolai High-tech Industrial Park
A1 Laiguangying Middle Street
Chaoyang District
Beijing
PRC (zip code: 100012)

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[Note 1]

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

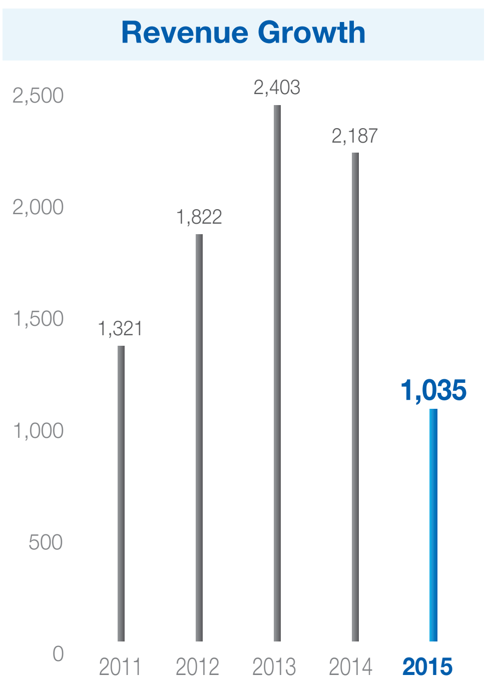
Note 1: The Company engaged Morrison & Foerster as the Company's legal advisor during 2015. Such engagement ceased on 22 December 2015.

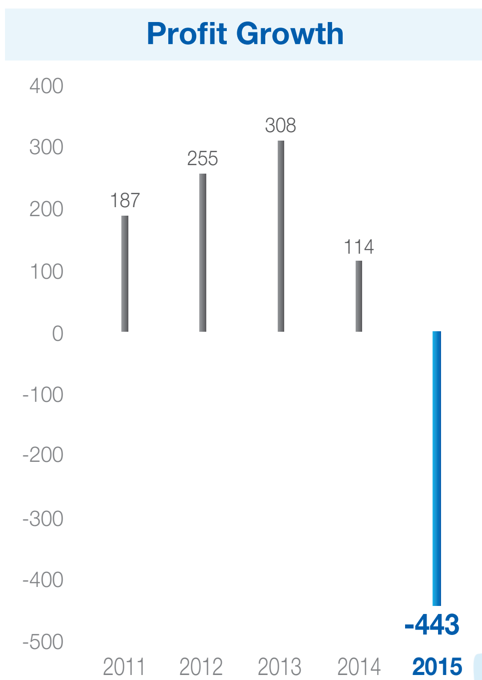
Financial Summary

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	**2015**	2014	2013	2012	2011
Revenue	**1,035,007**	2,186,958	2,402,767	1,821,661	1,321,260
Other gains/(losses), net	**25,212**	(17,960)	12,608	(11,435)	(7,760)
Operating costs	**(1,508,358)**	(1,964,813)	(2,001,247)	(1,448,157)	(1,037,851)
Operating (loss)/profit	**(448,139)**	204,185	414,128	362,069	275,649
Finance cost, net	**(37,802)**	(43,820)	(24,638)	(22,797)	(13,999)
(Loss)/profit before income tax	**(485,941)**	160,365	389,490	339,272	261,650
(Loss)/profit for the year	**(442,555)**	114,267	308,397	254,938	186,583
Attributable to:					
Equity owners of the Company	**(412,165)**	116,176	300,377	247,703	181,806
Non-controlling interests	**(30,390)**	(1,909)	8,020	7,235	4,777
Dividends proposed after balance sheet date	**–**	–	76,520	61,000	13,350

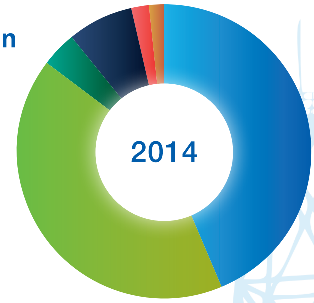




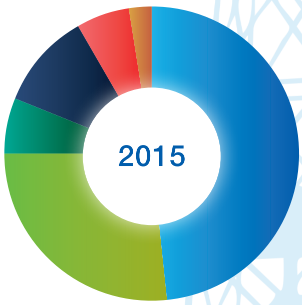
Financial Summary

Revenue by Region

- China: 954,622
- Kazakhstan: 911,409
- Canada: 84,117
- Turkmenistan: 160,660
- Middle East: 43,054
- Others: 33,096

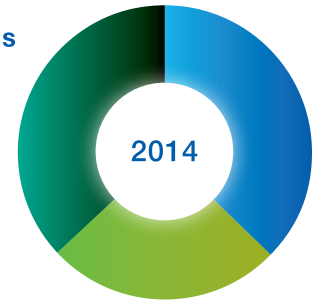


- China: 501,921
- Kazakhstan: 275,665
- Canada: 63,118
- Turkmenistan: 108,918
- Middle East: 62,296
- Others: 23,089

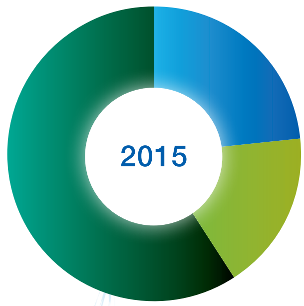


Revenue by Business

- Drilling: 817,264
- Well completion: 565,802
- Reservoir: 803,892



- Drilling: 243,925
- Well completion: 179,718
- Reservoir: 611,364



CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2015**	2014	2013	2012	2011
Asset					
Non-current assets	**789,360**	832,278	544,272	388,849	284,416
Current assets	**1,560,881**	2,750,919	2,507,924	2,106,196	1,184,351
Total assets	**2,350,241**	3,583,197	3,052,196	2,495,045	1,468,767
Total equity	**1,247,263**	1,922,054	1,831,194	1,628,174	903,789
Liability					
Non-current liabilities	**137,856**	84,521	106,861	151,394	16,700
Current liabilities	**965,122**	1,576,622	1,114,141	715,477	548,278
Total liabilities	**1,102,978**	1,661,143	1,221,002	866,871	564,978
Total equity and liabilities	**2,350,241**	3,583,197	3,052,196	2,495,045	1,468,767
Net current assets	**595,759**	1,174,297	1,393,783	1,390,719	636,073
Total assets less current liabilities	**1,385,119**	2,006,575	1,938,055	1,779,568	920,489

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors of SPT Energy Group Inc. ("the Company", or together with its subsidiaries, "the Group"), I present the annual report of the Group for the year ended 31 December, 2015 (the "Reporting Year").

Over the past year, international crude oil price fell sharply for the second consecutive year amid the pressure of overcapacity. Meanwhile, state-owned oil companies adopted a more prudent approach towards oil and gas development plans. Faced with further reduction in investment in upstream oil-field exploration, shrinkage of the oil-field service market and intensifying competition, the external environment of the industry remained very challenging. In the meantime, since the cancellation of Kazakhstan exchange rate restrictions in August last year, the sharp depreciation of Tenge also brought tremendous negative impacts to the oil-field service providers operating there.

Under such extremely challenging external industry environment, the Group actively adjusted the operating strategies. In addition to optimising the business structure, reducing the investment in and the size of oil-field exploration investment related products and services including drilling and well completion, and further stabilising and expanding the oil extraction process related businesses, the Group actively adjusted the market strategies locally and abroad and fine-tuned the resource distribution and allocation of the Group according to the market conditions. Moreover, the Group exercised strict control over non-production expenditure. At the same time, the Group pushed ahead its efforts to optimise labour composition and control overall costs of labour. As at the end of 2015, substantially all the above measures were thoroughly implemented.

Amid such deteriorating industry environment, despite that the Group actively took measures to tackle the problem, the measures would need a certain period of time to take effect. Accordingly, the operating results of the Group in 2015 dropped drastically. For the year ended 31 December 2015, the Group's revenue amounted to RMB1,035.0 million and the net loss attributable to the equity owners of the Company amounted to RMB412.2 million.

MARKET REVIEW

Since the mid-term in 2014, global economic downturn and overcapacity led to the collapse of international crude oil price from its recent peak by more than 70%. As a globalised fundamental energy product, decrease in international oil prices, in the long-term, will certainly affect every country. Plunging oil prices directly drag down profitability of oil producers, which greatly discourages upstream investments and eventually will have negative impacts on the industry's long-term development. Under prevailing market conditions, increasingly more oil producers from various countries suffer from high costs of production, which even exceed the international oil price, putting the profitability of crude oil producers to the test. Against this backdrop, global oil giants have further reduced their investment in upstream exploration. The oil-field service industry faces great pressure on market shrinkage and fiercer competition. In particular, independent oil-field service providers face even tougher market environment and survival threats, forcing them to maintain market share for the sake of profit margin. While awaiting oil price recovery, we have to restructure our corporate structure, enhance operating efficiency and increase cashflows to maintain our business operations.

On the domestic market front, as exploration costs are generally higher than the international crude oil price, state-owned oil producers, particularly PetroChina Company Limited, have greatly reduced their investments in exploration and development. Cost reduction and efficiency enhancement have become the limiting factors that are strongly highlighted by various oil-field service providers upon making investment and project decisions. Under this backdrop, rig counts of major oil-field service providers decreased drastically for the year, which greatly reduced the overall market size of the oil-field service industry. In the meantime, given the strong competitive strengths of state-owned oil-field service providers, it remained difficult for independent oil-field service producers to survive in the market with sliding profitability.

On the overseas market front, the overseas businesses usually contribute more than half of the revenue to the Group, while the operation in Kazakhstan accounts for over 70% of total overseas revenue. During the year, as Tenge ("KZT"), the currency of Kazakhstan suffered from substantial devaluation by nearly 85%, KZT denominated service revenue dwindled significantly, resulting in tremendous impacts on the profitability of the Group's local businesses. Despite that the Group's operations in emerging markets such as Iraq revealed growth, generally speaking, the overseas market remained substantially underperformed in terms of overall revenue.

Chairman's Statement

PROSPECT

Oil and gas fields are non-renewable energy resources and continue to maintain a leading position in terms of primary energy consumption globally. Looking ahead, the oil and gas exploration pattern is expected to transform from conventional oil and gas wells to unconventional oil and gas wells, from onshore exploration to offshore exploration, and from shallow sea to deep sea. Meanwhile, oil-field service providers will attach greater importance to quality and efficiency, and endeavour to reduce the exploration costs of oil and gas reserves through strengthening research and development ("R&D") efforts to increase profitability of the oil and gas fields. This will require oil-field service providers to devote more resources to R&D and increase innovation efforts and enhance their own technology strengths.

It is foreseeable that the international oil price will be very likely to remain low in a period of time. Faced with the prevailing complicated international environment, it is necessary for the oil producers to "cope with the challenge of low oil price" in a fairly long period of time in the future. After two years of plunging oil prices, the crude oil capacity accumulated earlier has been effectively consumed. At the same time, the efforts of global oil giants to reduce investments are gradually taking effect, the overcapacity of crude oil is being rectified. It is expected that by the end of the year, the global crude oil price will slowly resume to a relatively reasonable level. This will, to a certain extent, provide assurance to fundamental investments in oil fields. In addition, in view of the ongoing oil and gas industry reform in China, the upstream market will be gradually opened and also generate crucial strategic opportunities for the oil-field service providers. The Group remains confident that the market uncertainties will eventually dissipate when the market gradually reverts back to the equilibrium. With gradual recovery of the global and domestic economies, the oil-field service industry will also live the economic cycle and continue to flourish after transformation and upgrade, technology innovation, efficiency enhancing and restructuring.

ACKNOWLEDGEMENTS

On behalf of the board of directors, I would like to take this opportunity to express our heartfelt gratitude to all of our respected shareholders, customers, business partners and investors for their trust and support, also to all of our employees for their contribution. We will devote ourselves to develop our business and achieve steady growth so as to bring better return of investment to our shareholders.

Wang Guoqiang
Chairman and Executive Director

Management Discussion and Analysis

BUSINESS OVERVIEW

During the year ended 31 December 2015, the Group has experienced a very tough market environment. Weak demands and oversupplies have jointly intensified the market imbalance which weighed on the crude oil prices and made the prices further decline to about USD37 per barrel by the end of the Reporting Year. As compared with the highest price in June 2014 before the collapse, the crude oil prices have fallen by over 60%. We believe the collapse was mainly due to the oversupplies driven by the North America's shale oil revolution which brought crude oil flood to the market while traditional oil producers decided to maintain or even increase their outputs to protect their market shares. As no one reduced the production, the prices kept falling during the Reporting Year and it is widely expected that the low prices will not recover until the oversupplies diminish gradually after a period of time, which will not be a fast process. Under the tough situation and the pessimistic expectation, the oil companies have significantly reduced their drilling work to save costs. It has been observed that the active oil rig counts in North America have fallen sharply from its peak of over 1,500 to less than 600 by the end of the Reporting Year. However, as most of the oil producers have taken the strategy to reduce capital expenditures while maintain or even raise current outputs, the crude oil outputs kept increasing during the Reporting Year, which made the crude oil prices continue its declining trend. As new drilling work constituted a significant portion of the oil-field services market size, the oil-field services industry was significantly hit by the cost-saving measures of the oil producers. Even if the outputs have been maintained, the service prices for the production work have also been significantly reduced due to the oil companies' cost-saving efforts and the consequent intensifying competition. In addition, the local currency of Kazakhstan, where the Group generated half of its revenue, experienced continuing devaluation immediately after the central bank's declaration of restriction's cancellation of its floating exchange-rate range. As compared with the exchange rate at the beginning of the year, the currency's exchange rate has dived by about 85%. Driven by these negative factors, the Group experienced, for the first time, a significant decrease in revenue and a profitability collapse. Except for the overall market downsides which mainly adversely affected the Group's business, the Group's operation strategy also impacted the business under such specific market environment. The Group always kept asset-light strategy which has helped the Group maintain the healthy financial structure. Under current circumstance, profit margins of services contracts, in particular those driven by investment in heavy equipment, are extremely squeezed, and the investment payback periods for these equipment are remarkably extended. As such, the Group has to abandon certain opportunities, which results in further slide of revenue. However, the Group took this as a temporarily strategic contraction as the Group did it in exchange for the relevant healthy financial structure, by which the Group could maintain better liquidity to survive in the rigorous industry winter.

During the year ended 31 December 2015, the Group realised revenue amounted to RMB1,035.0 million, representing a decrease of RMB1,152.0 million, or 52.7%, as compared with that of previous comparative year. As the oil prices collapse has extended to all over the world, the Group's businesses in both China market and overseas market dwindled. Revenue from domestic market for the Reporting Year was RMB501.9 million, representing a decrease of RMB452.7 million, or 47.4%, as compared with that of previous comparative year, while revenue from overseas market for the Reporting Year was RMB533.1 million, representing a decrease of RMB699.3 million, or 56.7%, as compared with that of previous comparative year. In terms of business segment, all the three segments experienced significant drop as well. Reservoir revenue was RMB611.4 million, representing a decrease of RMB192.5 million, or 23.9%, as compared with that of previous comparative year, while well completion revenue was RMB179.7 million, representing a decrease of RMB386.1 million, or 68.2%, as compared with that of previous comparative year. Drilling revenue was RMB243.9 million, representing a decrease of RMB573.3 million, or 70.2%, as compared with that of previous comparative year.

Management Discussion and Analysis

In terms of profitability, the Group also experienced a significant drop. The net loss for the Reporting Year was RMB442.6 million, representing a decrease of RMB556.8 million, or 487.3%, as compared with that of previous comparative year. As the fixed costs and expenses usually accounted for about 50% of total operation costs and the employee benefit expenses constituted a majority of the fixed costs which were extremely difficult to be adjusted due to certain labor regulations stated by various jurisdictions where the Group operated, it was difficult for the Group to substantially cut its operating costs to align with the revenue decrease.

Despite these extreme difficulties, the Group still managed to maintain a positive operating cash flow. During the year ended 31 December 2015, the Group generated net cash amounted to RMB124.6 million from its operating activities. This success was achieved by the maintenance of a prudent and healthy financial structure and a strategic contraction in business scale.

In conclusion, the Group has experienced a very tough year. It reduced its business scale, due to not only the pressures from macro economy environment but also the temporary contraction strategy. However, the Group still maintained its healthy financial structure. The Group believed this could help it to regain the market share when the overall market situation recovers.

Revenue Analysis

For the year ended 31 December, 2015, the Group realised revenue amounted to RMB1,035.0 million, representing a significant decrease of RMB1,152.0 million, or 52.7%, as compared with that of the previous comparative year. The revenue drop was mainly due to the collapse of crude oil prices which led to the significant spending cut of oil producers and shrinkage of oil-field services market size, as well as the contraction strategy implemented by the Group for the purpose of protecting healthy financial structure so as to maintain capacities and potentials for the future market turnaround. As compared with previous years, the Group's revenue distribution has changed a lot during the Reporting Year. Oil reservoir services, being the Group's traditional strongest business line and less affected by the market collapse due to its existing well-related nature, contributed 59.1% revenue to the Group while drilling services and well completion services, being closed to oil producer's new wells drillings and therefore severely hit by the upstream cost-savings, collectively contributed 40.9% revenue to the Group. Below is the breakdown of the revenue by different service lines:

	For the year ended 31 December		
	2015	2014	Changes
	RMB'000	*RMB'000*	*(%)*
Reservoir	**611,364**	803,892	(23.9%)
Drilling	**243,925**	817,264	(70.2%)
Well Completion	**179,718**	565,802	(68.2%)
Total	**1,035,007**	2,186,958	(52.7%)

Reservoir Services Segment

Revenue	For the year ended 31 December 2015 RMB'000	2014 RMB'000 (Restated*)	Changes (%)
Overseas	**340,778**	523,578	(34.9%)
People's Republic of China ("PRC")	**270,586**	280,314	(3.5%)
Total	**611,364**	803,892	(23.9%)

* The numbers for 2014 have been restated in accordance with the geographical locations where revenue was generated.

The Group's oil reservoir services comprised geology research and oil reservoir research services, dynamic monitoring service, oil testing service, oil recovery technology service, coiled tubing service and maintenance service of surface production devices. It has been the Group's strongest business line historically and contributed stable revenue to the Group. As the Group provided this kind of service by keeping continuing communications with clients, this service line has helped the Group set up close ties to clients and made the Group quickly understand clients' requirements and introduce other services to clients. In the past, the service line usually contributed 30% revenue to the Group. However during the Reporting Year, it has become the most contributable segment, as it was less impacted by the current market turbulence. During the Reporting Year, oil reservoir services realised revenue amounted to RMB611.4 million, representing a decrease of RMB192.5 million, or 23.9%, as compared with that of the previous comparative year. In overseas market, the Group's workload in Kazakhstan and Indonesia fell while the workload in Turkmenistan and Iraq rose. However, due to the significant devaluation of Kazakhstan's local currency, the overall revenue generated from overseas market declined by RMB182.8 million, or 34.9%, as compared with that of the previous comparative year. In domestic market, despite the increasing pressure arising from pricing, the Group managed to get more jobs and therefore its revenue generated from domestic market slightly declined by RMB9.7 million, or 3.5%, as compared with that of the previous comparative year.

During the Reporting Year, the Group's oil reservoir services were facing increasing pressures from the market, however, the Group successfully got some breakthroughs in certain markets. In domestic market, due to the strong capability and high technologies, the Group completed 12 highly difficult wells' dynamic monitoring works in Tarim oilfield. In addition, the Group successfully penetrated Sinopec's South West branch market and completed 3 wells' dynamic monitoring works. The Group also got milestone success by implementing the submersible directly driven screw pump technology on 2 wells in San Tanghu, Xinjiang area, which marked the first successful implementation in domestic horizontal wells. As the implementation of this technology can be used for oil recovery work, especially for condensed oil recovery work, and to reduce the energy consumption and enhance efficiency, the Group believed the technology will be widely used in the future. Apart from these achievements, the Group also realised over RMB40 million's revenue from sales of General Electric Company's products and based on which, the Company was granted the agent license of General Electric Company's products for one more year. In Turkmenistan, the Group managed to complete the preparation work for its coiled tubing and delivered 6 wells works to the client, which marked the first service of such kind in the market. The Group believes this kind of service will have remarkable increase in the next year.

Drilling Services Segment and Well Completion Services Segment

Drilling Services revenue	**For the year ended 31 December**		
	2015	2014	Changes
	RMB'000	*RMB'000* (Restated*)	*(%)*
Overseas	**81,041**	414,461	(80.4%)
PRC	**162,884**	402,803	(59.6%)
Total	**243,925**	817,264	(70.2%)

Well Completion Services revenue	**For the year ended 31 December**		
	2015	2014	Changes
	RMB'000	*RMB'000* (Restated*)	*(%)*
Overseas	**111,266**	294,298	(62.2%)
PRC	**68,452**	271,504	(74.8%)
Total	**179,718**	565,802	(68.2%)

* The numbers for 2014 have been restated in accordance with the geographical locations where revenue was generated.

The Group's drilling services line comprised drilling rig service, workover rig service, vertical drilling technology service, horizontal drilling technology service, side tracking technology service, under balance drilling technology service, fine managed pressure drilling (FMPD) technology service, cementing services and drilling fluid services. During the year ended 31 December 2015, the drilling service line realized revenue amounted to RMB243.9 million, representing a significant decrease of RMB573.3 million, or 70.2%, as compared with that of the previous comparative year.

The Group's well completion service line comprised well completion tools trading and relevant service and stimulation fracturing service. During the year ended 31 December 2015, the well completion service line realized revenue amounted to RMB179.7 million, representing a significant decrease of RMB386.1 million, or 68.2%, as compared with that of the previous comparative year.

During the Reporting Year, the drilling services line and the well completion services line experienced an extremely difficult situation. As the crude oil prices clashed, oil producers significantly reduced drilling activities and services pricing, while the market size dwindled and competition intensified. In particular, oil producers mainly cancelled or delayed the drilling works for those wells having high difficulties and usually requiring high-end technologies, materials and tools. This kind of operation changes severely hit the Group as the Group focused on difficult wells exploration and development works. As such, the Group's revenue from drilling and well completion works fell significantly. The Group considers this situation will persist for some time until the crude oil prices rebound and the market recovers. As such, the priority for these two business lines is to control costs and maintain capabilities and to wait for the market turnaround.

Management Discussion and Analysis

Market Environment

During the year ended 31 December 2015, the oil and gas markets continuously deteriorated. Accompanying global macro economy weakening and commodity prices sliding, crude oil prices went down from around USD55 for one barrel at the beginning of the year to around USD37 for one barrel at the end of the year. As compared with the highest price of around USD110 for one barrel in June 2014, the prices have dived over 60%. Although the industry has begun to cut costs since the prices falling, the world's major oil producers were producing more and more crude oil which intensified the oil market's oversupply. The market downturn has persisted for so long and it's widely speculated the situation will remain for some time rather than getting better in a short time. The demands and supplies will jointly impact the oil prices and markets and the Group always keeps an eye on them seriously:

- The global macro economy fundamentally impacts the oil consumption demands. Although the global demands weakness will still continue and China economy is growing at the lowest pace over a decade, there are still positive factors such as the recovery of the United States economy. In addition, we consider the lasting low prices will stimulate the oil consumptions which will make the oil demands increase.

- The oil supply directly impacts the oil prices. The continuing low prices have pushed the oil industry to reduce drilling wells and cut spending, which could be observed by the sharp decline of active drilling rig counts in North America from its peak of over 1,500 from one and a half year ago to less than 600 in current period. However, the major oil producers are producing more and more crude oil to the already oversupplied market. The American shale oil producers appears to be far more resilient than expected, The organization of the Petroleum Exporting Countries effectively abandoned its production ceiling. Russia is producing crude oil at its record high level while Iran is heading for the recovery of its crude oil export to the level before sanctions imposed in 2012. Nevertheless, we consider the oversupply will weigh on the prices and the descending prices will in return curb the output if the production becomes unprofitable, in particular if the prices go even below cash costs.

The Group's overseas businesses usually contribute half of the revenue to the Group and the operation in Kazakhstan accounts for nearly 80% of total overseas revenue. As oil and gas export contributes more than half of the the country's revenue, the country's economy deteriorated and its currency was also significantly affected. In August of the Reporting Year, Kazakhstan's central bank cancelled the restriction on its currency's floating exchange rate range after which the currency experienced violent turbulence and the exchange rate sharply declined to 1 USD for 339 KZT by the end of the Reporting Year, representing an 85% devaluation. As the Company's Kazakhstan oil-field service contracts were signed in KZT in accordance with the country's law, the business was severely hit. Its revenue dwindled and the operation became unprofitable. However, the Group still considers that the market deserves sustaining as it is still politically stable and maintains closed tie to the China economy. Should the oil market recover and the unreasonable services pricing be adjusted, the Group will eventually go back to the strong position in this market as it used to do.

Management Discussion and Analysis

In China market, the situation is worsening as well due to the collapse of crude oil prices. Major oilfields have significantly reduced their spending on drilling activities during the Reporting Year and in addition, as the big state-owned oil-field services providers have shareholding connections with China's oil giants, they have inherent advantage to get more jobs with all other conditions being equal. This makes independent oil-field services providers more difficult to survive in the tough industry winter. However, in spite of all these negative factors, some positive factors could still be observed:

- China economy still remains relatively higher growth as compared with other major economies in the world, even if it has experienced the slowest growing pace in a decade.

- Oil and gas remain China's most important strategic energy given coal industry has been required to significantly cut its output and other alternative energies are still under-developed or fighting technological bottlenecks.

- China has implemented its One-Belt-One-Road strategy, which will bring relevant areas and industries more development opportunities. Being the starting point of the geographical area of the One-Road, Xinjiang area will get more stimulation to develop its economy. The Company has built strong position in this market and it will surely benefit from the future development.

- China's central government has decided to break monopoly and create more transparent and more open market environment. From a long-term perspective, the oil and gas industry will become more market-oriented and more suitable for all eligible participants.

In conclusion, the current oil and gas market are extremely hard but not desperate. The demand and supply are always interacting, deviating and closing, and it is believed that the re-balance will eventually come. The turbulence will eliminate those weak participants and create more room. The stronger participants will survive and have more opportunities. The Group remains positive about the market and committed to the future growth.

R&D and Manufacturing

During the Reporting Year, the Group attached high importance to the R&D and manufacturing of new-type high-end application technologies or tools and allocated more resources to increase the R&D efforts. The technology R&D team endured the hardship and was courageous to take challenges in the high-end arena. Following last year's R&D achievements, we performed remarkably during the Reporting Year. Our major R&D achievements are as follows:

At our R&D base in North America, we successfully developed new-type Inclination and Gamma on Drill Bit ("INC on BIT") near bit logging while drilling ("LWD") tool and PPS71 series high-temperature logging tools (PPS71C, PPS71M and PPS71D) during the Reporting Year after its successful R&D of PPS PulseLink, a LWD tool and PPS71 high-temperature logging meter (enjoying its own intellectual property right). Among which, INC on BIT achieved the target of well deflection and gamma measuring close to the drill head, which significantly enhanced the real-time optimisation and adjustment of well tracking. Accordingly, the gamma measuring would be naturally upgraded to orientation gamma measuring, significantly increasing the optimisation and control precision of well tracking. The R&D of the prototype machine has been completed and the construction of the prototype machine is taking shape to strive for early testing in the mines. PPS71C-SRO, a capacitance parameter high-temperature direct reading logging meter of PPS71C series allows real-time logging and timely retrieval of underground reservoir fluid information. Through increasing the capacitance parameters, the stability and precision of the meter are greatly enhanced. The meter is now available on the market and is well received by our customers. The application of PPS71M and PPS71D is for underground material viscosity (PPS71M) and position logging of high water-cut well's underground water exit point (PPS71D). These two technologies solve the technology bottleneck the customers have been facing for years and are proprietary technologies currently available in the market. The technology indicators of these are of internationally leading standards and will play a key role in future market application and competition. Currently, the development of the prototype machine has been completed and pending for underground testing on site.

Our Singapore manufacturing centre and Tanggu factory focused on high-end products and special material tools. During the Reporting Year, they successfully launched a number of new products, namely, the high-pressure permanent packer and high-temperature high-pressure large-bore retrievable and hookwall packer, speed drill composite material bridge plug and static hydraulic bridge plug applicable to Middle East high oil production/gas production wells or offshore oil fields, equipping them with the manufacturing capacity of a variety of horizontal well entire lower completion strings. At the same time, we also successfully developed the high molecular plugging agent, thus solving the technology bottleneck in controlling annular pressure at the mouth of the production well that customers generally face in the course of oil and gas exploration. In this regard, our Singapore factory successfully obtained the API 14L certification and upgraded the API 11D1 certification from V6 to V3, which greatly enhanced the Group's R&D capability and credibility in the community.

Human Resources

To cope with the changing and complex market environment and operating conditions, the Group mainly made the following efforts in the area of human resources during the Reporting Year:

In line with its growth strategies, the Group further optimised and adjusted the organisational structure of the Group through consolidation into three major management segments and one centre (namely the China segment, Pan Russian speaking segment, Pan English speaking segment and the project technology centre). Through structural consolidation, the Group enhanced its operational efficiency. The establishment of the new management segments can respond to market changes more quickly and enhance the management efficiency of the segment operations. The project technology centre gathers the professional elites across the Group in the areas of operations and construction; project design, technology R&D and innovation, thus forming a strong backup for the performance and development of the Group.

Management Discussion and Analysis

The Group continued its efforts to comprehensively optimise and rationalise manpower and moderately reduced labour costs. Based on the practical needs of business development and the positioning of core businesses, the Group further eliminated duplicated positions to enhance the capabilities of each position. The Group also endeavoured to explore the potential of human resources within the Company to enhance the working efficiency of its employees. As at the end of the Reporting Year, the total number of employees registered with the Group was reduced to 3,400, saving labour costs of approximately RMB80 million during the year. In addition, following the pay cut of the management at the beginning of the year, the Group took into account the actual conditions and implemented a pay cut across its employees with effect from 1 September of the Reporting Year.

Leveraging on the advantages of its extensive training resources, the Group continued to introduce a number of human resources training programmes. During the Reporting Year, the scope of internal training of the Group was expanded to offer a variety of training programmes to thousands of employees across the Group. The training programmes focused on market development, business practices, operational procedures, new processes, new technologies, and safety and environment protection. The results of these were positive.

Our Plans

1. Liquidity remains the prioritized strategic goal of the Group in the next fiscal year. The current crude oil prices have fallen to a-decade low level and the market has been continuing its downturn since the crude prices slide in September 2014. Significant spending cuts have been observed and it's widely estimated the market will begin re-balancing in 2017. Under such circumstance, liquidity is becoming more important than market share and temporary profitability for a company to ensure its survival through the extreme difficult market environment. During the year ended 31 December 2015, the Group has strictly complied with the strategy and it even temporarily sacrificed its market share and profitability to maintain liquidity. The resulting relatively healthier balance sheet proved the success of the strategy. In the coming fiscal year, the Group will continue to adopt this strategy.

2. Cost-saving measures will be continued. Under the low crude oil prices, oil-field services providers have to reduce costs to improve competitiveness. During the year ended 31 December 2015, the Group has taken various measures to save costs and this strategy will persist in the coming fiscal year. The cost-saving measures will be implemented more by improving the organization and management of production.

3. Technology Development will be the key factor to improve competitiveness. The Group will focus its efforts on the technology research and upgrading work. Taking the advantage of a lot of industry specialists and professionals assembled within the Group, the Group will continuingly develop its core technologies. The Group believes this will constitute the core competitiveness and provide strong support to the Group's business under such difficult circumstance.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2015, revenue of the Group was RMB1,035.0 million, representing a decrease of RMB1,152.0 million, or 52.7%, as compared with that of RMB2,187.0 million for the previous comparative year. The decrease was mainly due to the continuing low crude oil prices which led to the depression of the industry investment and the shrinkage of the oil-field services market.

Other gains/(losses), net

For the year ended 31 December 2015, other gains, net of the Group were RMB25.2 million, while other losses, net for the previous comparative year were RMB18.0 million. The net gains for the Reporting Year were primarily due to the appreciation of USD-denominated assets against KZT and Canadian Dollar, partially offset by the appreciation of USD-denominated liabilities against RMB.

Material costs

For the year ended 31 December 2015, material costs of the Group was RMB352.4 million, representing a decrease of RMB212.1 million, or 37.6%, as compared with that of RMB564.5 million for the previous comparative year. The decrease of material costs was mainly due to the operating activities contraction of the Group.

Employee benefit expenses

For the year ended 31 December 2015, employee benefit expenses of the Group were RMB544.4 million, representing a decrease of RMB72.7 million, or 11.8%, as compared with that of RMB617.1 million for the previous comparative year. The decrease reflected the efforts of the Group to cut labor costs by layoff of excessive employees and reduction of salary level.

Operating lease expenses

For the year ended 31 December 2015, operating lease expenses of the Group was RMB70.0 million, representing a decrease of RMB64.3 million, or 47.9%, as compared with that of RMB134.3 million for the previous comparative year. It was mainly due to the operating activities shrinkage of the Group.

Transportation costs

For the year ended 31 December 2015, transportation costs of the Group was RMB41.0 million, representing a decrease of RMB35.0 million, or 46.1%, as compared with that of RMB76.0 million for the previous comparative year. The decrease was mainly due to the operating activities shrinkage of the Group.

Depreciation and Amortisation

For the year ended 31 December 2015, depreciation and amortisation of the Group was RMB101.9 million, representing an increase of RMB19.2 million, or 23.2%, as compared with that of RMB82.7 million for the previous comparative year. The increase was mainly because certain equipment purchased at the end of 2014 was depreciated from the beginning of the Reporting Year.

Technical service expenses

For the year ended 31 December 2015, technical service expenses of the Group were RMB149.1 million, representing a decrease of RMB112.1 million, or 42.9%, as compared with that of RMB261.2 million for the previous comparative year. The decrease was mainly due to the operating activities shrinkage of the Group.

Management Discussion and Analysis

Impairment loss/(reversal) of assets

For the year ended 31 December 2015, impairment loss of assets of the Group was RMB47.5 million while impairment reversal was RMB6.1 million in the previous comparative year, The impairment loss of assets was mainly due to the values write-down of certain assets as they were not considered recoverable any more under the depressed market environment.

Others

For the year ended 31 December 2015, other operating costs of the Group were RMB202.2 million, representing a decrease of RMB32.9 million, or 14.0%, as compared with that of RMB235.1 million for the previous comparative year. The decrease reflects the efforts taken by the Company to reduce the general and administrative expenses.

Operating loss/(profit)

As a result of the aforementioned changes, the Group's operating loss during the Reporting Year was RMB448.1 million, compared with the operating profit of RMB204.2 million, or 319.5% for the previous comparative year.

Finance costs (net)

For the Reporting Year, the Group's finance costs (net) was RMB37.8 million, representing a decrease of RMB6.0 million, or 13.7%, as compared with that of RMB43.8 million for the previous comparative year. The decrease was mainly due to the decline of interest-bearing debts.

Income tax credit/(expense)

For the Reporting Year, income tax credit was RMB43.4 million, compared with the income tax expense of RMB46.1 million for the previous comparative year. The effective income tax rate (income tax expense/profit before income tax) for the Reporting Year was 8.9% while the rate for the previous comparative year was 28.7%.

Loss/(Profit) for the Year

As a result of the aforementioned changes, the Group's loss for the Reporting Year was RMB442.6 million, representing a significant decrease of RMB556.8 million, or 487.3% from net profit amounted to RMB114.3 million for the previous comparative year.

Loss/(Profit) attributable to equity owners of the Company

For the Reporting Year, loss attributable to equity owners of the Company was RMB412.2 million, representing a decrease of RMB528.4 million, or 454.7%, from profit attributable to equity owners of the Company amounted to RMB116.2 million for the previous comparative year.

Property, plant and equipment

As at 31 December 2015, property, plant and equipment was RMB535.3 million, representing a decrease of RMB68.3 million, or 11.3%, from RMB603.6 million as at 31 December 2014. The change was mainly due to the continuing depreciation of existing equipment and the carrying amount reduction of equipment resulting from currency translation.

Land use right

As at 31 December 2015, land use right was RMB22.2 million, representing a decrease of RMB0.5 million, or 2.2%, from RMB22.7 million as at 31 December 2014. This was mainly due to the continuing amortisation of existing land use right.

Inventories

As at 31 December 2015, inventories were RMB393.8 million, representing a decrease of RMB156.3 million, or 28.4%, from RMB550.1 million as at 31 December 2014. The decrease was mainly due to the business decline of the Group.

Intangible assets

As at 31 December 2015, intangible assets were RMB58.4 million, representing a decrease of RMB7.1 million, or 10.8%, from RMB65.5 million as at 31 December 2014. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2015, deferred income tax assets were RMB137.6 million, representing an increase of RMB48.5 million, or 54.4%, from RMB89.1 million as at 31 December 2014. This was mainly due to the recognition of tax-losses related deferred tax assets.

Prepayments and other receivables

As at 31 December 2015, long-term prepayments and other receivables was RMB35.8 million, representing a decrease of RMB14.8 million, or 29.2%, from RMB50.6 million as at 31 December 2014, while short-term prepayments and other receivables was RMB171.6 million, representing a decrease of RMB29.8 million, or 14.8%, from RMB201.4 million as at 31 December 2014. The decrease was mainly due to the reduction of materials and equipment purchases.

Trade and notes receivables/Trade payables

As at 31 December 2015, trade and notes receivables was RMB631.8 million, representing a decrease of RMB764.3 million, or 54.7%, from RMB1,396.1 million as at 31 December 2014. The decrease was mainly due to the shrinkage of revenue realised during the Reporting Year.

As at 31 December 2015, trade payables was RMB553.8 million, representing a decrease of RMB295.3 million, or 34.8%, from RMB849.1 million as at 31 December 2014. The decrease was mainly due to the reduction of materials purchases and subcontracts.

Liquidity and capital resources

As at 31 December 2015, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB363.7 million, representing a decrease of RMB239.6 million, or 39.7%, from RMB603.3 million as at 31 December 2014. The decrease was mainly due to the repayment of bank borrowings and equipment purchases.

As at 31 December 2015, the Group's short-term borrowings and current portion of long-term borrowings were RMB259.6 million while the long-term borrowings was RMB114.4 million. As at 31 December 2014, the Group's short-term borrowings and current portion of long-term borrowings were RMB459.7 million while the long-term borrowings were RMB58.7 million.

As at 31 December 2015, the Group's gearing ratio was 30.0%, representing an increase of 3.0% as compared with 27.0% as at 31 December 2014. Gearing ratio was calculated as total borrowings divided by total equity. Total borrowings included long-term borrowings, short-term borrowings and current portion of long-term borrowings.

Cash flows from operating activities

For the Reporting Year, the Group's net cash generated from operating activities was RMB124.6 million, while the net cash used in operating activities was RMB90.8 million for the comparative year. While the Group suffered a loss during the Reporting Year, it has managed to control its working capital so as to maintain liquidity.

Cash flows from investing activities and financing activities

For the Reporting Year, the Group's net cash used in investing activities was RMB256.4 million, mainly due to the settlement of payables arising from equipment purchases in the previous year.

For the Reporting Year, the Group's net cash used in financing activities was RMB114.9 million, mainly resulting from the decrease of bank borrowings of RMB144.5 million.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2015, the total number of ordinary shares of the Company in issue was 1,534,790,332 shares (31 December 2014: 1,534,408,999 shares). As at 31 December 2015, equity attributable to the equity owners of the Company was RMB1,127.3 million, representing a decrease of RMB647.0 million, or 36.5%, as compared with RMB1,774.3 million as at 31 December 2014.

Significant investment held

As at 31 December 2015, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

For the Reporting Year, the Group had no material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 31 December 2015, 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 2015 *RMB'000*	As at 31 December 2014 *RMB'000*
Property, plant and equipment	**642**	1,444
Long-term prepayments	**7,921**	9,761
Trade and note receivables	**126,000**	216,600
Land use right	**–**	14,000
Restricted bank deposits	**–**	10

Convertible bonds

On 12 June 2015, the Company and the bond holders entered into an amendment deed pursuant to which both parties agreed to revise certain terms and conditions of the original agreement entered into on 7 August 2012 (please refer to the announcements dated 5 June 2015 and 12 June 2015 for detailed information). As such, the movement of the convertible bonds during the Reporting Year is presented as below:

	2015 ***RMB'000***
Liability component as at 31 December 2014	**83,665**
Add: Interest expense in 2015 *(Note 24)*	**12,889**
Less: Interest paid and payable	**(2,922)**
Add: Exchange difference	**2,810**
Less: Derecognition of the original liability component	**(90,434)**
Add: Recognition of a new liability component	**61,654**
Liability component as at 31 December 2015	**67,662**

Contingent liabilities

As at 31 December 2015, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2015, the Group had no off-balance sheet arrangements.

Contractual obligations

The Group's contractual commitment mainly included capital expenditure commitments and repayments under operating lease commitments. As at 31 December 2015, capital expenditure commitments were mainly acquisition of property, plant and equipment with the amount of RMB5.6 million, while operating lease commitments were mainly lease of offices, warehouses and equipments with the amount of RMB10.3 million.

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 53, is an executive Director, chairman of the Board and the chief executive officer of the Company. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. He is responsible for the overall operation and management of the Group. Mr. Wang has over 31 years of experience in the petroleum industry. Prior to founding the Group, he served as an engineer of Huabei Petroleum Testing Company (華北石油測試公司), a subsidiary of China National Petroleum Corporation ("CNPC"), from July 1984 to August 1993. Mr. Wang 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 and a master's degree in business administration from The National University of Singapore in April 2007.

Wu Dongfang (吳東方), aged 44, is an executive Director of the Company. He is responsible for business development of the Group. Mr. Wu has over 24 years of experience in the petroleum industry. Mr. Wu joined the 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 University (西安石油大學) in July 1991 and an executive master's degree in business administration from Tsinghua University (清華大學) of China in February 2006.

Liu Ruoyan (劉若岩), aged 68, is an executive Director and an executive president of the Company. He is responsible for marketing of well drilling and workover business and management of production and operation of the Group. Mr. Liu has more than 42 years of experience in the petroleum industry. Mr. Liu joined the Group in July 2008. He 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 (華北石油管理局鑽井二公司), a subsidiary of CNPC. From March 1974 to August 1984, he 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 and 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 66, is an executive Director and vice president of the Company, and is concurrently the chairman of Group's technology committee and president of Institute of Geology Engineering Technology. He is primarily responsible for the operation, integration and development of all product and service lines of the Company locally and abroad. At the same time, he is in charge of the Group's strategic development (including strategic plans, strategic relations and strategic project development), integrated operations and strategic technology roadmap, as well as the development and implementation of strategic marketing positioning. Mr. Jin has over 43 years of experience in the petroleum and gas industry worldwide and nationwide. Mr. Jin has abundant working experience locally and abroad. His working experience covers China, the United States and other countries. He has held key positions in world's renowned international gas and oilfield technology services companies for more than 20 years. Mr. Jin joined the Group in February 2012. 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 Halliburton China, and business president for Halliburton China. He worked at China National Offshore Oil Company (中國海洋石油總公司) from 1982 to 1988 and at China National Petroleum Corporation (中國石油天然氣集團公司) and China Petroleum & Chemical Corporation (中國石油化工集團公司) from 1971 to 1982, holding various technical and management positions. Mr. Jin obtained a bachelor's degree in petroleum mechanical engineering from Northeast Petroleum University and a master's degree in business administration 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 (中國社會科學院).

NON-EXECUTIVE DIRECTORS

Lin Yang (林煬), aged 41, was appointed as a non-executive Director of the Company on 25 September 2012. Mr. Lin is currently an executive director of Forebright Capital Management Limited ("FCM"), 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 Stock Exchange of the Hong Kong Limited (the "Stock Exchange") (stock code: 1146). Prior to joining FCM, he worked at China Everbright Investment Management Limited and the research department of China Everbright Limited. Mr. Lin holds a Master of Business Administration Degree from the University of Ottawa and a bachelor degree in mechanical and automation engineering from the South China University of Technology. He is a Chartered Financial Analyst holder and is currently a member of the CFA Institute.

Chen Chunhua (陳春花), aged 52, was appointed as an independent non-executive Director of the Company on 1 December 2011 and was re-designated as a non-executive Director on 27 March 2013. She is also a member of the Audit Committee of the Group. Ms. Chen has more than 30 years of experience in academic education and practice in corporate operations and business management. She 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. She is concurrently a joint chairman and chief executive officer of New Hope Liuhe Co., Ltd. (新希望六和股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000876) and an independent director of VTRON Technologies LTD. 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. 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 and 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 42, was appointed as an independent non-executive Director of the Company on 27 March 2013. She is also the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company. Since 1 January 2016, she has been the general manager of Nanjing Pincheng Four Seasons Cultural and Creative Company (南京品成四季文化創意公司). From September 2011 to December 2015, she served as the general manager of Chengdu Tianxinyang Gold Industry Co., Ltd. and the director of Hong Kong Tianxinyang Co., Ltd. From 1999 to 2010, she served as the deputy general manager of Beijing 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 (中國糧油學會). Ms. Zhang obtained a bachelor's degree in economics from the School of Economics of Wuhan University in 1997 and a master's degree in business administration from the Chinese University of Hong Kong in 2009. She obtained a master's degree in business administration from the National University of Singapore in 2015.

Wu Kwok Keung Andrew (胡國強), aged 62, was appointed as an independent non-executive Director of the Company on 1 December 2011. He is also the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He is currently the independent non-executive director and chairman of the Audit Committee of China Mengniu Dairy Company Limited, a listed company listed on the Stock Exchange (stock code: 2319). Mr. Wu had served Ernst & Young (the "firm") for over 32 years before retirement in January 2010. He served as the regional managing partner of the firm, Hong Kong and Macau region from July 2008 to December 2009. He served as the managing partner of Assurance and Advisory Business Services ("AABS") for Greater China at the firm from 2005 to 2008, and managing partner of AABS Far East in 2006 to 2007. He served as the managing partner of the firm's Beijing office from 1997 to 2000 and the Quality & Risk Management Leader of the firm in China from 2004 to 2005. Mr. Wu obtained a bachelor's degree in science from The University of Hong Kong 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 45, was appointed as an independent non-executive Director of the Company on 1 December 2011. He is also a member of Audit Committee of the Company. Mr. Wan has over 21 years of experience in legal practice focusing on China inbound and outbound investment, finance, mergers, acquisitions and restructuring. He has been the Principal Solicitor of Leung & Wan Solicitors since October 2001. He has been the executive chairman of Boen Capital Ltd. (邦溫資本有限公司), Boen Resources Ltd. (邦溫資源有限公司) and Boen Land Ltd. (邦溫建地有限公司) since May 2006, December 2007 and June 2008, respectively. He 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 received his bachelor of law (Hons) and Postgraduate Certificate in Laws (PCLL) from The University of Hong Kong in 1993 and 1994, respectively. He was admitted as a Solicitor to the High Court of Hong Kong in 1996 and the Supreme Court of Wales in 2000. He is also currently the member of the Law Society of Hong Kong and the Chartered Institute of Arbitrators. He 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), director of Hong Kong Association for the Promotion of Peaceful Reunification of China, director of the China Industrial Overseas Development & Planning Association (中國產業海外規劃和發展協會), director of China Merger & Acquisition Association (中國併購公會), vice supervisor of International Mergers and Acquisitions Committee (國際併購委員會) and an adjudicator of Hong Kong Registration of Persons Tribunal.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Li Qiang (李強), aged 41, is the vice president and chief financial officer of the Company. He is primarily responsible for internal control affairs of the Group including planning and operations, capital operation and information disclosure. Mr. Li has more than 18 years of experience in corporate management. Mr. Li joined the Group in April 2007. Prior to joining the Group, he served as the senior project manager of Beijing Bowei Management Consultancy Co., Ltd. (北京博維管理顧問有限公司) specialising in corporate strategies, procedure restructuring, human resources management and other consultation tasks. From August 1998 to June 2004, he worked at Beijing Chemical Company Limited (北京化二股份有限公司) as sales and marketing manager and assistant to plant general manager. Mr. Li obtain a bachelor's degree in corporate management from Beijing Wuzi University (北京物資學院) in 1998 and a master's degree in business administration from Peiking University (北京大學) in 2005.

Zhao Feng (趙峰), aged 50, is the vice president and general manager of North America division of the Company. He is primarily responsible for business development and management of the Group in North America and Singapore. Mr. Zhao has approximately 30 years of experience in the petroleum industry. Mr. Zhao joined the Group in January 1999. He 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 of 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 a bachelor's degree in petroleum engineering from Southwest Petroleum Institute (西南石油學院) in China in July 1986 and subsequently obtained a master's degree in chemical and petroleum engineering from The University of Calgary, Canada in November 2002. He also obtained a master's degree in business administration from the Fuqua School of Business of Duke University in the United States in December 2009.

Jiang Qingsong (蔣青松), aged 42, is the vice president and general manager of the Pan-Russia division of the Company. He is primarily responsible for the business development and management of the overseas market other than North America. Mr. Jiang has more than 19 years of work experience in the petroleum industry. Mr. Jiang joined the Group in March 2003. From January 2015, he has been the deputy general manager of the Group and general manager of Overseas Marketing division. From January 2012 to December 2013, he served as the director, deputy general manager and general manager of the Group's Central Asia division. From March 2003 to December 2011, he worked at the Western branch of the Group as the head of interpretation centre, manager of production and logging project, deputy marketing manager of Aktyubinsk project, manager of Kyzylorda project and general manager of Kazakhstan branch. From July 1997 to February 2003, he was a reservoir engineer at Chunliang Oil Recovery Plant (純梁採油廠) of the Geological Scientific Research Institute of Shengli Oilfield Company Limited, a subsidiary of Sinopec Group in charge of the duties as the head of oilfield development over the years. He obtained a bachelor's degree in petroleum engineering from Daqing Petroleum Institute of China in July 1997 and a master's degree in business administration from China Europe International Business School in November 2015.

Li Zhiguo (李志國), aged 42, is the vice president and general manager of China division of the Company. He is primarily responsible for market development of the Group in China. Mr. Li has more than 21 years of experience in the petroleum industry. Mr. Li joined the Group in March 1996. From 1996, he has held the positions of responsibility engineer, operations manager, marketing manager, deputy manager of Western division, manager of Western division and deputy general manager of our Group. Until now, Mr. Li has obtained 16 industry related utility new-type invention and patent technologies. He was among the "Top 10 Model Technological Innovation Persons of Power" (榜樣的力量十大科技創新人物) in Bayingolin Mongol Autonomous Prefecture ("Ba Prefecture") for 2012 and was named the "Innovation Expert" (創新能手) in Ba Prefecture for 2013. He is currently the pioneer in the oil reservoir operation and well completion engineering technologies of the Group.

Directors' and Senior Management's Biographies

Gao Wenhai (高文海), aged 48, is the vice president and general manager of the-Pan English division of the Company. He is mainly responsible for the business development, marketing operation and daily management in South Caspian Sea, Middle East and Southeast Asia, and the daily management including the R&D, manufacturing and market expansion of two factories in Singapore and Tanggu under the Group's well completion manufacturing centre. Mr. Gao has relatively extensive overseas management and business expansion experience in the commercial, oil and gas equipment trading and oil and gas engineering technology service sectors. Mr. Gao joined the Group in 2006 and has held supervisory positions in the well completion department, Turkmenistan branch, purchasing department, Southeast Asia division and the manufacturing centre. In 1990, Mr. Gao graduated from Beihang University with a bachelor's degree in material science and engineering and later obtained a master's degree in business administration.

Wan Wenjiang (萬文江), aged 55, is the vice president and head of the engineering technology centre of the Company. He is mainly responsible for technology development and management of the Group. Mr. Wan has more than 35 years of experience in the petroleum industry. Mr. Wan joined the Group in April 2004. From July 1981 to September 1990, he served as geological engineer of North China Downhole Operation Company, a subsidiary of CNPC. From October 1990 to March 2004, he held the positions of deputy head of the Interpretation Centre and head of the Interpretation Centre at North China Testing Company, a subsidiary of CNPC. Mr. Wan graduated from North China Petroleum Vocational College (now known as Beijing Institute of Economic Management) with a diploma in petroleum geology in July 1986 and a master's degree in petroleum engineering from Southwest Petroleum Institute (now known as Southwest Petroleum University) in July 2004.

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 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group's operations are substantially conducted through its subsidiaries in the People's Republic of China ("PRC"), Kazakhstan and Singapore. 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 2015 is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year, a discussion on the Group's future business development, an analysis of the Group's performance during the year using financial key performance indicators and a description of the Group's relationship with employee are provided in the Management Discussion and Analysis on pages 9 to 22 of this Annual Report. No important events affecting the Group have occurred since the end of the financial year ended 31 December 2015. In addition, discussions on the Group's environmental policies, description of possible risks and uncertainties that the Group may be facing, relationships with its key clients and suppliers and compliance with relevant laws and regulations which have a significant impact on the Group are as follows.

ENVIRONMENTAL POLICY AND PERFORMANCE

Comprehensive environmental system

The Group actively pushes ahead the environmental development matters. In 2015, it strengthened the implementation of the Management Manual on Quality, Safety and Health Environment (《質量安全健康環境管理手冊》) and environmental protection systems including the Solid Waste Control Procedures (《固體廢物控制程序》) and Energy Management Procedures (《能源管理程序》). Through 2015 HSE Responsibility Certificate (《2015 HSE責任狀》), the Group has explicitly made the responsibilities of environmental protection the responsibilities of various business units and included the environmental incident assessment under the assessment indicators for business units in an effort to vigorously manage the key environmental factors in the course of the Company's production and operation.

Environmental protection target

Adhering to the environmental protection mission of "respect for nature and care for environment", the Group achieved the 2015 environmental protection target of "zero" environmental pollution incident.

"Environmental Protection Law" promotional campaign

In view of the revised "Environmental Protection Law of the People's Republic of China" effective from 1 January 2015, the Group purchased approximately 300 sets of the "Environmental Protection Law" and prepared training materials on the "Environmental Protection Law" so that individual employees are aware of the requirements of the "Environmental Protection Law" through training and promotional campaign. Two exams on the "Environmental Protection Law" were held to test the knowledge of employees on environmental protection law.

Environmental protection operational requirements for clients and respective regions

In active pursuit of the sustainability concept of "green, clean, low-carbon and circular economy", the Group integrates the green strategy into various segments of production and operation to realise clean production. By implementing the technologies such as "no oil stain on ground" and "drilling liquid disposal", the Group has displayed an even higher standard of environmental protection operational requirements for clients. the Group also actively communicates with local governments and grasps the respective local environmental policies so that the overseas operations also meet the respective environmental operational requirements.

MAIN RISKS AND UNCERTAINTIES

The prolonged and substantial decline of oil prices constitutes the fundamental risk of the Company. The Company's businesses in its various markets rely on the oil producers' continuing spending and investments. Current continuously low oil prices result in the reduction of such spending and investments and consequently influence the Company's businesses. Although it's widely estimated the oil demand and supply will resume balance by the end of 2016 or at the beginning of 2017, there is no assurance the situation will come to true with the expected timeframe, this brings significant uncertainty to the Company's future operation.

A limited number of major customers bring the Company the customer concentration risk. Due to the characteristics of China's oil and gas market, the Company mainly provides oil-field services to CNPC and its affiliates in domestic market, CNPC and its affiliates contribute the majority of the Company's revenue, similar situation also exists in the Company's other major markets such as Kazakhstan, Turkmenistan and Iraq. As such, substantial changes of CNPC's operation and finance could bring the Company significant impact.

Volatility of KZT's exchange rate brings foreign currency exchange risk to the Company. Traditionally the operations in Kazakhstan contribute half revenue to the Company. In accordance with certain laws and regulations, service contracts are required to be signed in Tenge, Kazakhstan's local currency. In August 2015, Kazakhstan central bank cancelled the restriction on the floating range of KZT's exchange rate and as consequence KZT was fast devalued by 85% as compared with that at the beginning of the Year. As such the KZT's volatility brings significant risk to the Company's profitability.

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

Due to the characteristic of China's oil and gas market, the Company mainly provides services to CNPC and its affiliates in domestic market. In overseas market, the Company also implements follow-CNPC strategy and therefore its main customers are still CNPC and its affiliates. For the year ended 31 December 2014 and 2015, revenue generated from CNPC and its affiliates accounted for 68.30% and 71.30% percent of total revenue, respectively. Therefore, facing the customer concentration issue, the Company's position has been weaker when negotiating prices and other terms with customers. Although the Company has taken various measures to the customer diversification, it is still difficult to change the situation of customer concentration in a short period. Except for CNPC and its affiliates, the Company also provides services to other domestic and international clients with whom the Company negotiates the price and other terms with fair principle.

Report of the Directors

The Company entered into strategic alliances with several international and domestic oil-field services providers, including Halliburton, one of the largest diversified oil-field services companies in the world. Such strategic alliances grant the Company accesses to various high-quality products and high-end technologies which help the Company with business successes. Apart from these strategic alliances, the Company purchases materials, equipment and outsourced services from a group of individually small suppliers. All purchases and outsources from the suppliers are done case by case with fair value.

COMPLIANCE WITH LAWS AND REGULATIONS

As a company having operations and establishing subsidiaries in different countries and areas, the Company is subject to various requirements of laws and regulation in various jurisdictions it operates and is incorporated, including China, Kazakhstan, Turkmenistan, Iraq, Canada, Singapore, Indonesia and other countries and areas. According to the nature and extent, there are mainly two types of requirement of laws and regulations the Company addresses: jurisdictional laws and regulations and industrial regulations. The former widely contains incorporation-related and operation-related laws and regulations such as incorporation laws, taxes laws, labour protection laws and various commercial regulations. The latter mainly includes oil and gas industry specific regulations such as environmental protection regulations, safety and health regulations and industry entrance-kind regulations. During the course of long-history operations in different countries and areas, the Company has established systematic methods to identify, understand and compliance with the laws and regulations it should address, including establishment of specific compliance management sector, recruitment of eligible legal professionals, establishment of database laws and regulations, laws and regulations compliance trainings and timely legal matters reviews and approvals. During the year ended 31 December 2015, the Company is not aware of any non-compliance under applicable laws and regulations in jurisdictions where the Company operates that could have a material adverse impact on the Company's business, financial condition and operating results.

RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated income statement on page 58 of this annual report.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: nil).

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last five financial years are set out on pages 4 to 5 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 2015, all of the net proceeds from the Listing was used by the Company in the manner consistent with that in the prospectus dated 14 December 2011 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the Group's five largest suppliers accounted for 17.54% (2014: 51.17%) of the Group's total purchases and purchases from the largest supplier accounted for 4.61% (2014: 20.38%).

For the year ended 31 December 2015, the Group's sales to its five largest customers accounted for 82.57% (2014: 87.02%) of the Group's total sales and sales from the largest customer accounted for 71.30% (2014: 68.30%).

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 2015 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.

EQUITY-LINKED AGREEMENT

The share option schemes of the Company are set out from pages 38 to 42 in the Report of Directors of this Annual Report. Other than the details of the convertible bonds and the share option schemes as disclosed, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on page 61 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,018.0 million (as at 31 December 2014: RMB972.7 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2015 are set out in note 17 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2015 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

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

In accordance with article 108 of the articles of association of the Company (the "Articles of Association"), Mr. Lin Yang, Ms. Chen Chunhua and Mr. Wan Kah Ming 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 23 to 27 of this annual report.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that every Director of the Company shall be indemnified out of assets of the Company from and against any losses or liabilities which they incur or sustain in executing their duties or responsibilities or other matters in connection with their capacity as Director. The Company has taken out and maintained appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

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 2015.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors (save for Mr. Jin Shumao) has entered into a service agreement with the Company for a term of three years commencing from 23 December 2014. Mr. Jin Shumao has entered into a service agreement with the Company, the term of the original service agreement is three years commencing from 27 March 2013, the new service agreement was entered into on 27 March 2016 for a term of three years. Each of the non-executive directors and the independent non-executive Directors (save for Mr. Lin Yang, Ms. Chen Chunhua and Ms. Zhang Yujuan) has signed a service agreement with the Company for a term of three years commencing from 23 December 2014. Mr. Lin Yang has signed a service agreement with the Company for a term of three years commencing from 25 September 2015. Ms. Chen Chunhua and Ms. Zhang Yujuan have each signed a service agreement with the Company for a term of three years commencing from 27 March 2013. The new service agreement was entered into on 27 March 2016 for a term of three years.

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 TRANSACTIONS, AGREEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director had a material interest in, either directly or indirectly, in any transaction, agreement or 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 2015.

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 2015.

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 note 22 and note 34 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS SUBSEQUENT TO THE 2015 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 2015, 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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (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)	648,484,000 (L)	42.25%
	Beneficial owner (note 3)	1,090,000 (L)	0.07%
Mr. Wu Dongfang	Beneficiary of trusts (note 2)	648,484,000 (L)	42.25%
	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%
Ms. 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 489,512,000 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 137,372,000 shares of the Company held by Elegant Eagle Investments Limited via Widescope Holdings Limited. (ii) Mr. Wu and his family members are the beneficiaries of True Harmony Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 21,600,000 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. 633,333 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 2015, 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 2015 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.

Report of the Directors

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

As at 31 December 2015, 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	137,372,000 (L)	8.95%
Elegant Eagle Investments Limited (note 1)	Interest of controlled corporation	157,972,000 (L)	10.29%
Truepath Limited	Beneficial owner	489,512,000 (L)	31.89%
Red Velvet Holdings Limited (notes 2 and 7)	Interest of controlled corporation	489,512,000 (L)	31.89%
Credit Suisse Trust Limited (note 3)	Trustee	763,182,442 (L)	49.73%
Greenwoods Asset Management Limited (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Greenwoods Assets Management Holdings Limited (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Jiang Jinzhi (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Unique Element Corp. (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Central Huijin Investment Ltd. (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Group Ltd. (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Holdings Company Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Special Opportunities Fund III, L.P. (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
CSOF III GP Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
Forebright Partners Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%

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 137,372,000 and 21,600,000 shares of the Company held by these two companies respectively.
2. According to the records of the Stock Exchange, Truepath Limited beneficially owned 489,512,000 shares and Red Velvet Holdings Limited is deemed to be interested in 487,512,000 shares. However, as Truepath Limited is wholly owned by Red Velvet Holdings Limited, Red Velvet Holdings Limited is deemed to be interested in 489,512,000 shares of the Company.
3. 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 Elegant Eagle Investments Limited, Red Velvet Holdings Limited, Starshine 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.
4. Such 120,062,000 shares represent the same block of shares.
5. The shares held by Central Huijin Investment Ltd., China Everbright Group Ltd., 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 69,230,769 underlying shares of the Company (based on the adjusted conversion price of HK$1.69) 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). Please refer to the announcements of the Company dated 12 June 2015 and 15 June 2015 for details.
6. "L" denotes long position.
7. Pursuant to section 336 of the SFO, the shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled. Therefore, substantial shareholders' latest shareholding in the Company may be different to the shareholding filed with the Company and the Stock Exchange.

Save as disclosed above, and as at 31 December 2015, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in this report, during the year ended 31 December 2015, 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, 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 2015.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2015, 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 2015, 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.

The related party transactions during the year ended 31 December 2015 as set out in note 32 to the Consolidated Financial Statements in this annual report do not fall under the definition of "connected transactions" or "continuing connected transaction" under Chapter 14A of 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 as at 23 March 2015 were 32,250,000 shares, representing approximately 2.1% of the issued share capital of the Company. The Company has refreshed the Share Option Scheme mandate limit at the annual general meeting held on 10 June 2015, representing 10% of the shares in issue on the same date (i.e. a total of 153,479,033 shares).

As at 31 December 2015, the maximum number of shares available for issue under the Share Option Scheme was 153,479,033 shares, representing approximately 10% of the issued share capital of the Company.

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 remaining life of the Scheme is 5 years and 11 months.

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 refreshment of the Share Option Scheme mandate limit on 10 June 2015. 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 2015 are as follows:

Grantee	Outstanding as at 1 January 2015	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2015	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
Mr. Wan Kah Ming	333,334 (note 1)	–	–	–	–	333,334	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)									
	55,670,000 (note 3)	–	–	–	6,990,000	48,680,000	13/06/2013	12/06/2023	HK$4.694
	12,639,001 (note 2)	–	381,333 (note 4)	–	961,000	11,296,668	20/02/2012	19/02/2022	HK$1.292
	2,000,000 (note 1)	–	–	–	550,000	1,450,000	29/03/2012	28/03/2022	HK$1.360
Total	**82,302,335**	**–**	**381,333**	**–**	**8,501,000**	**73,420,002**			

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.
4. Weighted average closing price of securities immediately before the dates on which the options were exercised was HK$1.7424.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the year ended 31 December 2015 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2015, 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 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 2015.

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 44 to 53 of this annual report.

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 2015.

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, 21 March 2016

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 2015.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules on the Stock Exchange as its own code of corporate governance. Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Under the existing organizational structure, Mr. Wang Guoqiang is the chairman of the Board and chief executive officer of the Company. The Board believes that Mr. Wang Guoqiang's extensive experience in the oil industry is beneficial to the business prospects 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. Save as disclosed in this annual report, the Company was in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2015. 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.

Save as Mr. Wang Guoqiang and Mr. Wu Dongfang who are parties acting in concert as mentioned on page 35 in the Report of Directors in this annual report, there is no material financial, business, family or other relevant relationship between the members of the Board.

During the year of 2015, the Board at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A 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. More than one-third of the members of the Board are independent non-executive Directors, which bring the fairly strong independence elements in its compositions.

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. 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 2015, 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 an annual basis.

Corporate Governance Report

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 the 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.

Appointment and Re-election of Directors

Save for Mr. Jin Shumao, each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from 23 December 2014, which is terminable by not less than three months' notice in writing.

Mr. Jin Shumao has entered into a service agreement with the Company for a term of three years commencing from 27 March 2013, which is terminable by not less than three months' notice in writing.

Save for Mr. Lin Yang, Ms. Chen Chunhua and Ms. Zhang Yujuan, each of the non-executive Directors and the independent non-executive Directors has signed a service agreement with the Company for a term of three years commencing from 23 December 2014, which is terminable by not less than three months' notice in writing.

Mr. Lin Yang has signed a service agreement with the Company for a term of three years commencing from 25 September 2015, which is terminable by not less than three months' notice in writing. Ms. Chen Chunhua and Ms. Zhang Yujuan has each signed a service agreement with the Company. The original term of the service agreement is three years commencing from 27 March 2013. The new service agreement for a term of 3 years was entered into on 27 March 2016, 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 2015 annual general meeting on 10 June 2015 (the "2015 AGM"), Mr. Jin Shumao, Ms. Zhang Yujuan and Mr. Wu Kwok Keung Andrew retired by rotation pursuant to article 108 of the Articles and 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 at the 2016 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 Board Committees meetings are recorded in sufficient detail the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committees meetings 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 2015, four Board meetings and one general meeting (2015 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**	**Annual General Meeting**
Mr. Wang Guoqiang	4/4	1/1
Mr. Wu Dongfang	2/4	1/1
Mr. Liu Ruoyan	4/4	1/1
Mr. Jin Shumao	4/4	1/1
Mr. Lin Yang	4/4	1/1
Ms. Chen Chunhua	4/4	1/1
Ms. Zhang Yujuan	4/4	1/1
Mr. Wu Kwok Keung Andrew	4/4	1/1
Mr. Wan Kah Ming	4/4	1/1

During the year, the Chairman of the Company held several meetings 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 as set out in Appendix 10 to the Listing Rules 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 2015.

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 reviewed and updated the whistleblowing system and anti-corruption policy in accordance with the Listing Rules as guideline for its Directors and employees.

BOARD COMMITTEES

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, namely Mr. Wang Guoqiang (Chairman), Ms. Zhang Yujuan 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; and
- 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 are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2015, two meetings of the Nomination Committee were held on 23 March 2015 and 2 December 2015 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
Ms. Zhang Yujuan	2/2
Mr. Wu Kwok Keung Andrew	2/2

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

The Board has adopted the Board Diversity Policy on 27 August 2013 and reviewed the structure, size and composition of the Board according to the Board Diversity Policy on 2 December 2015. 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 (Chairman), 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, so as to determine the 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 are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2015, two meetings of the Remuneration Committee were held on 23 March 2015 and 2 December 2015 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Zhang Yujuan	2/2
Mr. Wang Guoqiang	2/2
Mr. Wu Kwok Keung Andrew	2/2

During the year, 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. To avoid potential conflict of interest, members have abstained from voting on resolutions which he/she or his/her associates have a material interest.

Details of the remuneration by band of the 6 members of the senior management of our Company, whose biographies are set out on pages 26 to 27 of this annual report, for the year ended 31 December 2015 are set out below:

Remuneration band (RMB)	Number of individual
400,000–1,000,000	5
1,000,001–1,500,000	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; and

- 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 2015, three meetings of the Audit Committee were held on 23 March 2015, 25 August 2015 and 2 December 2015 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

During the year, 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 interim period and 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 updated written terms of reference, which has incorporated the amendments to the CG Code with report to the risk management and internal control systems, 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 23 March 2015 and 25 August 2015.

Corporate Governance Report

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 2015 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 2015, 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 new risk control department (consolidated by legal department and internal audit department) plays a major role in monitoring the internal governance of the Company. The major tasks of the new risk control 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. The compliance committee had been monitoring the inside information of the Group and making related disclosure as necessary and appropriate.

AUDITOR'S REMUNERATION

Annual audit fees and annual non-audit fees of the Company for the year ended 31 December 2015 are RMB4.1 million and RMB7,038 respectively.

COMPANY SECRETARY

The Company engages Ms. Mok Ming Wai, a 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. Li Qiang, the chief financial officer of the Company.

During the year ended 31 December 2015, 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 2015 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 2015, there is no significant change in constitutional documents of the Company.

Hong Kong, 21 March 2016

Independent Auditor's Report

羅兵咸永道

Independent Auditor's Report
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 set out on pages 56 to 128, which comprise the consolidated balance sheet as at 31 December 2015, 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 judgement, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance 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, 21 March 2016

Consolidated Balance Sheet

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*6*	**535,343**	603,593
Land use rights	*7*	**22,241**	22,724
Goodwill		**–**	781
Intangible assets	*8*	**58,417**	65,453
Deferred income tax assets	*20*	**137,609**	89,143
Prepayments	*12*	**35,750**	50,584
		789,360	832,278
Current assets			
Inventories	*10*	**393,824**	550,054
Trade and note receivables	*11*	**631,794**	1,396,110
Prepayments and other receivables	*12*	**171,553**	201,414
Restricted bank deposits	*13*	**18,855**	8,313
Cash and cash equivalents	*13*	**344,855**	595,028
		1,560,881	2,750,919
Total assets		**2,350,241**	3,583,197
Equity			
Equity attributable to the Company's equity owners			
Share capital	*14*	**974**	974
Share premium	*15*	**591,651**	591,251
Other reserves	*16*	**327,276**	282,351
Currency translation differences		**(477,136)**	(196,955)
Retained earnings		**684,530**	1,096,695
		1,127,295	1,774,316
Non-controlling interests		**119,968**	147,738
Total equity		**1,247,263**	1,922,054

Consolidated Balance Sheet

		As at 31 December	
	Note	**2015** ***RMB'000***	2014 *RMB'000*
Liabilities			
Non-Current liabilities			
Borrowings	*17*	**114,356**	58,730
Deferred income tax liabilities	*20*	**23,500**	25,791
		137,856	84,521
Current liabilities			
Borrowings	*17*	**257,689**	373,585
Trade payables	*18*	**553,838**	849,080
Accruals and other payables	*19*	**111,459**	216,417
Current income tax liabilities		**40,267**	51,400
Current portion of long-term borrowings	*17*	**1,869**	86,140
		965,122	1,576,622
Total liabilities		**1,102,978**	1,661,143
Total equity and liabilities		**2,350,241**	3,583,197

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

The financial statements on pages 56 to 128 were approved by the Board of Directors on 21 March 2016 and were signed on its behalf.

Wang Guoqiang
Director

Wu Dongfang
Director

Consolidated Income Statement

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	5	**1,035,007**	2,186,958
Other gains/(losses), net	21	**25,212**	(17,960)
Operating costs			
Material costs		**(352,372)**	(564,521)
Employee benefit expenses	22	**(544,423)**	(617,065)
Operating lease expenses		**(69,981)**	(134,252)
Transportation costs		**(40,976)**	(75,958)
Depreciation and amortisation		**(101,891)**	(82,744)
Technical service expenses		**(149,057)**	(261,246)
Impairment (losses)/reverse of assets		**(47,457)**	6,064
Others		**(202,201)**	(235,091)
		(1,508,358)	(1,964,813)
Operating (loss)/profit		**(448,139)**	204,185
Finance income	24	**2,222**	2,833
Finance expenses	24	**(40,024)**	(46,653)
Finance expenses, net		**(37,802)**	(43,820)
(Loss)/profit before income tax		**(485,941)**	160,365
Income tax credit/(expense)	25	**43,386**	(46,098)
(Loss)/profit for the year		**(442,555)**	114,267
Attributable to:			
Equity owners of the Company		**(412,165)**	116,176
Non-controlling interests		**(30,390)**	(1,909)
		(442,555)	114,267
(Losses)/earnings per share for the (loss)/profit attributable to the equity owners of the Company			
Basic (losses)/earnings per share	27	**(0.269)**	0.076
Diluted (losses)/earnings per share	27	**(0.269)**	0.075

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December	
		2015	2014
		RMB'000	*RMB'000*
(Loss)/profit for the year		**(442,555)**	114,267
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**35,669**	2,898
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**(313,937)**	(90,134)
Total comprehensive (loss)/income for the year		**(720,823)**	27,031
Attributable to:			
Equity owners of the Company		**(692,346)**	28,798
Non-controlling interests		**(28,477)**	(1,767)
		(720,823)	27,031

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital 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 2014		972	663,226	242,483	(109,577)	986,956	1,784,060	47,134	1,831,194
Comprehensive income									
Profit for the year		–	–	–	–	116,176	116,176	(1,909)	114,267
Currency translation differences		–	–	–	(87,378)	–	(87,378)	142	(87,236)
Total comprehensive income/(loss)		–	–	–	(87,378)	116,176	28,798	(1,767)	27,031
Transactions with owners									
Share options exercised	*14&15*	2	5,930	(1,792)	–	–	4,140	–	4,140
2013 final dividend declared in June 2014	*15&26*	–	(77,905)	–	–	–	(77,905)	–	(77,905)
Share-based payments	*22*	–	–	35,223	–	–	35,223	–	35,223
Transfer to statutory reserves	*16*	–	–	6,437	–	(6,437)	–	–	–
Capital injection of non-controlling interests		–	–	–	–	–	–	102,371	102,371
Total transactions with owners		2	(71,975)	39,868	–	(6,437)	(38,542)	102,371	63,829
Balance as at 31 December 2014		974	591,251	282,351	(196,955)	1,096,695	1,774,316	147,738	1,922,054

Consolidated Statement of Changes in Equity

	Note	Share capital 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 2015		974	591,251	282,351	(196,955)	1,096,695	1,774,316	147,738	1,922,054
Comprehensive income									
Loss for the year		-	-	-	-	(412,165)	(412,165)	(30,390)	(442,555)
Currency translation differences		-	-	-	(280,181)	-	(280,181)	1,913	(278,268)
Total comprehensive loss		-	-	-	(280,181)	(412,165)	(692,346)	(28,477)	(720,823)
Transactions with owners									
Share options exercised	14&15	-	400	(2)	-	-	398	-	398
Share-based payments	22	-	-	16,147	-	-	16,147	-	16,147
Acquisition of a subsidiary		-	-	-	-	-	-	707	707
Convertible bond – equity portion, net of tax		-	-	28,780	-	-	28,780	-	28,780
Total transactions with owners		-	400	44,925	-	-	45,325	707	46,032
Balance as at 31 December 2015		974	591,651	327,276	(477,136)	684,530	1,127,295	119,968	1,247,263

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash generated from operations	*28*	**179,619**	9,777
Interest paid		**(32,147)**	(35,956)
Interest received		**2,178**	2,833
Income tax paid		**(25,051)**	(67,417)
Net cash generated from/(used in) operating activities		**124,599**	(90,763)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(243,055)**	(172,795)
Proceeds from disposal of property, plant and equipment	*28*	**2,885**	4,089
Proceeds from disposal of available-for-sale financial assets		**–**	1,680
Purchases of intangible assets		**(5,669)**	(39,101)
Acquisition of a subsidiary, net of cash acquired		**(14)**	–
Restricted bank deposits		**(10,542)**	–
Net cash used in investing activities		**(256,395)**	(206,127)
Cash flows from financing activities			
Proceeds from borrowings		**303,987**	425,763
Repayments of borrowings		**(419,305)**	(188,757)
Dividends paid to shareholders		**–**	(77,905)
Proceeds from share options exercised		**398**	4,140
Capital injection from non-controlling interests		**–**	102,371
Net cash (used in)/generated from financing activities		**(114,920)**	265,612
Net decrease in cash and cash equivalents		**(246,716)**	(31,278)
Cash and cash equivalents at beginning of the year		**595,028**	635,954
Exchange losses on cash and cash equivalents		**(3,457)**	(9,648)
Cash and cash equivalents at end of the year		**344,855**	595,028

The notes on pages 63 to 128 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, PO Box 2804, Grand Cayman KY-1112, Cayman Islands. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is principally engaged in investment holding. 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 consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2016.

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 Basis of preparation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures

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

The Group has adopted the following amendments to standards which are mandatory for the financial year beginning on 1 January 2015:

Annual Improvements Projects	Annual Improvements 2010-2012 cycle and 2011-2013 cycle
Amendments to IAS 19	Employee benefits

The adoption of above amendments does not have any significant financial effect on these consolidated financial statements.

(b) *New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) *New standards and interpretations not yet adopted*

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning on 1 January 2015 and have not been early adopted.

Amendments to IAS 1	Disclosure initiative(1)
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation(1)
Amendments to IAS 27	Equity method in separate financial statements(1)
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture(1)
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception(1)
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations(1)
Annual Improvement Project	Annual Improvements to IFRSs 2012-2014 Cycle(1)
IFRS 15	Revenue from Contracts with Customers(2)
IFRS 9	Financial Instruments(2)
IFRS 16	Leases(3)

(1) Effective for the accounting period beginning on 1 January 2016
(2) Effective for the accounting period beginning on 1 January 2018
(3) Effective for the accounting period beginning on 1 January 2019

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

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 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 acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

Transactions with non-controlling interests that do not result in a 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 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 Subsidiaries (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.

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

- currency translation differences are recognised in other comprehensive.

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, is 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.

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 and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other Gains/(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 technology 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.

Development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an 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 purpose 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 the amounts that are settled or expected to be settled more than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise "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 period whether there is objective evidence that a financial asset or group of financial assets 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 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 a financial asset or a group of financial assets is impaired. For debt securities, if any such evidence exists the cumulative 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. 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.

For equity investments, 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 the cumulative 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.

2.11 Offsetting financial instruments

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

2.12 Inventories

Inventories primarily consist of project materials, consumables and project-in-progress for the provision of oilfield services and sales. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of progress-in-progress comprises project 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 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 allowance for impairment (Note 2.10).

2.14 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.

2.15 Share capital

Share capital 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.

2.16 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.

2.17 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 period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 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.

2.19 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, 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, except on conversion or expiry.

The 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 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.

(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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

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.

2.21 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

(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).

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 share capital (nominal value) and share premium. The corresponding amount accounted for as "Other reserve" when recognising the share-based compensation are reclassified to share premium as well.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 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 when 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 customers, the type of transactions 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 or where the services have been rendered, as appropriate.

(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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 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.

2.24 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.

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, the Company's functional currency.

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

On 31 December 2015, if RMB, KZT, SGD, CAD and IDR had weakened/strengthened by certain percentage against the USD with all other variables held constant the assumed changes of the exchange rates would have the following impact on the Group's foreign exchange gains/losses accounts.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Pre-tax results increase/(decrease) during the financial year:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
RMB against USD		
– Weakened 5%	**(7,000)**	(8,072)
– Strengthened 5%	**7,000**	8,072
KZT against USD		
– Weakened 5%	**4,097**	(1,675)
– Strengthened 5%	**(4,097)**	1,675
SGD against USD		
– Weakened 5%	**182**	800
– Strengthened 5%	**(182)**	(800)
CAD against USD		
– Weakened 5%	**4,905**	5,285
– Strengthened 5%	**(4,905)**	(5,285)
IDR against USD		
– Weakened 5%	**377**	(3,545)
– Strengthened 5%	**(377)**	3,545

(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, long-term bank borrowings and convertible bonds were obtained at fixed rates which exposed the Group to fair value interest rate risk. The Group does not expect significant impact due to the changes in interest rate.

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. China National Petroleum Corporation ("CNPC"), a PRC state owned enterprise with high credit rating, along with its related entities, represented approximately 68.3% and 71.3% of the revenue of the Group for the years ended 31 December 2015 and 2014 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 2015 and 2014, 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 2015 and 2014:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
PRC		
– State owned listed banks	**192,907**	366,758
– Other listed banks	**76,365**	102,273
	269,272	469,031
Kazakhstan government owned banks	**33,684**	62,695
Hong Kong listed banks	**1,821**	2,845
Singapore listed banks	**8,965**	31,408
Canada listed banks	**40,792**	30,532
Other listed banks	**7,810**	6,294
Others	**1,366**	536
Total	**363,710**	603,341

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 financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	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 2015				
Borrowings	**268,469**	**877**	**69,638**	**4,212**
Trade payables	**553,838**	**–**	**–**	**–**
Accruals and other payables	**26,023**	**–**	**–**	**–**
As at 31 December 2014				
Borrowings	473,920	55,776	2,112	4,818
Trade payables	849,080	–	–	–
Accruals and other payables	44,402	–	–	–

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 2015 and 2014 are as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Total borrowings	**373,914**	518,455
Total equity	**1,247,263**	1,922,054
Gearing ratio	**30.0%**	27.0%

3.3 Fair value estimation

The carrying amounts less provision for impairment of trade and notes receivables, other receivables, cash and cash equivalents, restricted cash and term deposits and financial liabilities including trade and notes payables, other payables and short-term borrowings are assumed to approximately their fair values, The carrying amounts of long-term bonds approximated their fair values as the fluctuation of comparable interest rates with similar terms is relatively low.

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 and deferred tax

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.

In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on the income tax expenses.

(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 indicate 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Estimated impairment of goodwill, intangible assets, and other non-current assets

The Group tests whether goodwill, intangible assets and other non-current assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.7 and Note 2.9 respectively. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions. If future events do not correspond to such assumptions, the value in use amount will need to be revised, and this may have an impact on the Group's results of operation or balance sheet.

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 2015 and 2014 are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Drilling	**243,925**	817,264
Well completion	**179,718**	565,802
Reservoir	**611,364**	803,892
	1,035,007	2,186,958

5. SEGMENT INFORMATION (CONTINUED)

(a) Revenue (Continued)

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 RMB706,927,000 (2014: RMB1,558,813,000) are derived from CNPC and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

(b) Segment information

The segment information for the years ended 31 December 2015 and 2014 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *RMB'000*
Year ended 31 December 2015				
Revenue from external customers	**243,925**	**179,718**	**611,364**	**1,035,007**
EBITDA	**(231,475)**	**(107,947)**	**98,812**	**(240,610)**
Total assets	**452,307**	**792,566**	**453,346**	**1,698,219**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**22,760**	**76,310**	**20,090**	**119,160**
Year ended 31 December 2014				
Revenue from external customers	817,264	565,802	803,892	2,186,958
EBITDA	154,575	107,110	210,201	471,886
Total assets	1,132,380	831,098	765,337	2,728,815
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	63,344	122,390	55,093	240,827

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
EBITDA for reportable segments	**(240,610)**	471,886
Unallocated expenses		
– Share-based payments	**(16,147)**	(35,223)
– Other gains/(losses), net	**25,212**	(17,960)
– Unallocated overhead expenses	**(114,703)**	(131,774)
	(105,638)	(184,957)
	(346,248)	286,929
Depreciation and amortisation	**(101,891)**	(82,744)
Finance expenses	**(40,024)**	(46,653)
Finance income	**2,222**	2,833
Profit before tax	**(485,941)**	160,365

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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,698,219**	2,728,815
Unallocated assets		
– Deferred income tax assets	**137,609**	89,143
– Unallocated inventories	**21,986**	35,017
– Unallocated prepayment and other receivables	**128,717**	126,881
– Restricted bank deposits	**18,855**	8,313
– Cash and cash equivalents	**344,855**	595,028
	652,022	854,382
Total assets per balance sheet	**2,350,241**	3,583,197

5. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment

During the year, CODM revised its assessment on geographical segment according to the service location of the entities in the Group. To ensure a consistent comparison to the new structure, the prior year segmental information which is based on the country of domicile (location of its main operation) has been restated.

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

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
		(Restated)
Kazakhstan	**275,665**	911,409
PRC	**501,921**	954,622
Middle East	**62,296**	43,054
Turkmenistan	**108,918**	160,660
Canada	**63,118**	84,117
Others	**23,089**	33,096
	1,035,007	2,186,958

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:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
		(Restated)
Kazakhstan	**110,435**	199,940
PRC	**426,015**	451,145
Middle East	**20**	–
Turkmenistan	**33,299**	–
Canada	**24,077**	23,771
Others	**57,905**	68,279
	651,751	743,135

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 2014						
Opening net book value	50,878	255,468	20,943	32,815	12,617	372,721
Additions	5,058	114,676	22,490	24,991	164,201	331,416
Depreciation charge	(6,459)	(44,762)	(10,852)	(12,485)	–	(74,558)
Disposals	(7)	(3,465)	(178)	(396)	–	(4,046)
Transfer	6,551	–	–	1,328	(7,879)	–
Exchange differences	(3,561)	(13,342)	(1,465)	(3,572)	–	(21,940)
Closing net book value	52,460	308,575	30,938	42,681	168,939	603,593
At 31 December 2014						
Cost	79,247	502,046	77,001	101,486	168,939	928,719
Accumulated depreciation	(26,787)	(193,471)	(46,063)	(58,805)	–	(325,126)
Net book value	52,460	308,575	30,938	42,681	168,939	603,593
Year ended 31 December 2015						
Opening net book value	**52,460**	**308,575**	**30,938**	**42,681**	**168,939**	**603,593**
Additions	**2,016**	**84,863**	**4,119**	**7,526**	**29,801**	**128,325**
Depreciation charge	**(6,691)**	**(61,046)**	**(7,476)**	**(13,490)**	**–**	**(88,703)**
Disposals	**(648)**	**(3,296)**	**(461)**	**(99)**	**–**	**(4,504)**
Transfer	**15,088**	**82,782**	**21**	**–**	**(97,891)**	**–**
Exchange differences	**(10,383)**	**(77,623)**	**(12,539)**	**(2,431)**	**(392)**	**(103,368)**
Closing net book value	**51,842**	**334,255**	**14,602**	**34,187**	**100,457**	**535,343**
At 31 December 2015						
Cost	**76,984**	**509,198**	**59,260**	**94,443**	**100,457**	**840,342**
Accumulated depreciation	**(25,142)**	**(174,943)**	**(44,658)**	**(60,256)**	**–**	**(304,999)**
Net book value	**51,842**	**334,255**	**14,602**	**34,187**	**100,457**	**535,343**

For the year ended 31 December 2015, depreciation expenses amounting to RMB88,703,000 (2014: RMB74,558,000) has been charged in operating costs.

As at 31 December 2015, certain property, plant and equipment amounting to RMB642,000 have been pledged for the Group's bank borrowings (2014: RMB1,444,000) (Note 17).

7. LAND USE RIGHTS

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

	RMB'000
Year ended 31 December 2014	
Opening net book value	23,206
Amortisation charge	(482)
Closing net book value	22,724
At 31 December 2014	
Cost	24,131
Accumulated amortisation	(1,407)
Net book value	22,724
Year ended 31 December 2015	
Opening net book value	**22,724**
Amortisation charge	**(483)**
Closing net book value	**22,241**
At 31 December 2015	
Cost	**24,131**
Accumulated amortisation	**(1,890)**
Net book value	**22,241**

As at 31 December 2015, none of the land use rights have been pledged for the Group's bank borrowings (2014: RMB14,000,000) (Note 17).

Subsequent to the year end, a loan of RMB40,000,000 which is secured on certain land use rights, was granted by a bank.

All land use rights have a remaining period of 48 years.

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 2014			
Opening net book value	34,659	201	34,860
Additions	37,782	515	38,297
Amortisation charge	(7,601)	(103)	(7,704)
Closing net book value	64,840	613	65,453
At 31 December 2014			
Cost	74,394	2,941	77,335
Accumulated amortisation	(9,554)	(2,328)	(11,882)
Net book value	64,840	613	65,453
Year ended 31 December 2015			
Opening net book value	**64,840**	**613**	**65,453**
Additions	**4,838**	**831**	**5,669**
Amortisation charge	**(12,515)**	**(190)**	**(12,705)**
Closing net book value	**57,163**	**1,254**	**58,417**
At 31 December 2015			
Cost	**79,275**	**3,838**	**83,113**
Accumulated amortisation	**(22,112)**	**(2,584)**	**(24,696)**
Net book value	**57,163**	**1,254**	**58,417**

9. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2015:

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%
M-Tech service Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 87,200	100%
CNEC Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 150,000	100%
FD Services Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 110,000	100%
OS Services (Kazakhstan) Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%
Dowell LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 500,000	70%

9. SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Interest Held
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%
HY Oil Technology Service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%
NE TKM Hyzmat Limited	Turkmenistan, Limited liability entity	Oil field services, Turkmenistan	Manats 142,500	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	CAD 15	100%
Enecal Canada Corporation	Canada, Limited liability entity	Trading, Canada	CAD 86	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%
Enecal PTE. Limited (a)	Singapore, Limited liability entity	Manufacturing, Singapore	SGD 3,550,000*	63.2%
AWP Precision Engineering Pte. Ltd.	Singapore, Limited liability entity	Manufacturing, Singapore	SGD 360,000	100%
重慶華油能源技術服務有限公司 (Chongqing Huayou Energy Technology Services Co. Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	100%
陝西華油能源技術服務有限公司 (Shanxi Huayou Energy Technology Services Co. Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB4,000,000	100%
新疆華頓同達油田技術有限公司 (Xinjiang HDTD Oilfield Services Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB208,920,510	51%
北京華開新科能源技術服務有限公司 (Beijing Huakai New Energy Technology Service Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB3,000,000	51%
北京華油能源技術服務有限公司 (Beijing Huayou Energy Technology Services Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB22,727,600	100%
SPT Energy PTE. LTD	Singapore, Limited liability entity	Oil field services, Singapore	USD35,503	100%
新疆鄯善華油油氣工程有限公司 (Petrotech (Xinjiang Shanshan) Engineering Co., Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB30,000,000	100%

9. SUBSIDIARIES (CONTINUED)

Notes

(a) The issued share capital includes preferred shares amounting to SGD 3,200,000 (equivalent to RMB16,302,000) (2014: 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 a financial year 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) Material non-controlling interests

The total non-controlling interest as at 31 December 2015 was RMB119,968,000 (2014: RMB147,738,000), of which RMB92,946,000 (2014: RMB100,916,000) was for Xinjiang HDTD Oilfield Services Co., Ltd ("HDTD"). The non-controlling interests in respect of other subsidiaries were not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below is the summarised financial information for HDTD that has non-controlling interests that is material to the group.

Summarised balance sheet

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Current		
Assets	**53,995**	207,878
Liabilities	**16,420**	131,394
Total current net assets	**37,575**	76,484
Non-current		
Assets	**155,079**	129,615
Liabilities	**2,017**	–
Total non-current net assets	**153,062**	129,615
Net assets	**190,637**	206,099

9. SUBSIDIARIES (CONTINUED)

Notes (continued)

(b) Material non-controlling interests (continued)

Summarised income statement

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Revenue	**2,514**	–
Loss before income tax	**(15,462)**	(3,320)
Income tax credit	**–**	498
Post-tax loss	**(15,462)**	(2,822)
Total comprehensive loss	**(15,462)**	(2,822)
Total comprehensive loss allocated to Non-Controlling Interests	**(7,576)**	(1,383)

Summarised cash flows

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Net cash used in operating activities	**(26,708)**	(188)
Net cash used in investing activities	**(165,783)**	(437)
Net cash generated from financing activities	**–**	208,921
Net (decrease)/increase in cash and cash equivalents	**(192,491)**	208,296
Cash, cash equivalents at beginning of year	**207,867**	–
Exchange losses on cash and cash equivalents	**(753)**	(429)
Cash and cash equivalents at end of year	**14,623**	207,867

The information above is the amount before inter-company eliminations.

10. INVENTORIES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Project materials and consumables	**400,862**	459,916
Project-in-progress	**39,554**	117,548
	440,416	577,464
Less: Provision for impairment	**(46,592)**	(27,410)
	393,824	550,054

The cost of inventories recognised as expense and included in "operating costs" amounted to RMB352,372,000 (2014: RMB564,521,000).

As of 31 December 2015, inventories of RMB46,592,000 (2014: RMB27,410,000) were impaired.

Movements of impairment of inventories are as follows:

	2015	2014
	RMB'000	*RMB'000*
As at 1 January	**(27,410)**	(27,817)
Add: (provision)/reversal for impairment of inventories	**(19,182)**	407
As at 31 December	**(46,592)**	(27,410)

11. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Trade receivables (a)	**677,217**	1,426,347
Less: allowance for impairment of trade receivables	**(56,825)**	(33,986)
Trade receivables – net	**620,392**	1,392,361
Note receivables (a)	**11,402**	3,749
	631,794	1,396,110

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 RMB9,500,000 (2014: RMB8,292,000). Except for those disclosed in (d) and (e) below, for trade receivables that are neither past due nor impaired, management considered that these were receivables from customers with long business relationship and no default history. Therefore the risk of impairment was low.

(c) Ageing analysis of gross trade receivables as at 31 December 2015 and 2014 is as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Up to 6 months	**391,387**	1,061,059
6 months – 1 year	**88,444**	55,774
1 – 2 years	**107,193**	294,487
2 – 3 years	**86,815**	16,074
Over 3 years	**14,780**	2,702
Trade receivables, gross	**688,619**	1,430,096
Less: Impairment of trade receivables	**(56,825)**	(33,986)
Trade receivables, net	**631,794**	1,396,110

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

(d) Trade and note receivables past due but not impaired.

The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
6 months to 1 year	**88,206**	54,099
1 to 2 years	**106,462**	269,354
2 to 3 years	**44,484**	5,616
	239,152	329,069

These receivables relate to a number of independent customers for whom there were no recent history of default.

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

	2015	2014
	RMB'000	*RMB'000*
As at 1 January	**(33,986)**	(36,196)
Add: (provision)/reversal for impairment of trade receivables	**(22,839)**	2,210
As at 31 December	**(56,825)**	(33,986)

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 Group considered difficult to recover.

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

	As at 31 December	
	2015	2014
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**389,632**	710,337
KZT	**127,406**	545,282
USD	**108,643**	133,460
Others	**6,113**	7,031
	631,794	1,396,110

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

(g) Trade receivables of RMB126,000,000 (2014: RMB216,600,000) have been pledged for the Group's borrowings (Note 17).

12. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**66,602**	120,057
Prepayment for taxes	**54,590**	36,238
Total non-financial assets	**121,192**	156,295
Deposits and other receivables	**57,802**	51,821
Less: impairment of other receivables	**(7,441)**	(6,702)
Total financial assets	**50,361**	45,119
	171,553	201,414
Non-current		
Advances to suppliers (Non-financial assets)	**18,872**	34,411
Prepayment for operating lease (Non-financial assets)	**16,878**	16,173
	35,750	50,584
Total	**207,303**	251,998

12. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Notes

(a) No deposits and other receivables as at 31 December 2015 and 2014 were past due but not impaired.

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

	As at 31 December	
	2015	2014
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**138,566**	172,933
KZT	**24,392**	42,477
CAD	**749**	4,244
SGD	**17,698**	17,216
USD	**16,568**	6,826
Others	**9,330**	8,302
	207,303	251,998

(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 business relationship and no default history. Therefore the risk of impairment was low. Movements in impairment of other receivables representing those that were part due are as follows:

	2015	2014
	RMB'000	*RMB'000*
As at 1 January	**(6,702)**	(10,556)
Add: (provision)/reversal for impairment of other receivables	**(739)**	3,854
As at 31 December	**(7,441)**	(6,702)

(e) As at 31 December 2015, non-current prepayments amounting to RMB7,921,000 (2014: RMB9,761,000) has been pledged for the Group's borrowings (Note 17).

13. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Restricted bank deposits (a)	**18,855**	8,313
Cash and cash equivalents		
– Cash on hand	**444**	2,340
– Deposits in banks	**344,411**	592,688
	344,855	595,028
	363,710	603,341

Notes

(a) As at 31 December 2015, the restricted bank deposits comprised deposits of RMB18,855,000 (2014: RMB8,303,000) held as securities for issuance of bank letter of credit and RMB0 (2014: RMB10,000) pledged for the Group's borrowings (Note 17).

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

	As at 31 December	
	2015	2014
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**73,233**	212,931
USD	**246,702**	295,510
KZT	**21,668**	75,575
CAD	**17,638**	8,833
Others	**4,469**	10,492
	363,710	603,341

14. SHARE CAPITAL

Issued and fully paid

	Number of shares *(Thousands)*	Share capital *RMB'000*
Authorised shares:		
Ordinary shares of US$0.0001 each as at 31 December 2014 and 2015	2,000,000	1,295
Issued shares:		
As at 31 December 2013	1,530,391	972
Add: share options exercised	4,018	2
As at 31 December 2014	1,534,409	974
As at 31 December 2014	1,534,409	974
Add: share options exercised	381	–
As at 31 December 2015	**1,534,790**	**974**

15. SHARE PREMIUM

	2015 ***RMB'000***	2014 *RMB'000*
As at 1 January	**591,251**	663,226
Share options exercised	**400**	5,930
Dividends declared	**–**	(77,905)
As at 31 December	**591,651**	591,251

16. OTHER RESERVES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Merger reserves (a)	**(148,895)**	(148,895)
Equity component of convertible bonds (Note 17)	**61,150**	32,370
Share-based payments (b)	**152,331**	136,186
Statutory reserves (c)	**53,768**	53,768
Capital reserves (d)	**208,922**	208,922
	327,276	282,351

Notes

(a) Merger reserves

As at 31 December 2015 and 2014, 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.

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

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

	2015		2014	
	Average exercise price per share options *HKD*	**Number of share options** *(Thousands)*	Average exercise price per share options *HKD*	Number of share options *(Thousands)*
As at 1 January	**4.41**	**78,381**	4.24	89,003
Forfeited	**4.57**	**(4,580)**	3.80	(6,604)
Exercised	**1.29**	**(381)**	1.31	(4,018)
As at 31 December	**3.94**	**73,420**	4.41	78,381

As at 31 December 2015 and 2014, out of the outstanding share options listed above, the exercisable share options are as follow:

	As at 31 December 2015		As at 31 December 2014	
	Outstanding shares *(Thousands)*	**exercise price** *(HKD)*	Outstanding shares *(Thousands)*	exercise price *(HKD)*
Granted on 20 February 2012	**11,297**	**1.29**	4,271	1.29
Granted on 29 March 2012	**5,083**	**1.36**	3,200	1.36
Granted on 13 June 2013	**37,833**	**4.69**	20,823	4.69
Total	**54,213**	**3.67**	28,294	3.70

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(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 2015 and 2014, 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 2013	47,331
Add: Appropriation	6,437
As at 31 December 2014	53,768
Add: Appropriation	–
As at 31 December 2015	53,768

(d) Capital reserves

The capital reserves balances as at 31 December 2015 and 2014 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 2014, the Group paid SGD 2,384,000 (equivalent to 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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Non-current:		
Secured bank borrowings (a)(i)(iii)	**6,694**	58,730
Unsecured bank borrowings (a)(i)	**40,000**	
Unsecured liability component of convertible bonds (b)	**67,662**	–
	114,356	58,730
Current:		
Short-term bank borrowings		
– Secured (a)(ii)(iii)	**196,000**	220,610
– Unsecured (a)(ii)	**61,689**	152,975
	257,689	373,585
Current portion of long-term borrowings:		
Secured bank borrowings (a)(i)(ii)	**1,869**	2,475
Unsecured liability component of convertible bonds (b)	**–**	83,665
	1,869	86,140
Total borrowings	**373,914**	518,455

17. BORROWINGS (CONTINUED)

Notes

(a) Bank borrowings

(i) As at 31 December 2015, long-term secured bank borrowings amounting to RMB7,214,000 (2014: RMB7,846,000), comprising long-term bank borrowings amounting to RMB6,602,000 (2014: RMB7,227,000) and its current portion amounting to RMB612,000 (2014: RMB619,000), 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 2015 is 2.99% per annual (2014: 2.75%).

As at 31 December 2015, long-term secured bank borrowings amounting to RMB1,349,000 (2014: RMB3,359,000) comprising long-term bank borrowings amounting to RMB92,000 (2014: RMB1,503,000) and its current portion amounting to RMB1,257,000 (2014: RMB1,856,000) will mature until 2016 and bear effective interest rate of 3.04% per annual (2014: 2.67%).

As at 31 December 2015, long-term secured bank borrowings amounting to RMB0 (2014: RMB50,000,000) will mature until 2016 and bear effective interest rate of 0% per annual (2014: 10.00%).

As at 31 December 2015, long-term unsecured bank borrowings amounting to RMB40,000,000 (2014: RMB0) will mature until 2018 and bear annual interest rate of 6.45% (2014: 0%).

(ii) As at 31 December 2015, short-term secured bank borrowings amounting to RMB196,000,000 (2014: RMB220,610,000) will mature in 1 year and bear annual interest rate of 6.70% (2014: 6.60%).

As at 31 December 2015, short-term unsecured bank borrowings amounting to RMB61,689,000 (2014: RMB152,975,000) will mature in 1 year and bear annual interest rate ranging from 3.80% to 6.90% (2014: 3.80% to 6.90%).

17. BORROWINGS (CONTINUED)

Notes (continued)

(a) Bank borrowings (continued)

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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Long-term bank borrowings including its current portion		
Secured by		
– Property, plant and equipment	**642**	1,444
– Long-term prepayments	**7,921**	9,761
– Trade and note receivables	**–**	50,000
	8,563	61,205
Short-term bank borrowings		
Secured by:		
– Trade and note receivables	**126,000**	166,600
– Land use right	**–**	14,000
– Restricted bank deposits	**–**	10
– Corporate guarantee provided by certain subsidiary of the Group	**70,000**	40,000
	196,000	220,610

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

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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
RMB	**236,000**	220,610
USD	**61,689**	152,975
SGD	**8,563**	11,205
KZT	**–**	50,000
	306,252	434,790

17. BORROWINGS (CONTINUED)

Notes (continued)

(b) Convertible bonds

On 20 August 2012, the Company issued US$15,000,000 unsecured and non-redeemable convertible bonds with a coupon rate of 3% per annum (the "Bonds") to certain independent parties (the "Bondholders"). The Bonds mature three years from the issue date at their nominal value of US$15,000,000 or can be converted into shares at a conversion price of HK$1.65 (subject to adjustments) per share. 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 Bondholders 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 derecognised and replaced by the fair value of the new Bonds.

After that, the conversion price had been amended for two times triggered by certain term of the convertible bonds agreement and the latest conversion price was HK$1.60 per share before the second amendment deed was made.

On 12 June 2015, the Company and the Bondholders entered into a second amendment deed pursuant to which the maturity date was amended to the date falling on the sixth anniversary of the issue date of the original convertible bonds issued on 20 August 2012. In addition, the conversion price was amended to HK$1.69. As such, the original convertible bonds were derecognised whilst the new convertible bonds were recognised.

The Bonds recognised in the balance sheet was calculated as follows:

	2014 *RMB'000*
Liability component as at 31 December 2013	72,456
Add: Interest expense in 2014 (Note 24)	13,754
Less: Interest paid and payable	(2,754)
Less: Exchange difference	209
Liability component as at 31 December 2014	83,665

	2015 ***RMB'000***
Liability component as at 31 December 2014	**83,665**
Add: Interest expense in 2015 (Note 24)	**12,889**
Less: Interest paid and payable	**(2,922)**
Add: Exchange difference	**2,810**
Less: Derecognition of the original liability component	**(90,434)**
Add: Recognition of a new liability component	**61,654**
Liability component as at 31 December 2015	**67,662**

18. TRADE PAYABLES

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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Up to 6 months	**290,696**	626,218
6 months to 1 year	**52,162**	147,180
1 – 2 years	**162,751**	44,234
2 – 3 years	**29,909**	18,012
Over 3 years	**18,320**	13,436
	553,838	849,080

19. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Interest payable	**5,436**	1,726
Rental fee payable	**4,256**	16,330
Others	**16,331**	26,346
Total financial liabilities	**26,023**	44,402
Customer deposits and receipts in advance	**6,155**	20,239
Payroll and welfare payable	**46,882**	48,839
Taxes other than income taxes payable	**32,399**	102,937
Total non-financial liabilities	**85,436**	172,015
	111,459	216,417

20. DEFERRED INCOME TAXATION

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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Deferred income tax assets:		
– To be recovered after more than 12 months	**101,721**	27,043
– To be recovered within 12 months	**35,888**	62,100
	137,609	89,143
Deferred income tax liabilities:		
– To be settled after 12 months	**(23,271)**	(23,304)
– To be settled within 12 months	**(229)**	(2,487)
	(23,500)	(25,791)
	114,109	63,352

The gross movement on the deferred income tax account is as follows:

	2015	2014
	RMB'000	*RMB'000*
As at 1 January	**63,352**	48,788
Credited to the income statement (Note 25)	**57,304**	17,369
Currency translation difference	**(6,547)**	(2,805)
As at 31 December	**114,109**	63,352

20. DEFERRED INCOME TAXATION (CONTINUED)

The movement in deferred income tax assets and liabilities for the years ended 31 December 2014 and 2015, 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 2014	9,219	16,152	36,335	9,171	70,877
Charged/(credited) to the income statement	17,439	(1,677)	4,727	279	20,768
Currency translation differences	–	–	(2,502)	–	(2,502)
As at 31 December 2014	26,658	14,475	38,560	9,450	89,143
Credited to the income statement	38,261	12,522	3,405	825	55,013
Currency translation differences	–	–	(6,547)	–	(6,547)
As at 31 December 2015	**64,919**	**26,997**	**35,418**	**10,275**	**137,609**

* 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.

20. DEFERRED INCOME TAXATION (CONTINUED)

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 2014	2,599	18,642	781	67	22,089
Charged/(credited) to the income statement	3,604	–	(203)	(2)	3,399
Currency translation differences	303	–	–	–	303
As at 31 December 2014	6,506	18,642	578	65	25,791
Charged/(credited) to the income statement	(2,151)	–	(134)	(6)	(2,291)
As at 31 December 2015	**4,355**	**18,642**	**444**	**59**	**23,500**

* 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.

Details of unrecognised deferred income 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 RMB51,089,000 as at 31 December 2015 (2014: RMB17,502,000), in respect of losses amounting to RMB218,829,000 (2014: RMB80,697,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2015 and 2019.

(b) As at 31 December 2015, the Group did not recognise deferred tax liabilities of RMB10,198,000 (2014: RMB50,297,000) on withholding tax of unremitted earnings of certain subsidiaries earned prior to 1 July 2011 and during 2013, 2014 and 2015, as such unremitted earnings amounting to RMB417,715,000 (2014:RMB1,499,635,000) are expected to be retained in the respective subsidiaries for their future investment and expansion activities.

21. OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Net foreign exchange gains/(losses)	**26,104**	(22,210)
Others	**(892)**	4,250
	25,212	(17,960)

22. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Wages, salaries and allowances	**455,202**	502,596
Housing benefits	**12,030**	13,730
Pension costs	**45,073**	48,359
Share-based payments (Note 16)	**16,147**	35,223
Welfare and other expenses	**15,971**	17,157
	544,423	617,065

Notes

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one director for the years ended 31 December 2015 and 2014, and their emoluments are reflected in the analysis shown in Note 34. The aggregate amounts of emoluments paid and payable to the remaining four (2014: four) individuals whose emoluments were the highest in the Group for the years are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Salary	**4,210**	7,181
Discretionary bonus	**302**	410
Housing allowance	**54**	28
Estimated money value of other benefits	**1,727**	5,117
	6,293	12,736

22. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

Notes (continued)

(a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2015	2014
Emolument band		
HKD1,500,001 to HKD2,000,000	**1**	–
HKD2,000,001 to HKD2,500,000	**2**	–
HKD2,500,001 to HKD3,000,000	**1**	–
HKD3,000,001 to HKD3,500,000	**–**	1
HKD3,500,001 to HKD4,000,000	**–**	–
HKD4,000,001 to HKD4,500,000	**–**	2
HKD4,500,001 to HKD5,000,000	**–**	1
	4	4

23. EXPENSES BY NATURE

	Year ended 31 December	
	2015 ***RMB'000***	2014 *RMB'000*
Losses on disposal of property, plant and equipment	**122**	587
Sales tax and surcharges	**7,665**	8,534
Depreciation	**88,703**	74,558
Amortisation of land use right and intangible assets	**13,188**	8,186
Auditor's remuneration		
– PwC	**4,100**	4,600
– Other	**1,005**	1,196

24. FINANCE EXPENSES, NET

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Net foreign exchange gains on financing activities	**44**	–
Interest income on short-term bank deposits	**2,178**	2,833
Finance income	**2,222**	2,833
Net foreign exchange losses on financing activities	**–**	(6,664)
Interest expense:		
– Bank borrowings	**(22,968)**	(22,330)
– Bank charges	**(4,167)**	(3,905)
– Liability component of convertible bonds	**(12,889)**	(13,754)
Total finance expenses	**(40,024)**	(46,653)
Net finance expenses	**(37,802)**	(43,820)

25. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Current income tax	**13,918**	63,467
Deferred income tax	**(57,304)**	(17,369)
Income tax (credit)/expense	**(43,386)**	46,098

Notes

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 profits tax at a rate of 20% and 30% respectively.

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

d. The subsidiaries established in Singapore are subject to Singapore profits tax at 10%.

25. INCOME TAX EXPENSE (CONTINUED)

Notes (continued)

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 2015 and 2014, certain subsidiaries established in the western area of the PRC were subject to a 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:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(485,941)**	160,365
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(83,269)**	28,350
Expenses not deductible for taxation purposes	**6,295**	9,853
Losses not recognised as deferred tax assets	**33,588**	2,601
Withholding tax paid in foreign jurisdiction not deductible against local tax	**–**	5,294
Income tax (credit)/expense	**(43,386)**	46,098

26. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2015 and 2014.

27. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/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.

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
(Loss)/profit attributable to equity owners of the Company	**(412,165)**	116,176
Weighted average number of ordinary shares in issue (thousands)	**1,534,632**	1,533,036
Basic (losses)/earnings per share (RMB per share)	**(0.269)**	0.076

(b) Diluted

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. 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. However, when calculating the dilutive (losses)/earnings per share for the year ended 31 December 2015, both of the convertible bonds and share options were excluded as anti-dilutive factors for the period.

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
(Losses)/earnings		
(Loss)/profit attributable to equity owners of the Company	**(412,165)**	116,176
Interest expense on convertible bonds (Note 24)	**Anti-dilutive**	Anti-dilutive
	(412,165)	116,176
Weighted average number of ordinary shares in issue (thousands)	**1,534,632**	1,533,036
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**Anti-dilutive**	10,216
	1,534,632	1,543,252
Diluted (losses)/earnings per share	**(0.269)**	0.075

28. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Profit before income tax	**(485,941)**	160,365
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 23)	**88,703**	74,558
– net losses on disposals (Note 23)	**122**	587
Land use right and intangible assets		
– amortisation (Notes 7 & 8)	**13,188**	8,186
(Reversal)/Provision for impairment of assets	**47,457**	(6,064)
Net foreign exchange (gains)/losses (Notes 21 & 24)	**(26,148)**	28,874
Interest income (Note 24)	**(2,178)**	(2,833)
Interest expenses on borrowing (Note 24)	**22,968**	22,330
Interest expenses on convertible bonds (Note 24)	**12,889**	13,754
Share-based payments	**16,147**	35,223
Changes in working capital:		
Inventories	**137,048**	(65,107)
Trade receivables	**741,477**	(138,093)
Prepayments and other receivables	**26,087**	(66,755)
Trade payables	**(170,347)**	(31,081)
Accruals and other payables	**(241,853)**	(24,167)
Net cash inflows from operations	**179,619**	9,777

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

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Net book amount (Note 6)	**4,504**	4,046
Loss on disposal of property, plant and equipment (Note 23)	**(122)**	(587)
Less: unsettled receivables in relation to the disposal	**(1,497)**	630
Proceeds from disposal of property, plant and equipment	**2,885**	4,089

29. CONTINGENCIES

As at 31 December 2015 and 2014, the Group did not have any significant contingent liabilities.

30. COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Property, plant and equipment		
– Contracted for but not incurred	**5,596**	1,022

(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:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
No later than 1 year	**2,918**	19,417
Later than 1 year and no later than 5 years	**1,648**	79,936
Later than 5 years	**5,757**	314,537
	10,323	413,890

31. BUSINESS COMBINATION

On 10 July 2015, the Group acquired 51% equity interest in Beijing Huakai New Energy Technology Services Co. Ltd. ("Huakai") at a consideration of RMB977,000.

The following table summarises the consideration paid for Huakai and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	RMB'000
Purchase consideration-cash paid	977

31. BUSINESS COMBINATION (CONTINUED)

Recognised amounts of identifiable assets acquired and liabilities assumed

As at the date of acquisition	**Fair value** *RMB'000*
Cash and cash equivalents	963
Prepayments and other receivables	543
Trade receivables	1,998
Property, plant and equipment	6
Trade payables	(1,792)
Accruals and other payables	(274)
Total identifiable net assets	1,444
Non-controlling interest	(707)
Goodwill	240
	977
Outflow of cash to acquire business, net of cash acquired	
– cash consideration	977
– cash and cash equivalents in subsidiary acquired	(963)
Cash outflow on acquisition	14

(a) Non-controlling interest

The non-controlling interest is measured at the proportion of acquired net assets shared by the non-controlling interest.

(b) Revenue and profit contribution

For the year ended 31 December 2015, the revenue and net loss contributed by Huakai since the acquisition day were RMB8,520,000 and RMB109,000 respectively. Had Huakai been consolidated on 1 January 2015, the consolidated income statement would show pro-forma revenue of RMB1,037,177,000 and net loss of RMB441,678,000.

32. 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 2015 and 2014:

(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.

(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:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Salary	**9,528**	16,764
Discretionary bonues	**777**	2,109
Housing allowance	**163**	128
Estimated money value of other benefits	**4,557**	10,798
	15,025	29,799

33. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		**1,104,993**	1,117,570
Current assets			
Prepayments and other receivables		**287**	224
Cash and cash equivalents		**2,367**	46,442
Total assets		**1,107,647**	1,164,236
Equity and liabilities			
Share capital		**974**	974
Share premium		**591,651**	591,251
Other reserves	Note (a)	**426,380**	381,455
Currency translation differences		**15,573**	(20,094)
Accumulated losses	Note (a)	**(60,944)**	(27,417)
Total equity		**973,634**	926,169
Liabilities			
Non-Current liabilities			
Borrowings		**67,662**	–
Current liabilities			
Borrowings		**61,689**	152,975
Accruals and other payables		**4,662**	1,427
Current portion of long-term borrowings		**–**	83,665
Total liabilities		**134,013**	238,067
Total equity and liabilities		**1,107,647**	1,164,236

The balance sheet of the Company was approved by the Board of Directors on 21 March 2016 and was signed on its behalf.

Wang Guoqiang
Director

Wu Dongfang
Director

33. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note

(a) Reserve movement of the Company

	Accumulated losses *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Total *RMB'000*
At 1 January 2014	(4,839)	663,226	348,024	(22,994)	983,417
Profit for the year	(22,578)	–	–	–	(22,578)
Dividends paid relating to 2013	–	(77,905)	–	–	(77,905)
Currency translation differences	–	–	–	2,900	2,900
Share options exercised	–	5,930	(1,792)	–	4,138
Share-based payments	–	–	35,223	–	35,223
At 31 December 2014	(27,417)	591,251	381,455	(20,094)	925,195
At 1 January 2015	**(27,417)**	**591,251**	**381,455**	**(20,094)**	**925,195**
Profit for the year	**(33,527)**	**–**	**–**	**–**	**(33,527)**
Convertible bonds – equity component	**–**	**–**	**28,780**	**–**	**28,780**
Currency translation differences	**–**	**–**	**–**	**35,667**	**35,667**
Share options exercised	**–**	**400**	**(2)**	**–**	**398**
Share-based payments	**–**	**–**	**16,147**	**–**	**16,147**
At 31 December 2015	**(60,944)**	**591,651**	**426,380**	**15,573**	**972,660**

34. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives emoluments

The remuneration of each director and the chief executive for the year ended 31 December 2015 is set out below:

	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Estimated money value other benefits *RMB'000*	Total *RMB'000*
Executive Directors					
Mr. Wang Guoqiang*	788	–	14	445	1,247
Mr. Wu Dongfang	790	–	14	448	1,252
Mr. Liu Ruoyan	423	125	–	377	925
Mr. Jin Shumao**	1,908	–	–	356	2,264
Non-executive Directors					
Mr. Lin Yang	–	–	–	–	–
Ms. Chen Chunhua****	818	–	–	379	1,197
Independent Non-Executive Directors					
Mr. Wu Kwok Keung Andrew	376	–	–	329	705
Mr. Wan Kah Ming	289	–	–	329	618
Ms. Zhang Yujuan***	318	–	–	313	631
	5,710	125	28	2,976	8,839

34. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executives emoluments (continued)

The remuneration of each director and the chief executive for the year ended 31 December 2014 is set out below:

	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Estimated money value other benefits *RMB'000*	Total *RMB'000*
Executive Directors					
Mr. Wang Guoqiang*	1,525	230	14	866	2,635
Mr. Wu Dongfang	1,523	230	14	872	2,639
Mr. Liu Ruoyan	758	487	–	900	2,145
Mr. Jin Shumao**	2,166	300	–	883	3,349
Non-executive Directors					
Mr. Lin Yang	–	–	–	–	–
Ms. Chen Chunhua****	875	–	–	850	1,725
Independent Non-Executive Directors					
Mr. Wu Kwok Keung Andrew	282	–	–	808	1,090
Mr. Wan Kah Ming	254	–	–	808	1,062
Ms. Zhang Yujuan***	263	–	–	720	983
	7,646	1,247	28	6,707	15,628

* 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 2015 and 2014.

** Ms. Jin Shumao was appointed as an executive director of the company on 27 March 2013.

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

**** Ms. Chen Chunhua was appointed as an non-executive director on 27 March 2013.

***** Other benefits include insurance premium and fair value of share options charged to the consolidated income statement during the year.

34. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year ended 31 December 2015, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2014: nil).

(c) Directors' termination benefits

During the year ended 31 December 2015, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2014: nil).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2015, no consideration was provided to or receivable by third parties for making available director's services (2014: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2014: nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2014: nil).

SPT Energy Group Inc.
華油能源集團有限公司 *