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

2016
Annual Report

* For identification purpose only

Contents

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang
*(Chairman)*Note 1
Mr. Ethan Wu
Mr. Liu Ruoyan
Mr. Jin Shumao (resigned on 21 March 2017)
Mr. Li Qiang (appointed on 21 March 2017)

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.sptenergygroup.com

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

5/F, Hongmao Commercial Building
Jia No. 8 Hongjunying East Road
Chaoyang District
Beijing
PRC
(zip code: 100012)

Note 1: Mr. Wang Guoqiang was the chief executive officer of the Company during the period from 1 January 2016 to 31 August 2016. Mr. Jiang Qingsong has been appointed by the board of directors as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 1 September 2016.

Corporate Information

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
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

PRINCIPAL BANKERS

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

INVESTOR RELATIONS

Porda Havas

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

1251

DATE OF LISTING

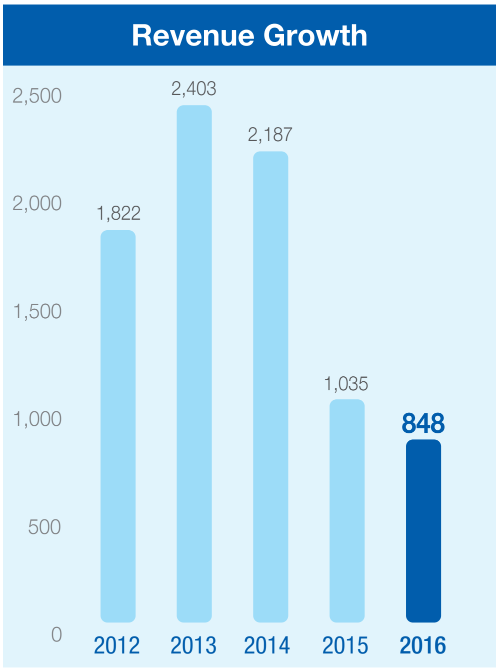
23 December 2011

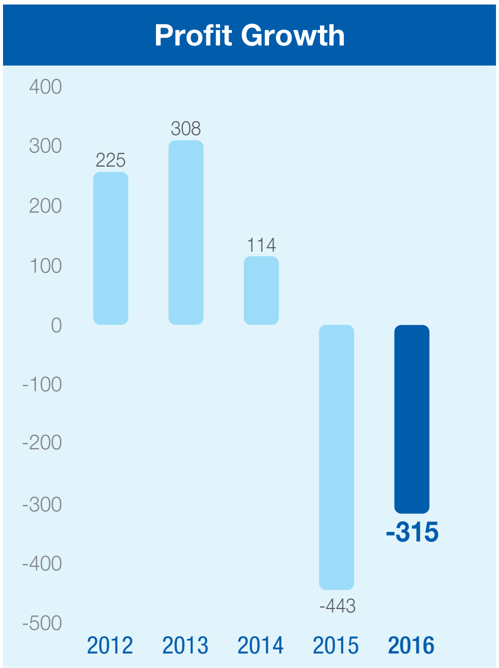
Financial Summary

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

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
RMB'000	**2016**	2015	2014	2013	2012
Revenue	**848,131**	1,035,007	2,186,958	2,402,767	1,821,661
Other gains/(losses), net	**(30,015)**	25,212	(17,960)	12,608	(11,435)
Operating costs	**(1,086,199)**	(1,508,358)	(1,964,813)	(2,001,247)	(1,448,157)
Operating (loss)/profit	**(268,083)**	(448,139)	204,185	414,128	362,069
Finance cost, net	**(30,301)**	(37,802)	(43,820)	(24,638)	(22,797)
(Loss)/profit before income tax	**(303,384)**	(485,941)	160,365	389,490	339,272
(Loss)/profit for the year	**(314,654)**	(442,555)	114,267	308,397	254,938
Attributable to:					
Equity owners of the Company	**(292,346)**	(412,165)	116,176	300,377	247,703
Non-controlling interests	**(22,308)**	(30,390)	(1,909)	8,020	7,235
Dividends proposed after balance sheet date	**–**	–	–	76,520	61,000





Financial Summary

Revenue by Region

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

Revenue by Business

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

- China: 480,316
- Kazakhstan: 196,439
- Canada: 48,213
- Turkmenistan: 50,579
- Middle East: 46,065
- Others: 26,519

- Drilling: 182,099
- Well completion: 120,606
- Reservoir: 545,426

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2016**	2015	2014	2013	2012
Asset					
Non-current assets	**612,864**	789,360	832,278	544,272	388,849
Current assets	**1,447,429**	1,560,881	2,750,919	2,507,924	2,106,196
Total assets	**2,060,293**	2,350,241	3,583,197	3,052,196	2,495,045
Total equity	**1,012,334**	1,247,263	1,922,054	1,831,194	1,628,174
Liability					
Non-current liabilities	**125,234**	137,856	84,521	106,861	151,394
Current liabilities	**922,725**	965,122	1,576,622	1,114,141	715,477
Total liabilities	**1,047,959**	1,102,978	1,661,143	1,221,002	866,871
Total equity and liabilities	**2,060,293**	2,350,241	3,583,197	3,052,196	2,495,045
Net current assets	**524,704**	595,759	1,174,297	1,393,783	1,390,719
Total assets less current liabilities	**1,137,568**	1,385,119	2,006,575	1,938,055	1,779,568

Chairman's Statement

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

Wang Guoqiang
Chairman and Executive Director

Dear Shareholders,

On behalf of the board of directors of SPT Energy Group Inc. (the "Company"), I present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Reporting Year").

During the Reporting Year, amid sluggish global economy, global oil oversupply and plummeting international oil prices, the petroleum and natural gas industry remained in the doldrums. Under this backdrop, investment in the oil and gas sector around the globe remained slow. Given the limited investment budget, many oil producers were forced to cut down expenditures and significantly reduce the exploration activities. In view of the oversupply in the oil and gas sector, the business environment of the industry remained harsh.

Faced with such complicated and challenging economic landscape, the Group actively adjusted the operating strategy to survive the cold, harsh winter. On the one hand, it continued to execute cost control measures to further reduce costs and optimise the financial structure. During the Reporting Year, the capital expenditures and expenses were greatly cut down. On the other hand, we stepped up our innovation efforts to cope with the challenges in the market environment through new products research and development ("R&D") and new market expansion. As to new products, we fully capitalised on our superior R&D capabilities with a customer demand-oriented approach to satisfy the customer needs on cost reduction, safety and environmental protection. As to oil extraction and oil reservoir technology, we introduced new products such as shallow bed directly driven screw pump and ultra-low density proppant, which were highly recognised by the users. As to new market expansion, the Group took proactive efforts to expand the new markets in the Middle East and Russia to optimise the current customer mix and create new profit areas.

To cope with such deteriorating industry environment, the Group took an active attitude and devoted multi-efforts. For the year ended 31 December 2016, the Group's revenue amounted to RMB848.1 million and the net loss attributable to the equity owners of the Company amounted to RMB292.3 million.

MARKET REVIEW

During the Reporting Year, the global economic environment remained sluggish with intensifying geopolitical tension. Affected by the macroeconomic environment and overcapacity among major oil producing countries, the imbalance between demand and supply in the international crude oil market saw no fundamental change. Until the end of 2016, driven by the agreement between Organization of Petroleum Exporting Countries ("OPEC") members and Non-OPEC members to cut oil production ("Output Reduction Agreement"), international crude oil prices rallied significantly as compared with that at the beginning of the year but remained at the low end of US$50 per barrel. In this regard, during the Reporting Year, the global oil and gas exploration activities were not active. Oil producers locally and abroad continued to strictly control the investment in upstream oil and gas exploration, which caused ongoing pressure on the operations of downstream oil and gas service providers.

PRC Market

The PRC oil-field service sector faced a depressed market for two years. During the Reporting Year, the PRC oil-field service market saw the lowest levels of activity in recent years where key PRC oil and gas and petroleum companies took a "wait and see" approach toward oil and gas exploration projects. As a result of the adverse effects of absence of growth in profitability and tightening cash flows during the year, crude oil output in the PRC significantly reduced by 9% for the 11 months ended 30 November 2016 as compared with that in the same period of last year, which substantially reflected the effects of ongoing reduction in expenditures of oil producers in recent years on output.

Overseas Market

Similar to the PRC market, given the tardy international oil prices, except for a few regions with lower exploration costs in the Middle East, the majority of the international oil and gas companies postponed or suspended the investment in the exploration projects in 2016. The activity rate of the global oil-field service sector drastically decreased. Taking the US as an example, according to the statistics of Baker Hughes, prior to the output reduction agreement entered into by OPEC members, rig counts in the US decreased from 698 rigs at the beginning of the year to the lowest of 404 rigs in May 2016.

Chairman's Statement

PROSPECT

As a result of the Output Reduction Agreement, market sentiments have improved. Faced with the current level of oil price, oil producers have gradually taken a prudent approach toward increasing investment in exploration. Impacted by the declining preliminary investment over the past two years and as a result of the pledge to cut oil production between OPEC and Non-OPEC producers further taking effect, the global oil market is expected to see a gradual pickup in 2017 with a more balanced oil and gas demand and supply and room for further increase in oil and gas prices. In view of these changes in the external environment, oil producers will step up the investment in exploration to make up for the declining oil and gas output in the past years and to satisfy the new demand for oil and gas. The oil and gas service market will bottom out gradually. Meanwhile, after undergoing more than two tough years, the oil-field service providers will attach greater importance to both quality and efficiency while strengthening their R&D efforts to develop technologies that reduce costs and increase efficiency for oil-field service providers in an effort to actively create and enhance their own technology strengths.

With the industry environment expectations above and in response to the changes of market landscape, the Group has adjusted the operating strategy correspondingly. On the one hand, it remains prudent in managing its capital expenditure and will carefully screen through the new markets and product opportunities. On the other hand, it also follows closely the developments of other oil producers in areas of personnel, technology and equipment to capture the opportunities arising from the recovery of the entire sector market. We believe that the year 2017 will be a year of turnaround from its cyclic doldrums. The management of the Group will conscientiously analyse the market opportunities under prevailing market conditions and actively capitalise on its own competitive strengths to effectively satisfy the service needs of oil-field exploration in unveiling this hard-earned new chapter of the sector.

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 of the Board

BUSINESS OVERVIEW

During the Reporting Period, the Group faced a tough market environment. International oil prices continued to zigzag at its low end and hit its lowest level in recent years. Although a slow recovery trend was revealed throughout 2016, the international oil prices were down by more than 50% as compared with the highest level in 2014 before the global oil market crash. In addition, the accumulated unutilised capacity and sluggish global economy caused much pressure on the pace of recovery of global oil prices. Given these inherent factors and uncertainties about the prospect, the majority of the oil and gas producers remained prudent and generally adopted measures to cut down costs and capital expenditures. The expenditure in exploration and production became tightened across the sector and workload in the market continued to contract. In particular, existing oil producers were extremely sensitive to the pricing of their services. Faced with abundant over-supply, service providers predominantly competed for orders with a lower price to maintain market share. The projects had generally low gross profits or were even at loss to maintain operations.

During the Reporting Year, the Group actively adjusted its strategy to cope with the difficult industry environment. Firstly, to actively diversify the channel and method of financing to enhance the capability of capital access, the Group maintained a sound financial structure to ensure stable cash flow. As at the end of the Reporting Year, cash and cash equivalents amounted to RMB245.9 million. Secondly, to focus more on the demand of cost control and efficiency improvement at oil fields, the Group promoted a series of new technologies and new products, which meet the above demand of customers. To a certain extent, these measures have alleviated the pressure of workload contraction faced by the Group, and also allowed the Group to successfully enter some new markets that it used to have no competitive strengths. In addition, they optimised the Group's product mix, as well as strengthened the Group's risk resistance and business expansion capabilities. Thirdly, the Group reduced the over-capacity operations and cut down recurring expenses to control costs. Accordingly, administrative and sales expenses decreased substantially. Fourthly, the Group continued to optimise the organisation structure. At the end of the Reporting Year, the total number of employees registered with the Group was 3,013, down by 11.4% as compared with that in the previous year.

For the year ended 31 December 2016, the Group realised revenue of RMB848.1 million, representing a decrease of RMB186.9 million or 18.1% as compared with that in the previous year. Affected by the deteriorating global industry environment, revenue from both the PRC market and overseas markets decreased. During the Reporting Year, revenue from the PRC market amounted to RMB480.3 million, representing a decrease of RMB21.6 million or 4.3% as compared with that in the previous year; and revenue from the overseas markets amounted to RMB367.8 million, representing a decrease of RMB165.3 million or 31.0% as compared with that in the previous year. As to business segments, revenue from oil reservoir services amounted to RMB545.4 million, representing a decrease of RMB65.9 million or 10.8% as compared with that in the previous year; revenue from well completion services amounted to RMB120.6 million, representing a decrease of RMB59.1 million or 32.9% as compared with that in the previous year; revenue from drilling services amounted to RMB182.1 million, representing a decrease of RMB61.8 million or 25.3% as compared with that in the previous year.

Revenue Analysis

During the Reporting Year, the Group realised revenue of RMB848.1 million, representing a decrease of RMB186.9 million or 18.1% as compared with in the previous year. The decrease in revenue was mainly attributable to the low oil prices and substantial contraction in workload as a result of reduction in exploration investment by oil and gas producers. Among which, percentage of revenue from oil reservoir services was 64.3% and percentage of combined revenue from drilling service and well completion services was 35.7%. As a traditional principal business of the Group, the oil reservoir services segment aims to explore production potential of existing reservoirs and enhance exploration efficiency. As such, the impacts of market downturn on this segment were lower. As the drilling services and well completion services are closely related to new oilfield investments, the reduction in investment by oil and gas producers had a greater impact. Below is the breakdown of the revenue by different service lines:

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Reservoir	**545,426**	611,364	(10.8%)
Drilling	**182,099**	243,925	(25.3%)
Well Completion	**120,606**	179,718	(32.9%)
Total	**848,131**	1,035,007	(18.1%)

Reservoir Services Segment

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Revenue			
Overseas	**254,459**	340,778	(25.3%)
PRC	**290,967**	270,586	7.5%
Total	**545,426**	611,364	(10.8%)

During the Reporting Year, revenue from the oil reservoir services amounted to RMB545.4 million, representing a decrease of RMB65.9 million or 10.8% as compared with that in the previous year. Among which, revenue from the overseas markets amounted to RMB254.5 million, accounting for 46.7% of the total revenue from oil reservoir services; and revenue from the PRC market amounted to RMB290.9 million, accounting for 53.3% of the total revenue of oil reservoir services. The Group's oil reservoir services comprise oil reservoir research services, dynamic monitoring service, oil testing service, oil and gas operations maintenance service and oil extraction process service. The reservoir services segment aims to maximise the economic benefits of customers by providing quality solutions and systematic oil recovery services which are well recognised by customers.

During the Reporting Year, the oil-field service segment of the Group faced increased market pressure and challenging competition. Nevertheless, the Group successfully made the following achievements in certain markets.

1. The Group introduced the 140MPa blowout preventer in the western part of China. With respect to the "three ultras" (ultra-depth, ultra-high pressure and ultra-high temperature) gas well testing operations, it smoothly completed 24 testing operations throughout the year. No accident related to safety was identified and the data collection success rate was 100%. We are the only company which is able to provide such difficult operations service in the region.

2. The submersible directly driven screw pump technology was successfully launched in new markets such as PetroChina's Tuha Oilfield, Karamay Oilfield and Sinopec's Northwestern Oilfields, and had its trial operation. Solid foundation has been laid and the technology is ready for large scale application.

Drilling Services Segment and Well Completion Services Segment

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Drilling Services revenue			
Overseas	**56,176**	81,041	(30.7%)
PRC	**125,923**	162,884	(22.7%)
Total	**182,099**	243,925	(25.3%)

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Well Completion Services revenue			
Overseas	**57,180**	111,266	(48.6%)
PRC	**63,426**	68,452	(7.4%)
Total	**120,606**	179,718	(32.9%)

During the Reporting Year, revenue from drilling services segment amounted to RMB182.1 million, representing a decrease of RMB61.8 million or 25.3% as compared with that of the previous year. The Group's drilling services line comprised drilling rig service, work over 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 Reporting Year, revenue from well completion services segment amounted to RMB120.6 million, representing a decrease of RMB59.1 million or 32.9% as compared with that of the previous year. The Group's well completion service line comprised well completion tools trading and relevant service and stimulation fracturing service.

During the Reporting Year, the drilling service segment and the well completion segment managed to make the following key achievements despite facing very tough challenges:

1. The Group made the fastest drilling record in the Erdos project. During the Reporting Year, the Group had finished drilling of a total of 6 wells with average drilling cycle of 13.19 days and average well construction cycle of 19.18 days in this area. In one of the wells, we broke the area record for the fastest drilling where a drilling depth of 3,100 metres was achieved in only 11.3 days.

2. The Group developed an internationally-advanced full-length diversion fracturing technology specialising in the simulation of low permeability oil and gas reservoir, shale gas and coalbed methane gas. During the Reporting Year, it was successfully applied in the Lake Eyre project at Xinjiang Oilfield and the Sugeli project of Changqing Oilfield. Compared with those using conventional fracturing in the surrounding area with similar geological conditions, the new technology was able to achieve a better result in improving productivity and controlling cost and has promising prospects.

3. The Group provided the soluble bridge plug placement for horizontal wells and multi-stage cluster perforation joint operations for a horizontal well in Changqing Oilfield. The well has a horizontal length of 2,740 meters. The ultra-long horizontal length has caused great difficulties for pumping of bridge plug and packer. The Group successfully commenced the onsite operations and met the standards stipulated in the contract.

Market Environment

During the Reporting Period, the global oil market faced tremendous challenges. Faced with deteriorating global economy and slowing growth, the global oil prices plummeted to its recent lowest level. Despite the substantial decrease in investment in oil and gas exploration worldwide as compared with two years ago, crude oil inventory remained high given the strong inherent factors. As a result, the global crude oil prices recovered slowly and faced great pressure for further increase. Throughout the Reporting Year, exploration activities at oilfields were very inactive and equipment of oil-field service providers was generally under-utilised. Since the industry cyclic doldrums sustained for a relatively long period of time, many oil-field service providers engaged in vicious price competition to maintain a certain level of equipment utilisation rate and market share. As such, corporate profitability was greatly squeezed out and many service providers were loss-making alongside with low market sentiments. On 30 November 2016, major members of OPEC entered into the output reduction agreement. Global oil prices showed a gradual pick up and market sentiments turned positive. However, since the output reduction agreement took effect in 2017, the demand and supply in the global oil market did not see material improvements during the Reporting Year.

Overseas Markets

The Group's major overseas markets mainly cover Central Asia, Southeast Asia and the Middle East where oil resources are abundant and exploration activities are active. During the Reporting Year, as a result of the sluggish oil prices, the overseas markets were generally characterised by tightened investment and huge contraction in exploration workload, especially the Central Asia market. During the Reporting Year, the exchange rate of Tenge ("KZT") against USD remained at its lows. The Group's overall operations in the Central Asia region were greatly affected. Coupled with the vicious price competition, the local operating costs of the Group had a greater increase in general as compared with that before the devaluation of the currency, which undermined the profitability of the Group in the region. Comparatively speaking, in the Middle East and Southeast Asia regions, as revenue was generally denominated in USD, although oil companies significantly reduced their investments amid sluggish global oil prices, revenue generated from and the operations in these regions were relatively stable as compared with the previous year.

Faced with these objective circumstances, the Group took proactive measures to cope with the challenges in the overseas markets. Firstly, it cut down the cost of overseas operations and controlled daily expense, which was mainly achieved by large-scale downsizing of Chinese workers in the overseas markets and increasing the use of local personnel combined with strengthening the support of overseas personnel. As at the end of the Reporting Year, the number of Chinese workers stationed in Kazakhstan was reduced from 208 at the beginning of the year to 143, down by 31.25% as compared with that in the previous year. Secondly, it stepped up its business development efforts at oilfields through cost reduction and efficiency improvement technology. The Group's key oil recovery service, i.e. oil recovery directly driven screw pump business, was initially put into operation in Kazakhstan where three wells underwent testing with the maximum workover exemption period of 8 months, thus laying a solid foundation for mass application in 2017. Finally, it actively explored new markets. The Group has completed the registration of the Russian company and kicked off the slurry disposal related business. In the Middle East region, particularly Iraq, the Group stepped up the market expansion efforts. It was also awarded the two-year dynamic monitoring project at Iraq's Oasis Oilfield for the third time. Prior to the issue of this report, the Group obtained the access approval issued by the Petroleum Administration Bureau of Maysan, Iraq and is qualified for engaging in the sales of on ground and down hole tools as well as bidding for the majority of oilfield exploration services including workover, oil testing, acid fracturing and slurry disposal, thus marking an important milestone in the speedy development of the Group's Iraq business.

PRC Market

Compared with the overseas markets, the industry environment in the PRC market was even worse. Firstly, affected by more than two years' capital expenditure reduction, the PRC oil-field service providers generally suffered from significant investment shrinkage and output contraction. Based on the statistics published by National Bureau of Statistics, as of November 2016, crude oil output in the PRC decreased by 9% as compared with that in the previous year. The PRC crude oil output for that month only stood at 536,000 tonnes per day. Secondly, the PRC market faced even fiercer competition than the overseas markets. As state-owned oil-field service providers enjoy comparative strengths, the market share of independent third-party oil-field service providers was extremely squeezed out and most of the equipment remained idle. In addition, as most oil-field service providers attached greater importance to liquidity, many awards lowered their service fee to below cost level which resulted in severe vicious competition.

Amid such complicated conditions in the PRC market, in addition to strict control over operating costs and reduction in redundant operational capacity, the Group focused its efforts on the following areas:

- Accelerate the promotion of new products and technologies to satisfy the demand for cost reduction and efficiency improvement of customers amid low oil price environment. During the Reporting Year, the submersible directly driven screw pump technology was successfully launched in new markets such as PetroChina's Tuha Oilfield, Karamay Oilfield and Sinopec's Northwestern Oilfields, Kazakhstan NB Oilfield and had its trial operation. Solid foundation has been laid and is ready for large-scale application. The full-length diversion fracturing sand also had its trial operation at low permeability wells at Changqing Oilfield and Karamay Oilfield and the test results were good. The Group's self-developed annular pressure control business was also running smoothly at Daqing Oilfield and received high accreditation from customers.

- Accelerate the promotion of green operations at oilfields. As the central government's requirements on environmental protection and energy saving further increase, the importance of green oilfield is further enhanced. This is a market with huge potential and is only at its emerging phase. Xinjiang SPT Engineering Service Co., Ltd., a subsidiary of the Group obtained the environmental operations qualifications in relation to solid waste and sewage treatment issued by Xinjiang Provincial Environmental Protection Bureau. Thus, the Group is qualified to engage in a variety of environmental protection businesses. This offers the pre-requisite conditions for the environmental protection business expansion of the Company.

- Enhance the incentive system and increase management efficiency. To tackle the inadequate workload in the market and fierce price competition, the Group adjusted the appraisal and incentive system for some of the business units so that employees would increase work efficiency and operating costs would be reduced. Through these efforts, the work efficiency of the business units increased significantly. During the Reporting Year, the Group's drilling team No. 2 at Erdos Changqing Oilfield performed remarkably where it completed the drilling of six wells (with an average depth of 3,000 metres) in five months at the Erdos Changqing Oilfield. Among which, we broke the record for the fastest drilling within the area where a drilling depth of 3,100 metres in the vertical well was achieved in only 11.3 days, gaining high recognition from customers.

Despite the difficult overall industry environment in 2016, objectively speaking, it allowed oil-field service providers to build its capabilities and confidence to tackle challenges and difficulties in such hard times. We believe that, after this transformation, oil-field service providers' resistance to risks will further increase and market competition will turn constructive. The ability to satisfy customer demands in areas of technology and product will be the core competence that oil-field service providers should focus on. As the global oil prices further recover, we consider that the objective industry environment will be further improved:

- The One Belt One Road strategy of China sets its starting point in Xinjiang Uyghur Autonomous Region, the PRC. The region is a traditional market where the Group enjoys comparative strengths. The strategy will not only generate more growth opportunities to Xinjiang, but is also a pull factor for the development of the local oil sector. Leveraging on the marketing capabilities built in the region over the past two decades, the Group will greatly benefit from the development of the oil sector there.

- The business environment of oil-field service will improve. It has been more than two years after the oil market downturn. Oil and gas producers have exercised strict control over oil and gas exploration and oil recovery expenditure for a fairly long period of time, bringing the crude oil output to its recent low. Since crude oil exploration and recovery requires a certain cycle, to ensure production output and market share, it has come to a point now for the oil and gas producers where investment in oil and gas exploration and oil recovery is needed.

- The PRC economy will maintain its growth momentum. Oil and gas resources will remain its position as the key resources of economic security for a fairly long period of time and are irreplaceable. In spite of the slowing economic growth in China, the Group believes that the key position of oil and gas resources can ensure steady growth of the Group's business.

In conclusion, the global oil market has overcome its toughest times and a silver lining has already appeared. After internal correction in this period, global oil market demand and supply will reach its equilibrium. Over the past years, certain less competitive players have been eliminated in this tough industry environment, leaving behind the opportunities for industry leaders. The Group remains fairly optimistic about the oil-field service sector and believes that it can create greater value in the future.

R&D and Manufacturing

As to scientific research and innovation, the Group's scientific research team pushed ahead its R&D efforts in the area of drilling processes and techniques such as increasing oil recovery, energy saving and environmental protection as well as cost reduction and efficiency improvement.

In addition to widespread and successful trial application of the submersible directly driven screw pump technology in oil wells, the engineering and technology centre of the Group also captured the 660V long-term high vector control technology and thus obtained the 3,000 metres (above) ultra-distance control. On 5 November 2016, wells in Tuha Oilfield successfully commenced underground operations with a setting pump depth of 3,003 metres and daily fluid production of 12 cubic metres, marking the initial success of the ultra-deep well small discharge rodless pump technology. At the same time, targeting at the issues of low liquid production and frequent inclined shafts among onshore wells in China, it has developed an integrated submersible electric screw pump lifting system, which is characterised by a system combining mechanical and electrical elements with a more well-knit structure that is approximately 50% less than the length of the submersible directly driven screw pump and is more suitable for underground applications. Moreover, it enjoys significant strengths in the recovery of low liquid production wells. The cost of production of the equipment has also been substantially reduced. Currently, processing of the prototype machine has been completed and simulation trial application has been carried out successfully in plants. Initially, various parameters of properties are proved to be stable and trial application in oil wells is soon to be carried out. The development of FulconFracTM full-length diversion fracturing technology has a complete process and technology system. In addition to achieving an increase of 40% in average simulation in the trial application in four wells in phase I, it carried out another trial application in two gas wells and similar simulation results were recorded of such technology on gas reserves. Currently, letters of intent have been entered into with customers and the Group is preparing the trial application of fracturing in two horizontal wells of shale gas in Sichuan. It is expected that, in 2017, a larger scale of trial application of FulconFracTM full-length diversion fracturing technology will be seen in reservoir of tight oil and gas fields and shale oil and gas fields.

Enecal Oil Tools ("EOT") manufacturing centre has drawn closer the relations between product R&D and marketing, placing more emphasis on the R&D of high-end products with great market demand and less competition and products specially designed for customers. Our Singapore plant successively completed the design and testing of Enecal TSV-5 and TSV-10 safety valve products and obtained the API14A certification with respect to safety valves designed for underground operations. Meanwhile, after modification of PHS-10 retrievable hydraulic packer under the 10,000 psi high-pressure environment, we have secured one order and this has allowed our Singapore plant to obtain the API11D1V0 certification. The 5-1/2" large-bore hydraulic retrievable packer technology and the 3E system annular pressure control technology respectively developed by Enecal Tanggu plant were successfully applied onsite in Daqing Oilfield, initially generating considerable economic benefits. The multi-stage modification tool of 4-1/2" oil casing full-bore horizontal well was applied in the onsite construction of 12 wells and were highly accredited and received by customers. Currently, we are developing a tool ancillary to 4-1/2" casing continuous pipeline driven sandblasting perforation fracturing process; hydraulic retrievable hookwall packer for 6-5/8" and 7" casings and their ancillary tools; as well as 3.5" ball set fishable multiple-switch fracturing sleeve and its ancillary switch fishing tools. The development of which is expected to be completed in 2017.

Human Resources

Based on the business growth needs, the Group has adopted the following human resources measures:

In response to the changes in the external market environment, coupled with the strategic growth needs, the Group continued to optimise and adjust the organisational structure. Focusing on the features of "quick response, flexibility, low cost operation and clear responsibilities" in its horizontal organisational structure, the Group restructured its group structure and reporting lines as well as rationalised the management structure. At the same time, it downsized the operating entities, further refined the operating indicators and delegated power and responsibilities to lower levels. After establishing the departments including the "project development department, strategic investment department, equipment management department and EOT manufacturing centre", more human resources were allocated to new market expansion. Now, these efforts begin to bear fruit.

Through structural optimisation and downsizing, the Group has successfully reduced headcount. In 2016, the Group continued its structural optimisation efforts toward headcount. As at 31 December 2016, the number of employees registered with the Group was reduced to 3,013, decreased by 387 as compared with the number of employees as at 31 December 2015 of 3,400, thus reducing staff costs by approximately RMB168 million for the year. The actual costs of the Group's human resources for the year were controlled within the budget amount set at the beginning of the year.

Our Plans

The Group considers that, as the market environment further improves, the investment in oilfield exploration will also pick up slowly. After two and a half years of correction, the oil-field service market has experienced considerable structural changes. Objectively speaking, it has provided room and opportunities for new industry and market consolidation. In this regard, in addition to further consolidating and expanding the market share of its traditional markets and products, the Group plans to focus its efforts on the following areas:

1. Closely follow customer needs, continue to promote the technologies and products that meet the customers' requirements of cost reduction and efficiency increase; at the same time further strengthen new product promotion such as submersible electric pump and low density fracturing sand in the markets we have already entered in an effort to achieve mass application.

2. Step up expansion efforts in new markets particularly the Middle East and Russia where oil and gas resources are abundant and exploration activities are active with a view to expanding the operation size in these markets to another new level.

3. Strengthen communication and cooperation with upstream customers, possibly through joint venture to take part in the whole-life cycle management of oil-field development.

4. Push ahead its efforts in energy saving and environmental protection so as to open a new profit growth area for the Group.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, revenue of the Group was RMB848.1 million, representing a decrease of RMB186.9 million, or 18.1%, as compared with that of RMB1,035.0 million for the previous 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 (losses)/gains, net

For the year ended 31 December 2016, other losses, net of the Group were RMB30.0 million, while other gains, net for the previous year were RMB25.2 million. The net losses were as a result of certain PRC subsidiaries holding many USD denominated liabilities.

Material costs

For the year ended 31 December 2016, material costs of the Group was RMB177.7 million, representing a decrease of RMB174.7 million, or 49.6%, as compared with that of RMB352.4 million for the previous 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 2016, employee benefit expenses of the Group were RMB376.2 million, representing a decrease of RMB168.2 million, or 30.9%, as compared with that of RMB544.4 million for the previous 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 2016, operating lease expenses of the Group was RMB52.8 million, representing a decrease of RMB17.2 million, or 24.6%, as compared with that of RMB70.0 million for the previous year. It was mainly due to the operating activities shrinkage of the Group.

Transportation costs

For the year ended 31 December 2016, transportation costs of the Group was RMB22.7 million, representing a decrease of RMB18.3 million, or 44.6%, as compared with that of RMB41.0 million for the previous year. The decrease was mainly due to the operating activities shrinkage of the Group.

Depreciation and Amortisation

For the year ended 31 December 2016, depreciation and amortisation of the Group was RMB117.9 million, representing an increase of RMB16.0 million, or 15.7%, as compared with that of RMB101.9 million for the previous year. The increase was mainly because new equipment purchased in 2015 was depreciated in the Reporting Year.

Technical service expenses

For the year ended 31 December 2016, technical service expenses of the Group were RMB107.2 million, representing a decrease of RMB41.9 million, or 28.1%, as compared with that of RMB149.1 million for the previous year. The decrease was mainly due to the operating activities shrinkage of the Group.

Impairment loss/(reversal) of assets

For the year ended 31 December 2016, impairment loss of assets of the Group was RMB82.6 million while impairment loss was RMB47.5 million in the previous 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 2016, other operating costs of the Group were RMB149.2 million, representing a decrease of RMB53.0 million, or 26.2%, as compared with that of RMB202.2 million for the previous year. The decrease reflects the efforts taken by the Company to reduce the general and administrative expenses.

Operating loss

As a result of the aforementioned changes, the Group's operating loss during the Reporting Year was RMB268.1 million, compared with the operating loss of RMB448.1 million, or 40.2% for the previous year.

Finance expenses (net)

For the Reporting Year, the Group's finance expenses (net) was RMB30.3 million, representing a decrease of RMB7.5 million, or 19.8%, as compared with that of RMB37.8 million for the previous year. The decrease was mainly due to the decline of interests.

Income tax (expense)/credit

For the Reporting Year, income tax expense was RMB11.3 million, compared with the income tax credit of RMB43.4 million for the previous year. The change from income tax credit to the tax expense was as a result of not recognising a substantial amount of tax losses carried forward in deferred tax assets.

Loss for the Year

As a result of the explanations above, the Group's loss for the Reporting Year was RMB314.7 million, representing a significant decrease of RMB127.9 million, or 28.9% from net loss amounting to RMB442.6 million for the previous year.

Loss attributable to equity owners of the Company

For the Reporting Year, loss attributable to equity owners of the Company was RMB292.3 million, representing a decrease of RMB119.9 million, or 29.1%, from loss attributable to equity owners of the Company amounting to RMB412.2 million for the previous year.

Property, plant and equipment

As at 31 December 2016, property, plant and equipment was RMB392.9 million, representing a decrease of RMB142.4 million, or 26.6%, from RMB535.3 million as at 31 December 2015. The change was mainly due to the disposal of certain equipment, continuing depreciation of existing equipment and impairment of equipment.

Land use rights

As at 31 December 2016, the carrying value of land use right was RMB21.8 million, representing a decrease of RMB0.4 million, or 1.8%, from RMB22.2 million as at 31 December 2015. This was mainly due to the continuing amortisation of existing land use rights.

Intangible assets

As at 31 December 2016, intangible assets were RMB35.7 million, representing a decrease of RMB22.7 million, or 38.9%, from RMB58.4 million as at 31 December 2015. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2016, deferred income tax assets were RMB138.8 million, representing an increase of RMB1.2 million, or 0.9%, from RMB137.6 million as at 31 December 2015. The increase was mainly due to the recognition of deferred income tax assets related to allowance on impairment loss.

Prepayments and other receivables

As at 31 December 2016, non-current portion of prepayments and other receivables was RMB23.7 million, representing a decrease of RMB12.1 million, or 33.8%, from RMB35.8 million as at 31 December 2015, while current portion of prepayments and other receivables was RMB248.5 million, representing an increase of RMB76.9 million, or 44.8%, from RMB171.6 million as at 31 December 2015. The increase was mainly due to the disposal of certain equipment of the Group.

Inventories

As at 31 December 2016, inventories were RMB371.6 million, representing a decrease of RMB22.2 million, or 5.6%, from RMB393.8 million as at 31 December 2015. The decrease was mainly due to the impairment of inventories.

Trade and notes receivables/Trade payables

As at 31 December 2016, trade and notes receivables was RMB563.7 million, representing a decrease of RMB68.1 million, or 10.7%, from RMB631.8 million as at 31 December 2015. The decrease was mainly due to the shrinkage of revenue realised during the Reporting Year.

As at 31 December 2016, trade payables was RMB492.9 million, representing a decrease of RMB60.9 million, or 11.0%, from RMB553.8 million as at 31 December 2015. The decrease was mainly due to the reduction of materials purchases and subcontracts.

Liquidity and capital resources

As at 31 December 2016, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB263.5 million, representing a decrease of RMB100.2 million, or 27.6%, from RMB363.7 million as at 31 December 2015. The decrease was mainly due to operating activities contraction of the Group, the repayment of bank borrowings and equipment purchases.

As at 31 December 2016, the Group's short-term borrowings and current portion of long-term borrowings were RMB279.2 million while the long-term borrowings was RMB103.1 million. 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 were RMB114.4 million.

As at 31 December 2016, the Group's gearing ratio was 37.8%, representing an increase of 7.8% as compared with 30.0% as at 31 December 2015. 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.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2016, the total number of ordinary shares of the Company in issue was 1,534,790,332 shares (31 December 2015: 1,534,790,332 shares). As at 31 December 2016, equity attributable to the equity owners of the Company was RMB915.3 million, representing a decrease of RMB212.0 million, or 18.8%, as compared with RMB1,127.3 million as at 31 December 2015.

Significant investment held

As at 31 December 2016, 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 2016, 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 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Property, plant and equipment	**107**	642
Long-term prepayments	**7,040**	7,921
Trade and note receivables	**56,027**	126,000
Land use right	**21,758**	–
Restricted bank deposits	**1,500**	–

Convertible bonds

The movement of the convertible bonds during the Reporting Year is presented as below:

	2016 *RMB'000*
Liability component as at 31 December 2015	**67,662**
Add: Interest expense in 2016	**12,591**
Less: Interest paid and payable	**(3,122)**
Add: Exchange difference	**6,335**
Liability component as at 31 December 2016	**83,466**

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2016, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2016, the Group had no capital expenditure commitments, while operating lease commitments were mainly lease of offices, warehouses and equipments with the amount of RMB69.0 million.

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 54, is an executive Director and chairman of the Board. He has been the chief executive officer of the Company during the period from 1 December 2011 to 31 August 2016. 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 32 years of experience in the petroleum industry. Mr. Wang has been a Director of the Company since June 2008. Prior to joining 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.

Ethan Wu (吳東方), aged 45, is an executive Director of the Company. He is responsible for business development of the Group. Mr. Wu has over 25 years of experience in the petroleum industry. Mr. Wu has been a Director of the Company since June 2008. Prior to joining the Group, 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 69, 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 43 years of experience in the petroleum industry. Mr. Liu has been an executive Director of the Company since 1 December 2011. Prior to joining the Group, 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.

Jin Shumao (金樹茂), aged 67, was an executive Director and vice president of the Company and resigned as an executive Director of the Company on 21 March 2017. Mr. Jin was the chairman of Group's technology committee and president of Institute of Geology Engineering Technology, 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 was 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 44 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 has been an executive Director of the Company since 27 March 2013. Prior to joining the Group, he served as Schlumberger China NOCs global account director, Schlumberger global account vice president, and Schlumberger China vice president (斯倫貝謝中國公司) from 2002 to 2011. Mr. Jin worked at Halliburton USA (哈裏伯頓美國公司) and Halliburton China (哈裏伯頓中國公司) from 1989 to 2002, during which he had served as director of executive business development for Emerging Markets, global account general manager for 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).

Li Qiang (李強), aged 42, is an executive Director, 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 19 years of experience in corporate management. Mr. Li has been an executive Director of the Company since 21 March 2017. 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 Peking University (北京大學) in 2005.

NON-EXECUTIVE DIRECTORS

Lin Yang (林煬), aged 42, 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 53, 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 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. Since September 2016, she has been a professor of the National School of Development at Peking University. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhang Yujuan (張渝涓), aged 43, 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 63, 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. Mr. Wu has been appointed a member of The Clearwater Bay Golf and Country Club Hong Kong planning and development committee and finance committee. 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 46, 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 22 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. Since 1 February 2017, he has been a member of the Torture Claims Appeal Board. 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) and executive president of its Hong Kong Branch.

SENIOR MANAGEMENT

Jiang Qingsong (蔣青松), aged 43, is the chief executive officer, 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 20 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.

Zhao Feng (趙峰), aged 51, 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.

Li Zhiguo (李志國), aged 43, has been the chief operating officer and manager of the project expansion department of the Group since 20 January 2017. He is primarily responsible for market development of the Group in China. Mr. Li has more than 22 years of experience in the petroleum industry. Mr. Li joined the Group in March 1996. Prior to joining the Group, 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.

Wan Wenjiang (萬文江), aged 56, 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 36 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.

Ma Hongguo (馬洪果), aged 44, has been the vice president and general manager of the East Region of the Group since 20 January 2017. He is primarily responsible for the operations and management of the East Region and West Region of the Group. Mr. Ma has more than 20 years of experience in the petroleum industry. He joined the Group in 2003. Prior to joining the Group, Mr. Ma served as the engineer of PetroChina's subsidiary, North China Oilfield Testing Company from 1997 to 2003. He held the positions of illustrative engineer, operations manager and site manager of the West Region of the Group from 2003 to 2008. He served as the Aqtobe project manager of the Central Asia Region of the Group from 2008 to 2012. He was the executive deputy general manager of the Group's subsidiary, SPT Engineering Company from 2012 to 2013. Mr. Ma served as the general manager of the South Region of the Group from 2013 to 2015. He was the general manager of the East Region of the Group from 2015 to 2016. Mr. Ma graduated from China University of Geosciences (Wuhan) with a bachelor's degree in geological exploration in 1997.

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 2016.

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, Singapore, Canada and Indonesia. 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 2016 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 2016. 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 2016, 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 2016 HSE Responsibility Certificate (《2016 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 2016 environmental protection target of "zero" environmental pollution incident.

"Environmental Protection Law" promotional campaign

Following the promulgation of the revised "Environmental Protection Law of the People's Republic of China" effective from 1 January 2016, 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 examinations 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 Group. The Group'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 Group's businesses. Although it is widely estimated that the imbalance of oil demand and supply will ease off at the beginning of 2017, there is no assurance the situation will turn around within the expected timeframe. This brings significant uncertainty to the Group's future operation.

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

Volatility of KZT's exchange rate brings foreign currency exchange risk to the Group. Traditionally the operations in Kazakhstan contribute half of the revenue to the Group. 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 a consequence KZT was fast devalued by 85% as compared with that at the beginning of that Year. As such the KZT's volatility brings significant risk to the Group's profitability.

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

Due to the characteristic of China's oil and gas market, the Group mainly provides services to CNPC and its affiliates in the domestic market. In overseas market, the Group also implements follow-CNPC strategy and therefore its main customers are still CNPC and its affiliates. For the year ended 31 December 2015 and 2016, revenue generated from CNPC and its affiliates accounted for 71.3% and 86.3% percent of total revenue, respectively. Therefore, facing the customer concentration issue, the Group's position has been weaker when negotiating prices and other terms with customers. Although the Group has taken various measures in customer diversification, it is still difficult to change the situation of customer concentration in a short period. Except for CNPC and its affiliates, the Group also provides services to other domestic and international clients with whom the Group negotiates the price and other terms with fair principle.

The Group entered into strategic alliances with several international and domestic oil-field services providers, including Halliburton Company, one of the largest diversified oil-field services companies in the world. Such strategic alliances grant the Group accesses to various high-quality products and high-end technologies which help the Group with business successes. Apart from these strategic alliances, the Group 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 group having operations and subsidiaries in different countries and areas, the Group is subject to various requirements of laws and regulation in various jurisdictions where it operates and where the subsidiaries are incorporated, including PRC, 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 Group 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 Group has established systematic methods to identify, understand and comply with the laws and regulations it should address, including establishment of specific compliance management unit, 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 2016, the Group is not aware of any non-compliance under applicable laws and regulations in jurisdictions where the Group operates that could have a material adverse impact on the Group's business, financial condition and operating results.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 72 of this annual report.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: 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 2016, 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 2016, the Group's five largest suppliers accounted for 15.50% (2015: 17.54%) of the Group's total purchases and purchases from the largest supplier accounted for 5.62% (2015: 4.61%).

For the year ended 31 December 2016, the Group's sales to its five largest customers accounted for 95.67% (2015: 82.57%) of the Group's total sales and sales from the largest customer accounted for 86.33% (2015: 71.30%).

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 2016 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

Details of 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on page 74 to page 75 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,024.6 million (as at 31 December 2015: RMB1,018.0 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2016 are set out in note 17 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors:
Mr. Wang Guoqiang *(Chairman)*
Mr. Ethan Wu
Mr. Liu Ruoyan
Mr. Jin Shumao (resigned on 21 March 2017)
Mr. Li Qiang (appointed on 21 March 2017)

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 articles 108 and 112 of the articles of association of the Company (the "Articles of Association"), Mr. Wang Guoqiang, Mr. Ethan Wu, Mr. Liu Ruoyan and Mr. Li Qiang 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 2016.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into/renewed a service agreement with the Company 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 2016.

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 2016.

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 33 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS SUBSEQUENT TO THE 2016 INTERIM REPORT

Mr. Jin Shumao has resigned as an executive Director of the Company with effect from 21 March 2017 due to the reason of age.

Mr. Li Qiang has been appointed as an executive Director of the Company with effect from 21 March 2017.

Ms. Chen Chunhua has been appointed as a professor of the National School of Development at Peking University since September 2016.

Mr. Wu Kwok Keung Andrew has been appointed a member of The Clearwater Bay Golf and Country Club Hong Kong, planning and development committee and finance committee and has resigned as an independent non-executive director and chairman of the audit committee of China Mengniu Dairy Company Limited since 3 October 2016.

Mr. Wan Kah Ming has been a member of the Torture Claims Appeal Board since 1 February 2017.

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

As at 31 December 2016, 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/Chief Executive	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)	2,590,000 (L)	0.17%
Mr. Ethan Wu	Beneficiary of trusts (note 2)	648,484,000 (L)	42.25%
	Beneficial owner (note 3)	2,590,000 (L)	0.17%
Ms. Chen Chunhua (note 3)	Beneficial owner	3,500,000 (L)	0.23%
Mr. Liu Ruoyan (note 3)	Beneficial owner	3,890,000 (L)	0.25%
Mr. Wan Kah Ming (note 3)	Beneficial owner	2,866,667 (L)	0.19%
Mr. Wu Kwok Keung Andrew (note 3)	Beneficial owner	3,500,000 (L)	0.23%
Mr. Jin Shumao (notes 3 and 4)	Beneficial owner	2,590,000 (L)	0.17%
Ms. Zhang Yujuan (note 3)	Beneficial owner	2,500,000 (L)	0.16%
Mr. Lin Yang (note 3)	Beneficial owner	1,500,000 (L)	0.10%
Mr. Jiang Qingsong	Beneficial owner (note 3)	11,500,000 (L)	0.75%
	Interest of controlled corporation	3,000,000 (L)	0.19%

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. Ethan Wu and his family members are the beneficiaries of Widescope Trust, a discretionary trust established by Mr. Ethan Wu, 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. Ethan Wu, 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. Ethan Wu 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. Ethan Wu, Ms. Chen Chunhua, Mr. Liu Ruoyan, Mr. Wan Kah Ming, Mr. Wu Kwok Keung Andrew, Mr. Jin Shumao, Ms. Zhang Yujuan, Mr. Lin Yang and Mr. Jiang Qingsong 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. Mr. Jin Shumao resigned as an executive Director of the Company with effect from 21 March 2017.

5. "L" denotes long position.

Save as disclosed above, as at 31 December 2016, 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 2016 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 31 December 2016, 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, as at 31 December 2016, 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 2016, 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. Ethan Wu, 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 2016.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2016, 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 2016, 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 2016 as set out in note 31 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 is authorised, at its 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 2016, 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 4 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 2016 are as follows:

Grantee	Outstanding as at 1 January 2016	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2016	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
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Wu Dongfang	1,090,000 (note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
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
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Jin Shumao	1,090,000 (note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
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
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Lin Yang	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
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
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Ms. Zhang Yujuan	1,000,000 (note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
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
	–	1,500,000 (note 4)	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Employees (in aggregate)	–	116,500,000 (note 4)	–	–	–	116,500,000	31/08/2016	30/08/2026	HK$0.490
	48,680,000 (note 3)	–	–	–	6,570,000	42,110,000	13/06/2013	12/06/2023	HK$4.694
	11,296,668 (note 2)	–	–	–	1,437,334	9,859,334	20/02/2012	19/02/2022	HK$1.292
	1,450,000 (note 1)	–	–	–	–	1,450,000	29/03/2012	28/03/2022	HK$1.360
Total	**73,420,002**	**130,000,000**	**–**	**–**	**8,007,334**	**195,412,668**			

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 The closing price of shares immediately before the date on which the share options granted on 31 August 2016 was HK$0.49. 1/3 of which are exercisable from 31/08/2017 to 30/08/2026; 1/3 of which are exercisable from 31/08/2018 to 30/08/2026; and remaining 1/3 are exercisable from 31/08/2019 to 30/08/2026.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the year ended 31 December 2016 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2016, 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 2016.

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 55 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 2016.

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 2017

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 2016.

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. Prior to 1 September 2016, Mr. Wang Guoqiang was the chairman of the Board and chief executive officer of the Company. The Board believed that Mr. Wang Guoqiang's extensive experience in the oil industry would be beneficial to the business prospects and management of the Group. The Board and the senior management, which comprises experienced and high calibre individuals, could ensure the balance of power and authority.

To further enhance the corporate governance of the Company and to be in line with the market practices in the same industry, on 23 August 2016, the Board has approved the appointment of Mr. Jiang Qingsong as the Chief Executive Officer of the Company in place of Mr. Wang Guoqiang with effect from 1 September 2016. Upon such appointment, the Company has re-complied with the code provision A.2.1 of the CG Code.

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 2016. 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. Ethan Wu, Mr. Liu Ruoyan and Mr. Li Qiang, 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. Ethan Wu 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 2016, 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

During the Reporting Year, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to the Group's business, corporate governance and regulations on the roles, functions and duties of a director of a listed company:

Director	Position	Reading regulatory update	Attending on-line courses relevant to the business of the Group or directors' duties
Mr. Wang Guoqiang	Executive Director	√	√
Mr. Ethen Wu	Executive Director	√	√
Mr. Liu Ruoyan	Executive Director	√	√
Mr. Jin Shumao	Executive Director	√	√
Ms. Chen Chunhua	Non-executive Director	√	√
Mr. Lin Yang	Non-executive Director	√	√
Ms. Zhang Yujuan	Independent Non-executive Director	√	√
Mr. Wu Kwok Keung Andrew	Independent Non-executive Director	√	√
Mr. Wan Kah Ming	Independent Non-executive Director	√	√

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. During the period from 1 January 2016 to 31 August 2016, Mr. Wang Guoqiang was the Chairman of the Board and the Chief Executive Officer. The Board believed that Mr. Wang's extensive experience in the oil industry would be beneficial to the business and management of the Group, The Board and the senior management, which comprises experienced and high calibre individuals could ensure the balance of power and authority.

To further enhance the corporate governance of the Company and to be in line with the market practices in the same industry, on 23 August 2016, the Board has approved the appointment of Mr. Jiang Qingsong as the Chief Executive Officer of the Company in place of Mr. Wang Guoqiang with effect from 1 September 2016. Upon such appointment, the Company has re-complied with the code provision A.2.1 of the CG Code.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years 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 2016 annual general meeting on 8 June 2016 (the "2016 AGM"), Mr. Lin Yang, Mr. Chen Chunhua and Mr. Wan Kah Ming 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 2017 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 2016, four Board meetings and one general meeting (2016 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 Meetings	Annual General Meeting
Mr. Wang Guoqiang	4/4	1/1
Mr. Ethan Wu	4/4	1/1
Mr. Liu Ruoyan	4/4	1/1
Mr. Jin Shumao (Note)	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

Note: Mr. Jin Shumao has resigned as Director of the Company with effect from 21 March 2017.

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 2016.

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 on 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 assesses 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 are then 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 2016, two meetings of the Nomination Committee were held on 21 March 2016 and 23 August 2016 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 6 December 2016. 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 2016, two meetings of the Remuneration Committee were held on 21 March 2016 and 31 August 2016 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 5 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 2016 are set out below:

Remuneration band (RMB)	Number of individual
400,000–1,000,000	4
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 2016, three meetings of the Audit Committee were held on 21 March 2016, 23 August 2016 and 6 December 2016 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 the course of the 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 21 March 2016 and 23 August 2016.

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 2016 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 2016, the Company provides all members of the Board with monthly updates on the Company's performance, position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROL

The internal audit function (risk management department) reports to the Audit Committee and has access to various files and personnel of the Group without restrictions. To ensure systematic coverage of all items under the scope of audit and effective resource allocation, the risk management department has formulated an annual audit plan which, based on the internal and external operating conditions of the Group, carries out risk assessment on the overall operations of the Group, and tailored contingency strategies in relation to high risk matters after discussion with the management. During the Year, the audit plan, after taking into account various factors including the changes in organisation structure and new market business expansion, has been submitted to the Audit Committee for approval after consultation with the management.

The risk management department reviews the effectiveness of the internal control system by (1) assessing the environment of internal control; (2) assessing whether the internal control system is adequate and effective; (3) reviewing the operation of the key control procedures on random basis. Audit report, which includes audit findings and risk assessment, as well as management rectification plans, would then be prepared. The risk management department continues to follow up on the execution of the management rectification plan until the defects are rectified.

The risk management department reports to the Audit Committee on the findings of the audit on a biannual basis and follows up on the execution of the management rectification plans. In addition, the head of the risk management department attends each meeting of the Audit Committee and reports on the progress of audit plans and the findings of the audit during the reporting period.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for assessing and determining the risks and degree of risks the Group is willing to take in fulfilling the business objectives and ensures that the Group has in place and operates an effective risk management and internal control system.

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL

Working together with the management, the risk management department has completed the risk management matrix at the group level and comprehensively assessed the enterprise risks in four areas including strategies, operations, legal and compliance as well as finance to identify high risk areas. They have also jointly formulated the contingency strategies in relation to the high risk matters. The summary of the risk management matrix and contingency strategies has been reported to the Board via the Audit Committee and has been approved by the Board and the Audit Committee.

The contingency strategies and action plans of the management have been integrated into the ordinary course of business of the enterprise and are subject to supervision by the risk management department. It is understood that the implementation of the strategies is to manage but not to eliminate the risks of non-fulfilment of business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, via the Audit Committee, carried out an annual review on the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2016, which covers the areas including strategies, operations, legal and compliance as well as finance, and considered that the risk management and internal control systems of the Group effective and appropriate. The Audit Committee has carried out the annual review to assess whether the resources, qualifications and experience of the employees of the risk management department of the Group and the external audit personnel are adequate, and whether the employees are capable of their roles and responsibilities. During the Year, the Board considered the risk management and internal control system of the Group adequate and effective, and the Group has complied with the relevant code provisions set out in the CG Code in the area of internal control.

INSIDE INFORMATION DISCLOSURE AND CONTROL MEASURES

With respect to inside information, the Group has adopted from time to time certain regulatory measures to ensure the information is secured as appropriate and to prevent violation of the disclosure requirements of the Group, including:

– Only a limited number of personnel (mainly the senior management and Directors) have access to inside information upon request. Employees having access to the inside information are fully aware of their confidentiality responsibilities.

– All employees (including the Directors of the Group) must strictly comply with the employment provisions regarding the administration of confidential information.

The Group complies with the requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements or circulars is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

AUDITOR'S REMUNERATION

Annual audit fees of the Company for the year ended 31 December 2016 are RMB5.0 million.

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 executive Director and chief financial officer of the Company.

During the year ended 31 December 2016, 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 2016 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 2016, there is no significant change in constitutional documents of the Company.

Hong Kong, 21 March 2017

Environmental, Social and Governance Report

The Group recognises that complying with international environmental protection policies and safeguarding labour interests are the fundamental requirements of a responsible company, as well as the expectations of customers, the public, government and other stakeholders. The Group undertakes to abide by the environmental laws and regulations of the PRC and other jurisdictions where it operates, and other applicable industry standards and international conventions with a view to improving the working conditions and employee benefits. Like quality management, safety, health, environment and social management also organically form an integral part of the ordinary operations of the Group. It is a pre-requisite condition for the Group to perform its environmental, social and government (the "ESG") responsibilities in providing good engineering and technology services to satisfy customers' needs.

The ESG management committee has been established to take charge of social responsibilities and management of environmental protection in an attempt to gradually establish, implement and maintain a sound ESG management system through continuous efforts and to further apply these requirements to suppliers and distributors.

The Group operates within its scope of business in accordance with the laws and regulations and is barred from engaging in bribery, extortion, fraud and money laundering. Through continuous publicity and education, the Group and its employees are required to abide by all environment related laws and regulations in the countries and regions where it operates and respect local customs. With respect to environmental protection, it actively promotes waste and greenhouse gas emission reduction, implements energy-saving and emission reduction, reduces unit output value to water resources and energy consumption ratio with a view to achieving sustainable development. Child labour and forced labour are strictly forbidden. Suppliers or distributors that employ child labour or forced labour are not accepted. Safe and hygienic work and living conditions are provided to ensure the safety and health of its employees. Fair and reasonable working environment, remuneration and welfare package are offered. The Group actively launches a variety of technical training to enhance the overall quality of its employees.

1. ENVIRONMENTAL PROTECTION

Ecological integrity and species diversity form an integral part of the natural environment. The Group attaches great importance to environmental protection and regards environmental protection and corporate development as equally important. In the course of its development, the Group consistently upholds the principle of environmental sustainability.

For this purpose, the Group endeavours to:

a. increase the production efficiency and reduce emission of greenhouse gases through enhancing its oil-field service capabilities and raise the environmental awareness by strict compliance with the environmental standards of the PRC and the jurisdictions where it operates in the course of its oil-field service business;

b. promote the sustainable use of energy, water, gas, paper and other raw materials;

c. initiate energy-saving in various operations within the scope of business and environmental protection; and reduce the impact of its course of business on the species diversity and ecosystem and comply with local environmental protection laws and regulations.

1.1 Emissions

As an oil-field service company, relevant emissions may be involved in the course of business and the details are as follows:

Waste gas: it mainly refers to the waste gas emissions by diesel engines, construction vehicles and domestic emissions, including carbon dioxide, sulphur dioxide and hydrocarbon related pollutants.

Waste liquid: it mainly refers to the wastewater discharged by drilling, fracturing flowback fluid, oil contaminated water, downhole operation and domestic wastewater.

Being a responsible company, the Group strictly follows the environmental related laws and regulations and environmental standards in the countries and regions it operates, including the *Environmental Protection Law of the People's Republic of China* and *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution*. At the same time, it has formulated a set of environmental policies tailored to the Group. It has gradually established a sound environmental protection system and obtained the international environment system certification ISO14001:2015. In the course of oil-field service development, the Group endeavours to develop itself into an environmental friendly oil group by prioritising the use of high resource utilisation, non-toxic and harmless or low toxic or less harmful raw materials and cleaning process, technology and equipment with less pollutant discharge, which minimises the adverse impacts on the eco-environment.

1.2 Resource Utilisation

The resource consumption involved in the course of production and business of the Group mainly includes water, power, fuel oil, paper and etc. The Group places great emphasis on resource protection, reasonable and efficient utilisation of resources. It also strengthens resource recycling.

As to operations, we promote recycling of water resources and carry out processing of drilling fluid and fracturing flowback fluid as well as wastewater discharged in oil-field development operations to meet discharge standards. Fuel-saving equipment is used and fuel oil equipment is reasonably used to reduce fuel oil consumption.

In addition, the Group promotes the establishment of a green office to meet the requirements of green purchasing, green workplace, green energy consumption and green business trip. It prioritises the purchase of highly efficient office appliances and refrains from purchasing any high energy consumption equipment of products prohibited by the PRC government's order. It also introduces a paperless office which maximises the use of digital and multi-media platforms. Meanwhile, it encourages double-sided printing. It also promotes commuting to work by public transportation. If you commute by private car, plan your travel route ahead and master the ways of car maintenance and fuel saving driving skills to save fuel and minimise wear and tear. It actively pushes ahead the installation and testing of video conference system to minimise the need to travel by plane for conferences.

1.3 Environment and Natural Resources

The Group is committed to ecological and environmental protection and strongly encourages energy saving and emission reduction. It also promotes recycling and low-carbon economy with a view to achieving green production. Upon decision-making in production activities, the environmental factor will be taken into consideration as a whole to minimise the adverse impacts of the production and operations of the Group on environment and climate.

The Group strictly abides by the provisions of animal protection law and launches campaigns to protect biodiversity with the purpose of minimising the potential impacts of its business segments on eco-environment and biodiversity.

In this regard, the policies on the *Planning and Control of Environmental Factor Management* are formulated by the Group, pursuant to which all business regions are required to establish and implement the assessment of the impacts of the environmental factor based on actual circumstances and to strengthen control of the Group over the key environmental factors in its course of production and business in an effort to contribute to environmental protection.

2. SOCIETY

The Group is fully aware that, in carrying out its production and operating activities, it not only has to comply with the laws and regulations but also has to satisfy the needs of employees in terms of health, safety and career development from their own perspective of development so that they maintain a high standard of service to satisfy the customer requirements on product liability. In the course of production, it strengthens the communication with surrounding dwellers residing in the places it operates regarding their living and environmental needs. At the same time, it enhances the Group's returns on social resources through maintaining continuous communication with government departments, non-government organisations and suppliers.

2.1 Employment

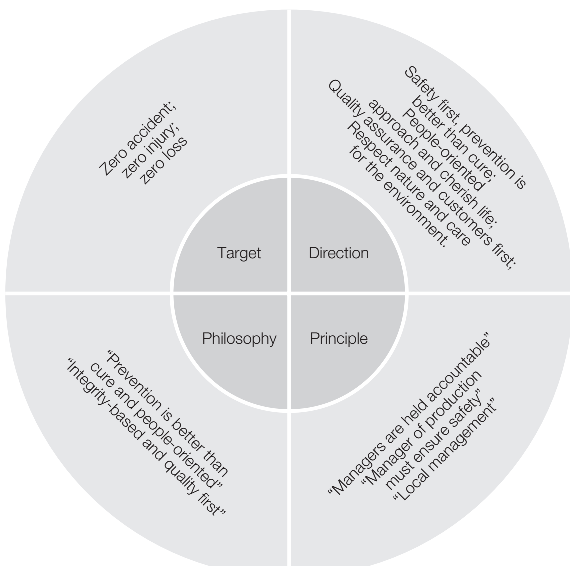
The Group is committed to building a workplace which respects employees' interests, integrity, excellence and mutual trust. The Group respects and supports the employees' human rights and adopts various measures to ensure that its employees earn the respect and dignity that international communities recognise. The Group believes that each person has equal rights. Recruitment, promotion and career development of employees are processed on merit basis regardless of race, skin colour, nation, religion, gender, age, sexuality, gender identity, marital status and disability, nor affected by any other features that are under the protection of applicable laws.

The Group implements three working hours systems according to the characteristics of each position, namely the standard working hours system, comprehensive working hours system and flexible working hours system. Pursuant to relevant state laws and regulations including the *Labour Law of the People's Republic of China* and the *Labour Law of the Republic of Kazakhstan*, the Group ensures that the working hours of employees should not exceed the statutory limit. Unless it is an emergency or usual condition, weekly working hours of the employees must not exceed the cap stipulated by local laws, including overtime hours. Employees must have at least one day's rest time each week. The *Regulation on Attendance Management* and the *Overtime Management Proposal* are formulated to ensure that the working hours of employees do not exceed the statutory limit. The *Regulation on Time Off and Leave* is also formulated to state the details of the entitlement, number and procedures of various leaves entitled by the employees and ensure that employees are entitled to the PRC statutory holidays, marriage leave, prenatal check-up leave, maternity leave, paternity leave, breast-feeding leave, compassionate leave and etc. At the same time, employees are entitled to the PRC statutory paid annual leaves.

The Group is against discrimination and provides equal opportunity in terms of recruitment, promotion and daily human resources management and creates a humane and harassment free workplace with mutual respect. The Group values the privacy and confidentiality of employees' personal particulars and respects employees' right to freely establish association, whether or not to join the labour union, seek representative or join the employees' committee in accordance with the laws and regulations.

2.2 Health and Safety

The Group places high importance on safety management and takes active efforts to build a comprehensive safety management system. Pursuant to the occupational, health and safety management system standards and regulations OHSAS18001:2007, it comprehensively and effectively implements the quality, health, safety and environmental management system and endeavours to improve and conscientiously implement the system documentation. The Group upholds the principle that prevention is better than cure and strives toward the target of zero accident, zero injury and zero loss. Through optimising the allocation of human resources, material resources and financial resources, the Group endeavours to improve the management system. Quality, health, safety, environmental performance and results are important bases for reward and punishment as well as employment. It gradually breaks down the accountability of each level of management for safety and production and enters into certificates of safety and product liability to hold the manager of production accountable for safety and the management accountable for safety as a whole and involve all of the employees in the process.



The *Regulation on Safety Expenses Management* is formulated by the Group with the purpose of establishing a long-term mechanism of managing safety and production expenses, strengthening risk management and avoiding the occurrence of safety and production related accidents with a view to improving the safety and production environment and working conditions for the employees of the Group. The *Regulation on Safety Expenses Management* requires that a special expense account be set up so that each employee must be equipped with a labour protection kit that complies with international standards and industry standards where the workplace is subject to occupational and health hazards so as to minimise the occupational hazards of noise, high temperature and toxic chemicals on employees.

2.3 Development and Training

The Group endeavours to build itself into a learning-oriented company and an organisation structure that is suitable for employees' learning. Under the occupational development management model, the Group implements a dynamic management model to comprehensively enhance the employees' integrated business standards of the employees.

While strengthening its occupational training internally, the Group has established an education and training system that is suitable for the Group. Focusing on modern management and high & new-technology knowledge, the Group provides comprehensive and in-depth training to management officers, professional technicians and occupational support officers of different professions and levels. By analysing the two-way needs of the enterprise and its employees, the Group can grasp the employee characteristics and growth prospects and then formulate a variety of flexible training and learning programmes based on the actual circumstances so as to continuously improve the system of the Group.

Through effective training, the quality and capability of the employees are enhanced as a whole and profitability is maximised. While scoring a win for the employees, the training also promotes management, production and enhances efficiency in driving corporate development, which ultimately achieves a positive "win-win" outcome for the enterprise and its employees.

2.4 Labour Standards

Pursuant to relevant state laws and regulations including the *Labour Law of the People's Republic of China* and the *Labour Law of the Republic of Kazakhstan*, the Group undertakes not to use forced labour, pledged labour (including bonded labour), indentured or involuntary prison labour and not to be involved in slavery nor labour trafficking. All work must be performed voluntarily and employees have the right to leave or terminate its employment contract immediately. No employment condition should require any employees to hand in any personal identification, passport or VISA issued by the government. No expenses other than those required to be charged under relevant laws and regulations should be charged to the employees and the charges (if any) must be disclosed publicly. Child labour is strictly prohibited at any stage of manufacturing.

Wages paid to employees shall comply with the labour laws applicable to the places of employment and wage payment receipts must be issued to employees in the form of wage slip or other similar papers in a timely manner.

No brutal or inhumane action and any threat of the following actions can be taken against the employees, including any form of sexual harassment, sexual abuse, physical punishment, mental or physical oppression or verbal abuse.

2.5 Supply Chain Management

To better cope with the Group's rapid development and regulate the management of suppliers, the Group has formulated a set of administrative measures for suppliers, including the access, use, assessment and reward/punishment system of suppliers.

2.5.1 Selection of Suppliers

The Group carries out fundamental screening of suppliers in the areas of qualifications, financial conditions, performance capabilities, after-sales service, anti-fraud commitments and black records. At the same time, it requires suppliers to possess quality, health, safety and environment related qualifications and only those who meet the requirements may be admitted to the list for screening.

2.5.2 Use and Management of Suppliers

The Group implements dynamic management with respect to the classification and ranking of suppliers. It enters into partnership with strategic suppliers, while setting rules to regulate competition for small-size and scattered suppliers. It prioritises suppliers taking into account overall factors such as qualifications, skilfulness, pricing, relationship and compliance.

2.5.3 Review and Assessment of Suppliers

The Group has established a performance review system of suppliers. While promoting dynamic quantitative assessment of suppliers, it focuses on cultivating a pool of strategic suppliers and core suppliers for the Group in an effort to gradually optimise the supplier mix.

2.5.4 Reward and Punishment of Suppliers

The Group has formulated a reward/punishment system which regularly analyses the ranking of core suppliers by performance assessment where priority is given to top ranking suppliers in terms of long-term agreements, purchase quantity and demand information sharing. Those who fail to perform the obligations in a timely manner and with poor performance assessment are given penalties of warning, rectification notice, suspension of transaction and disqualification.

2.5.5 Strengthening Regional Purchase

As to regional purchase management, it is required that all regions should strictly comply with the administrative measures on purchase issued by the headquarters. For overseas regions, the Group has stepped out the compilation of comprehensive local administrative measures on purchase in accordance with the laws and regulations of the places it is located and taking into account the actual business conditions of the overseas branches with reference to the administrative measures on purchase issued by the Group's headquarters.

2.5.6 Environmental Protection Management

The Group values the environmental protection management of suppliers and integrates its principles of environmental protection into the management process of suppliers. Requirements on environmental management system certification and waste discharge and emission standards are introduced to suppliers to enhance the environmental management standard among suppliers.

2.6 Product Liability

As an oil-field service company, the Group upholds and places strong emphasis on service quality and strictly follows the *Product Quality Law of the People's Republic of China, Standardisation Law of the People's Republic of China* and other laws and regulation to ensure that the service quality is within control, and has obtained the quality management system certification ISO9001:2008. In providing the service, the Group puts the life and safety of employees first and endeavours to provide efficient and safe service to satisfy the requirements of the customers on quality, health, safe and environment.

2.7 Anti-Corruption

The Group and its employees are in strict compliance with relevant laws and regulations including the *Company Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China, Bidding Law of the People's Republic of China, Criminal Law of the People's Republic of China* and *Prevention of Bribery Ordinance of Hong Kong Special Administrative Region of the People's Republic of China*. In 2016, no incident of corruption, bribery, extortion, fraud and money laundering was identified. In addition, the audit department of the Group did not identify or receive any reporting of fraud of the Group or its employees.

The Group has formulated and implemented the routine and special audit systems as well as audit work plans which are submitted to the audit committee for approval. The Group has reinforced the development of anti-fraud work by establishing and improving the anti-fraud work system, reporting system and platform; establishing and strengthening the development of anti-fraud system and optimising the development of moral integrity; and investigating fraud incidents, compiling investigation reports and carrying out rectification.

2.7.1 Building and Enhancing the Anti-Fraud Work System, Reporting System and Platform

The Group has established and enhanced the anti-fraud work system and the top-down working mechanism and procedures. It also stated the anti-fraud duties and responsibilities of the persons in charge of the unit and contact persons as well as the method of work reporting.

There is a hotline and a mail box published on the official website of the Group where employees may file complaints of any fraud incidents identified and the evidences on hand under their name or anonymously by phone, mail and post, which effectively smoothen the employee supervision channel. The audit department of the Group processes the whistleblowing pursuant to the *Anti-Fraud Management System* and the *Anti-Fraud Work Rules*. Once incidents of fraud are identified, such employees shall be dealt with in strict compliance with the *Administrative Measures on Reward and Punishment of Employees* and the *Regulation on Treatment of Employees in Violation.*

2.7.2 *Establishing and Strengthening the Development of Anti-Fraud System and Optimising the Development of Moral Integrity*

A number of internal supervision and management systems have been formulated by the Group, including the *Anti-Fraud Management System, Anti-Fraud Work Rules, Regulation on Treatment of Employees in Violation, Administrative Measures on Gifts and Administrative Measures on Reward and Punishment of Employees*. The audit department of the Group regularly assesses the fraud risk at various levels of the Group and the high risk regions of potential fraud behaviours to optimise the risk management system. The Board of Directors and the management of the Group are responsible for the overall direction and supervision of anti-fraud work, and deal with the fraud behaviours in strict compliance with the systems.

The audit department of the Group continues to reinforce moral integrity education, anti-fraud featured training, anti-fraud knowledge survey; enhance the employees' integrity awareness and fraud identification ability and effectively handle the fraud whistleblowing; and require the employees to complete the anti-fraud work of each position within their term of reference.

2.7.3 *Investigating Fraud Incidents, Compiling Investigation Reports and Carrying Out Rectification*

The audit department of the Group may have identified potential acts of fraud, negligence of duty and malfeasance in the course of internal audit. Interviews will be arranged where it will take the initiative to figure out details of irregularities and organise random interviews with employees or suppliers. With respect to the suspected fraud whistleblowing, it will immediately carry out anti-fraud investigation and make recommendations on treatment based on the findings of the investigation.

2.8 Social Investment

In providing oil-field service, the Group actively integrates into the places it operates and strengthens the communication with the customers and residents surrounding the drilling sites. Through effective implementation of environmental protection and social investment measures, the Group satisfies the requirements regarding environment protection of the relevant parties. In addition to undertaking social responsibilities, it launches social investment activities by assisting local residents to mend roads and provide well water through drilling site construction. Donation campaigns are carried out to build a friendly, harmonious and win-win environment with local residents.

Independent Auditor's Report

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC.
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of SPT Energy Group Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 140, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

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羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
(incorporated in the Cayman Islands with limited liability)

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Recoverability of the carrying amounts of machinery and equipment
- Provisions for inventories

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the carrying amounts of machinery and equipment Refer to note 6 to the consolidated financial statements and note 4 of the critical accounting estimates and judgements. The loss making status of certain subsidiaries of Group gave rise to possible indication that the Group's machinery and equipment might be impaired. As at 31 December 2016, the carrying amount of machinery and equipment amounted to RMB232 million.	In addressing this matter, we had performed the following procedures: • We evaluated the process and internal controls of identifying impairment indicators, and the process of impairment assessment through preparing discounted cash flow models. • We considered the cash generating units as determined by management. • We evaluated the calculation and result of value in use method and fair value less costs of disposal method. We evaluated the discounted cash flow models for the assessment of potential impairment over the carrying amounts of the machinery and equipment.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
(incorporated in the Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Management therefore compared the number from value in use method and fair value less costs of disposal method to see which one is the higher, and prepared discounted cash flow models for the assessment of potential impairment over the carrying amounts of machinery and equipment, where certain key assumptions have been adopted. Because of the significance of the carrying amounts of machinery and equipment as at 31 December 2016, together the application of significant management judgement with the use of various assumptions including forecast revenue, forecast gross margin and discount rate, etc. in estimating the recoverability of such carrying amounts, we had identified this as a key audit matter.	• We evaluated the key assumptions adopted by management in preparing the discounted cash flow models, including comparison of (i) forecast revenue to budget and historical information; (ii) forecast gross margin to historical information; and (iii) discount rate to external market data and published information of comparable companies, etc. • We checked mathematical accuracy of the relevant discounted cash flow models. • We evaluated management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually and in aggregate, will affect the outcome of the impairment of the machinery and equipment. Based on our work, there was no significant exceptions found in the assessment of recoverability of the carrying amounts of machinery and equipment.
Provision for inventories Refer to note 10 to the consolidated financial statements and note 4 of the critical accounting estimates and judgements. The loss making status of the Group gave rise to possible impact on the inventories which may not be fully utilised or consumed in its operations within normal operating cycle of the Group's business.	In addressing this matter, we have performed the following procedures: • We understood the Group's internal controls on identifying indicators of slow-moving inventories. • We attended physical observations at warehouses of the Group to identify any potential slow-moving inventories.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
(incorporated in the Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
As at 31 December 2016, the carrying amounts of inventories amounted to RMB372 million, net of provision of 69 million. Because of the significance of the carrying amount of inventories as at 31 December 2016, together with the judgements of the future uses of the inventories in estimating the realisable value, we had identified this as a key audit matter.	• We evaluated the level of inventory provision made, including enquiry of management, the forecasted usage of the slow-moving inventories, the contract price or general selling price of the inventories, the applicable selling expenses and taxes. Based on our work, there was no significant exceptions found in assessment of provision of inventories prepared by management.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
(incorporated in the Cayman Islands with limited liability)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
(incorporated in the Cayman Islands with limited liability)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEONG Kin Bong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

(If there is any inconsistency between the English and Chinese version of this independent auditor's report, the English version shall prevail.)

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*6*	**392,852**	535,343
Land use rights	*7*	**21,758**	22,241
Intangible assets	*8*	**35,727**	58,417
Deferred income tax assets	*20*	**138,842**	137,609
Prepayments	*12*	**23,685**	35,750
		612,864	789,360
Current assets			
Inventories	*10*	**371,631**	393,824
Trade and note receivables	*11*	**563,744**	631,794
Prepayments and other receivables	*12*	**248,532**	171,553
Restricted bank deposits	*13*	**17,619**	18,855
Cash and cash equivalents	*13*	**245,903**	344,855
		1,447,429	1,560,881
Total assets		**2,060,293**	2,350,241
Equity			
Equity attributable to the Company's equity owners			
Share capital	*14*	**974**	974
Share premium	*15*	**591,651**	591,651
Other reserves	*16*	**333,874**	327,276
Currency translation differences		**(403,382)**	(477,136)
Retained earnings		**392,184**	684,530
		915,301	1,127,295
Non-controlling interests		**97,033**	119,968
Total equity		**1,012,334**	1,247,263

Consolidated Balance Sheet

		As at 31 December	
	Note	**2016** ***RMB'000***	2015 *RMB'000*
Liabilities			
Non-Current liabilities			
Borrowings	*17*	**103,093**	114,356
Deferred income tax liabilities	*20*	**22,141**	23,500
		125,234	137,856
Current liabilities			
Borrowings	*17*	**263,687**	257,689
Trade payables	*18*	**492,923**	553,838
Accruals and other payables	*19*	**110,089**	111,459
Current income tax liabilities		**40,522**	40,267
Current portion of long-term borrowings	*17*	**15,504**	1,869
		922,725	965,122
Total liabilities		**1,047,959**	1,102,978
Total equity and liabilities		**2,060,293**	2,350,241

The notes on pages 77 to 140 are an integral part of these consolidated financial statements.

The financial statements on pages 70 to 140 were approved by the Board of Directors on 21 March 2017 and were signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Consolidated Income Statement

	Note	Year ended 31 December 2016 RMB'000	 2015 RMB'000
Revenue	5	**848,131**	1,035,007
Other (losses)/gains, net	21	**(30,015)**	25,212
Operating costs			
Material costs		**(177,672)**	(352,372)
Employee benefit expenses	22	**(376,230)**	(544,423)
Operating lease expenses		**(52,818)**	(69,981)
Transportation costs		**(22,660)**	(40,976)
Depreciation and amortisation		**(117,860)**	(101,891)
Technical service expenses		**(107,226)**	(149,057)
Impairment losses of assets		**(82,580)**	(47,457)
Others		**(149,153)**	(202,201)
		(1,086,199)	(1,508,358)
Operating loss		**(268,083)**	(448,139)
Finance income	24	**1,772**	2,222
Finance expenses	24	**(32,073)**	(40,024)
Finance expenses, net		**(30,301)**	(37,802)
Share of post-tax results of associate		**(5,000)**	–
Loss before income tax		**(303,384)**	(485,941)
Income tax (expense)/credit	25	**(11,270)**	43,386
Loss for the year		**(314,654)**	(442,555)
Attributable to:			
Equity owners of the Company		**(292,346)**	(412,165)
Non-controlling interests		**(22,308)**	(30,390)
		(314,654)	(442,555)
Losses per share for the loss attributable to the equity owners of the Company			
Basic losses per share	27	**(0.190)**	(0.269)
Diluted losses per share	27	**(0.190)**	(0.269)

The notes on pages 77 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Loss for the year		**(314,654)**	(442,555)
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**41,112**	35,669
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**32,015**	(313,937)
Total comprehensive loss for the year		**(241,527)**	(720,823)
Attributable to:			
Equity owners of the Company		**(218,592)**	(692,346)
Non-controlling interests		**(22,935)**	(28,477)
		(241,527)	(720,823)

The notes on pages 77 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Company							
	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*
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

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Company							
	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
Balance as at 1 January 2016		974	591,651	327,276	(477,136)	684,530	1,127,295	119,968	1,247,263
Comprehensive income/(loss)									
Loss for the year		–	–	–	–	(292,346)	(292,346)	(22,308)	(314,654)
Currency translation differences		–	–	–	73,754	–	73,754	(627)	73,127
Total comprehensive income/(loss)		–	–	–	73,754	(292,346)	(218,592)	(22,935)	(241,527)
Transactions with owners									
Share-based payments	22	–	–	6,598	–	–	6,598	–	6,598
Total transactions with owners		–	–	6,598	–	–	6,598	–	6,598
Balance as at 31 December 2016		974	591,651	333,874	(403,382)	392,184	915,301	97,033	1,012,334

The notes on pages 77 to 140 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	*28*	**(43,422)**	179,619
Interest paid		**(26,695)**	(32,147)
Interest received		**1,772**	2,178
Income tax paid		**(13,925)**	(25,051)
Net cash (used in)/generated from operating activities		**(82,270)**	124,599
Cash flows from investing activities			
Purchases of property, plant and equipment		**(23,482)**	(243,055)
Proceeds from disposal of property, plant and equipment	*28*	**4,867**	2,885
Purchases of intangible assets		**(5,538)**	(5,669)
Investment in an associate		**(5,000)**	–
Acquisition of a subsidiary, net of cash acquired		**–**	(14)
Restricted bank deposits		**1,236**	(10,542)
Net cash used in investing activities		**(27,917)**	(256,395)
Cash flows from financing activities			
Proceeds from borrowings		**361,870**	303,987
Repayments of borrowings		**(353,500)**	(419,305)
Proceeds from share options exercised		**–**	398
Net cash generated from/(used in) from financing activities		**8,370**	(114,920)
Net decrease in cash and cash equivalents		**(101,817)**	(246,716)
Cash and cash equivalents at beginning of the year		**344,855**	595,028
Exchange gains/(losses) on cash and cash equivalents		**2,865**	(3,457)
Cash and cash equivalents at end of the year		**245,903**	344,855

The notes on pages 77 to 140 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 P. O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, 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, Canada and Indonesia. The ultimate controlling party of the Group is Mr. Wang Guoqiang (王國強) and Mr. Ethan Wu (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 2017.

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 2016:

Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Annual Improvements Projects	Annual Improvements 2012-2014 cycle
Amendments to IAS 1	Disclosure initiative

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 2016 and have not been early adopted.

IFRS 15	Revenue from Contracts with Customers (1)
IFRS 9	Financial Instruments (1)
IFRS 16	Leases (2)

(1) Effective for the accounting period beginning on 1 January 2018
(2) 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 expenses, 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 income.

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 (Losses)/Gains, 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 acquire 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. 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.

(b) Impairment of financial assets

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(b) Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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.

2.11 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 is 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.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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 post-employment schemes, including defined contribution pension 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.

The group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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 2016, 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	
	2016	2015
	RMB'000	*RMB'000*
RMB against USD		
– Weakened 5%	**(11,542)**	(7,000)
– Strengthened 5%	**11,542**	7,000
KZT against USD		
– Weakened 5%	**(1,923)**	4,097
– Strengthened 5%	**1,923**	(4,097)
SGD against USD		
– Weakened 5%	**743**	182
– Strengthened 5%	**(743)**	(182)
CAD against USD		
– Weakened 5%	**4,871**	4,905
– Strengthened 5%	**(4,871)**	(4,905)
IDR against USD		
– Weakened 5%	**267**	377
– Strengthened 5%	**(267)**	(377)

(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 interest rate risk exposure arises primarily from its short-term and long-term borrowings. Borrowings bearing interest at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

As at 31 December 2016, if interest rates on floating interest borrowings at that date had been higher/lower 100 basis points (31 December 2015: 100 basis points), loss before income tax for the year would have been RMB252,000 (2015: RMB88,000) higher/lower.

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 86.3% and 68.3% of the revenue of the Group for the years ended 31 December 2016 and 2015 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 2016 and 2015, cash and cash equivalents and restricted bank deposits, were deposited in the major banks 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 2016 and 2015:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
PRC		
– State owned listed banks	**94,844**	192,907
– Other listed banks	**92,401**	76,365
	187,245	269,272
Kazakhstan government owned banks	**20,686**	33,684
Hong Kong listed banks	**2,030**	1,821
Singapore listed banks	**8,236**	8,965
Canada listed banks	**32,823**	40,792
Other listed banks	**11,540**	7,810
Others	**962**	1,366
Total	**263,522**	363,710

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Cash flow forecast 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 forecast 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 2016				
Borrowings	**286,081**	**16,139**	**86,299**	**2,696**
Trade payables	**492,923**	**–**	**–**	**–**
Accruals and other payables	**29,832**	**–**	**–**	**–**
As at 31 December 2015				
Borrowings	283,845	15,393	83,303	4,212
Trade payables	553,838	–	–	–
Accruals and other payables	26,023	–	–	–

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 of 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 2016 and 2015 are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Total borrowings	**382,284**	373,914
Total equity	**1,012,334**	1,247,263
Gearing ratio	**37.8%**	30.0%

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) Estimated impairment of property, plant and equipment, intangible assets, and other non-current assets

The Group tests whether property, plant and equipment, intangible assets and other non-current assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.5, Note 2.8 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.

(b) 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 result in write-downs of inventories in the period which estimate has been changed.

(c) 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.

5. SEGMENT INFORMATION

The chief operating decision-maker ("CODM") has been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on this financial information.

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 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Drilling	**182,099**	243,925
Well completion	**120,606**	179,718
Reservoir	**545,426**	611,364
	848,131	1,035,007

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 RMB732,178,000 (2015: RMB706,927,000) 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 2016 and 2015 are as follows:

	Drilling	**Well completion**	**Reservoir**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Year ended 31 December 2016				
Revenue from external customers	**182,099**	**120,606**	**545,426**	**848,131**
EBITDA	**(35,001)**	**(86,196)**	**93,008**	**(28,189)**
Total assets	**392,688**	**644,831**	**481,416**	**1,518,935**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**17,000**	**27,702**	**5,018**	**49,720**

	Drilling	Well completion	Reservoir	Total
	RMB'000	*RMB'000*	*RMB'000*	*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 income tax assets)	22,760	76,310	20,090	119,160

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
EBITDA for reportable segments	**(28,189)**	(240,610)
Unallocated expenses		
– Share-based payments	**(6,598)**	(16,147)
– Other (losses)/gains, net	**(30,015)**	25,212
– Unallocated overhead expenses	**(90,421)**	(114,703)
	(127,034)	(105,638)
	(155,223)	(346,248)
Depreciation and amortisation	**(117,860)**	(101,891)
Finance expenses	**(32,073)**	(40,024)
Finance income	**1,772**	2,222
Loss before income tax	**(303,384)**	(485,941)

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,518,935**	1,698,219
Unallocated assets		
– Deferred income tax assets	**138,842**	137,609
– Unallocated inventories	**15,579**	21,986
– Unallocated prepayment and other receivables	**123,415**	128,717
– Restricted bank deposits	**17,619**	18,855
– Cash and cash equivalents	**245,903**	344,855
	541,358	652,022
Total assets per balance sheet	**2,060,293**	2,350,241

5. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Kazakhstan	**196,439**	275,665
PRC	**480,316**	501,921
Middle East	**46,065**	62,296
Turkmenistan	**50,579**	108,918
Canada	**48,213**	63,118
Others	**26,519**	23,089
	848,131	1,035,007

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	
	2016	2015
	RMB'000	*RMB'000*
Kazakhstan	**91,746**	110,435
PRC	**290,308**	426,015
Middle East	**8**	20
Turkmenistan	**30,237**	33,299
Canada	**17,500**	24,077
Others	**44,223**	57,905
	474,022	651,751

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
Year ended 31 December 2016						
Opening net book value	**51,842**	**334,255**	**14,602**	**34,187**	**100,457**	**535,343**
Additions	**35**	**7,939**	**1,827**	**5,946**	**38,673**	**54,420**
Depreciation charge	**(6,613)**	**(68,971)**	**(5,676)**	**(14,472)**	**–**	**(95,732)**
Disposals	**(175)**	**(88,802)**	**(652)**	**(1,202)**	**–**	**(90,831)**
Transfer	**18,186**	**61,969**	**975**	**19**	**(81,149)**	**–**
Impairment charge	**–**	**(24,287)**	**–**	**–**	**–**	**(24,287)**
Exchange differences	**2,464**	**9,589**	**861**	**1,014**	**11**	**13,939**
Closing net book value	**65,739**	**231,692**	**11,937**	**25,492**	**57,992**	**392,852**
At 31 December 2016						
Cost	**100,748**	**497,160**	**62,440**	**102,382**	**57,992**	**820,722**
Accumulated depreciation and impairment	**(35,009)**	**(265,468)**	**(50,503)**	**(76,890)**	**–**	**(427,870)**
Net book value	**65,739**	**231,692**	**11,937**	**25,492**	**57,992**	**392,852**

For the year ended 31 December 2016, depreciation expenses amounting to RMB95,732,000 (2015: RMB88,703,000) has been charged in operating costs.

Certain property, plant and equipment have been pledged for the Group's bank borrowings, details of which have been set out in Note 17(a)(iii).

7. LAND USE RIGHTS

	RMB'000
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
Year ended 31 December 2016	
Opening net book value	**22,241**
Amortisation charge	**(483)**
Closing net book value	**21,758**
At 31 December 2016	
Cost	**24,131**
Accumulated amortisation	**(2,373)**
Net book value	**21,758**

The Group's land use rights represent operating lease prepayments for the leasehold land in the PRC for a period of 50 years. All land use rights have a remaining period of 47 years.

Certain land use rights have been pledged for the Group's bank borrowings, details of which have been set out in Note 17(a)(iii).

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 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
Year ended 31 December 2016			
Opening net book value	**57,163**	**1,254**	**58,417**
Additions	**6,609**	**755**	**7,364**
Amortisation charge	**(21,369)**	**(276)**	**(21,645)**
Impairment charge	**(8,409)**	**–**	**(8,409)**
Closing net book value	**33,994**	**1,733**	**35,727**
At 31 December 2016			
Cost	**85,884**	**4,593**	**90,477**
Accumulated amortisation and impairment	**(51,890)**	**(2,860)**	**(54,750)**
Net book value	**33,994**	**1,733**	**35,727**

9. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

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%
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%

9. SUBSIDIARIES (CONTINUED)

The following is a list of the principal subsidiaries at 31 December 2016 (continued):

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest Held
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 (Shaanxi 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%
Petroleum Services Global DMCC	UAE, Limited liability entity	Oil field services, UAE	AED 100,000	100%
SPT-Techservice RUS Co., Ltd.	RUS, Limited liability entity	Oil field services, RUS	USD160,000	100%

9. SUBSIDIARIES (CONTINUED)

Notes

(a) The issued share capital includes preferred shares amounting to SGD 3,200,000 (equivalent to RMB16,302,000) (2015: 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

As at 31 December 2016, the total non-controlling interest was RMB97,033,000 (2015: RMB119,968,000), of which RMB83,278,000 (2015: RMB92,946,000) 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 which is material to the Group.

Summarised balance sheet

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current		
Assets	**129,274**	53,995
Liabilities	**18,893**	16,420
Total current net assets	**110,381**	37,575
Non-current		
Assets	**63,324**	155,079
Liabilities	**1,823**	2,017
Total non-current net assets	**61,501**	153,062
Net assets	**171,882**	190,637

9. SUBSIDIARIES (CONTINUED)

Notes (continued)

(b) Material non-controlling interests (continued)

Summarised income statement

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**4,576**	2,514
Loss before income tax	**(18,256)**	(15,462)
Income tax expense	**(498)**	–
Post-tax loss	**(18,754)**	(15,462)
Total comprehensive loss	**(18,754)**	(15,462)
Total comprehensive loss allocated to non-controlling interests	**(9,189)**	(7,576)

Summarised cash flows statement

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash used in operating activities	**(8,971)**	(26,708)
Net cash used in investing activities	**(3,464)**	(165,783)
Net cash generated from financing activities	**–**	–
Net decrease in cash and cash equivalents	**(12,435)**	(192,491)
Cash, cash equivalents at beginning of year	**14,623**	207,867
Exchange losses on cash and cash equivalents	**–**	(753)
Cash and cash equivalents at end of year	**2,188**	14,623

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

10. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Project materials and consumables	**420,373**	400,862
Project-in-progress	**20,737**	39,554
	441,110	440,416
Less: Provision for inventories	**(69,479)**	(46,592)
	371,631	393,824

The cost of inventories recognised as expense and included in "operating costs" amounted to RMB177,672,000 (2015: RMB352,372,000).

Movements of provision for inventories are as follows:

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**(46,592)**	(27,410)
Add: provision for inventories	**(22,887)**	(19,182)
As at 31 December	**(69,479)**	(46,592)

11. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables (a)	**621,847**	677,217
Less: provision for trade receivables	**(84,198)**	(56,825)
Trade receivables – net	**537,649**	620,392
Note receivables (a)	**26,095**	11,402
	563,744	631,794

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.

(b) Most of the trade receivables are with the expected credit terms of six months, except for retention money amounting to RMB2,107,000 (2015: RMB9,500,000). 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) Aging analysis of gross trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 6 months	**366,131**	391,387
6 months – 1 year	**67,962**	88,444
1 – 2 years	**76,529**	107,193
2 – 3 years	**59,445**	86,815
Over 3 years	**77,875**	14,780
Trade receivables, gross	**647,942**	688,619
Less: provision for trade receivables	**(84,198)**	(56,825)
Trade receivables, net	**563,744**	631,794

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
6 months to 1 year	**67,270**	88,206
1 to 2 years	**76,069**	106,462
2 to 3 years	**53,046**	44,484
	196,385	239,152

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

(e) Movements of provision for trade receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**(56,825)**	(33,986)
Add: provision for trade receivables	**(27,373)**	(22,839)
As at 31 December	**(84,198)**	(56,825)

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	
	2016	2015
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**383,817**	389,632
KZT	**79,184**	127,406
USD	**91,181**	108,643
Others	**9,562**	6,113
	563,744	631,794

(g) Certain trade receivables have been pledged for the Group's bank borrowings, details of which have been set out in Note 17(a)(iii).

12. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**66,893**	66,602
Prepayment for taxes	**43,370**	54,590
Total non-financial assets	**110,263**	121,192
Deposits and other receivables	**61,461**	57,802
Receivable relating to disposal of fixed assets	**84,401**	–
Less: provision for other receivables	**(7,593)**	(7,441)
Total financial assets	**138,269**	50,361
	248,532	171,553
Non-current		
Advances to suppliers (Non-financial assets)	**6,708**	18,872
Prepayment for operating lease (Non-financial assets)	**16,977**	16,878
	23,685	35,750
Total	**272,217**	207,303

12. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Notes

(a) No deposits and other receivables as at 31 December 2016 and 2015 were past due but not impaired.

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

	As at 31 December	
	2016 Equivalent in *RMB'000*	2015 Equivalent in *RMB'000*
RMB	**159,441**	78,539
KZT	**7,669**	11,635
SGD	**381**	820
USD	**11,712**	4,855
Others	**2,436**	9,102
	181,639	104,951

(c) Deposits and other receivables are financial assets classified under "loans and receivables". The fair values of other receivables approximated their carrying values.

(d) For other receivables that are neither past due nor impaired, management considered these counter-parties have 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:

	2016 *RMB'000*	2015 *RMB'000*
As at 1 January	**(7,441)**	(6,702)
Add: provision for impairment of other receivables	**(152)**	(739)
As at 31 December	**(7,593)**	(7,441)

(e) Certain non-current prepayments have been pledged for the Group's bank borrowings, details of which have been set out in Note 17(a)(iii).

13. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Restricted bank deposits (a)	**17,619**	18,855
Cash and cash equivalents		
– Cash on hand	**496**	444
– Deposits in banks	**245,407**	344,411
	245,903	344,855
	263,522	363,710

Notes

(a) As at 31 December 2016, the restricted bank deposits comprised of deposits of RMB16,119,000 (2015: RMB18,855,000) held as securities for issuance of bank letter of credit and RMB1,500,000 (2015: nil) 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	
	2016	2015
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**119,123**	73,233
USD	**67,067**	246,702
KZT	**57,975**	21,668
CAD	**5,830**	17,638
Others	**13,527**	4,469
	263,522	363,710

14. SHARE CAPITAL

Issued and fully paid

	Number of shares *(Thousands)*	Share capital *RMB'000*
Authorised shares:		
Ordinary shares of USD0.0001 each as at 31 December 2016 and 2015	2,000,000	1,295
Issued shares:		
As at 31 December 2014	1,534,409	974
Add: share options exercised	381	–
As at 31 December 2015	1,534,790	974
As at 31 December 2016	**1,534,790**	**974**

15. SHARE PREMIUM

	2016 ***RMB'000***	2015 *RMB'000*
As at 1 January	**591,651**	591,251
Share options exercised	**–**	400
As at 31 December	**591,651**	591,651

16. OTHER RESERVES

	As at 31 December	
	2016 ***RMB'000***	2015 *RMB'000*
Merger reserves (a)	**(148,895)**	(148,895)
Equity component of convertible bonds (Note 17)	**61,150**	61,150
Share-based payments (b)	**158,929**	152,331
Statutory reserves (c)	**53,768**	53,768
Capital reserves (d)	**208,922**	208,922
	333,874	327,276

16. OTHER RESERVES (CONTINUED)

Notes

(a) Merger reserves

As at 31 December 2016 and 2015, 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 certain directors and employees to subscribe for 26,500,000 ordinary shares of USD0.0001 each at an exercise price of HKD1.292. On 29 March 2012, another 7,300,000 share options were granted by the Company to certain directors and employees to subscribe for 7,300,000 ordinary shares of USD0.0001 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 certain directors and employees to subscribe for 67,450,000 ordinary shares of USD0.0001 each at an exercise price of HKD4.694. On 31 August 2016, another 130,000,000 share options were granted by the Company to certain directors and employees to subscribe for 130,000,000 ordinary shares of USD0.0001 each at an exercise price of HKD0.49.These share options will be evenly vested over 3 years from the first anniversary of the grant date and exercisable within 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2016		2015	
	Average exercise price per share options	**Number of share options**	Average exercise price per share options	Number of share options
	HKD	***(Thousands)***	*HKD*	*(Thousands)*
As at 1 January	**3.94**	**73,420**	4.41	78,381
Granted	**0.49**	**130,000**	–	–
Forfeited	**3.98**	**(8,007)**	4.57	(4,580)
Exercised	**–**	**–**	1.29	(381)
As at 31 December	**1.64**	**195,413**	3.94	73,420

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

As at 31 December 2016 and 2015, out of the outstanding share options listed above, the exercisable share options are as follow:

	As at 31 December 2016		As at 31 December 2015	
	Outstanding shares ***(Thousands)***	**exercise price** ***(HKD)***	Outstanding shares *(Thousands)*	exercise price *(HKD)*
Granted on:				
20 February 2012	**9,859**	**1.29**	11,297	1.29
29 March 2012	**5,083**	**1.36**	5,083	1.36
13 June 2013	**50,470**	**4.69**	37,833	4.69
Total	**65,412**	**3.92**	54,213	3.67

(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 2016 and 2015, no statutory reserves have been appropriated as the PRC incorporated subsidiaries have made loss in these years.

(d) Capital reserves

The capital reserves balances as at 31 December 2016 and 2015 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	
	2016	2015
	RMB'000	*RMB'000*
Non-current:		
Secured bank borrowings (a)(i)(iii)	**6,159**	6,694
Finance lease payable	**13,468**	40,000
Unsecured liability component of convertible bonds (d)	**83,466**	67,662
	103,093	114,356
Current:		
Short-term bank borrowings		
– Secured (a)(ii)(iii)	**101,027**	126,000
– Unsecured (a)(ii)	**60,000**	131,689
Short-term entrusted loan (b)	**70,000**	–
Short-term borrowings from certain individuals (c)	**32,660**	–
	263,687	257,689
Current portion of long-term borrowings:		
Secured bank borrowings (a)(i)(ii)(iii)	**988**	1,869
Finance lease payable	**14,516**	–
	15,504	1,869
Total borrowings	**382,284**	373,914

17. BORROWINGS (CONTINUED)

Note

(a) Bank borrowings

(i) As at 31 December 2016, long-term secured bank borrowings amounting to RMB7,040,000 (2015: RMB7,214,000), comprising long-term bank borrowings amounting to RMB6,159,000 (2015: RMB6,602,000) and its current portion amounting to RMB881,000 (2015: RMB612,000), 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 2017 is 4.79% per annual (2015: 4.59%).

As at 31 December 2016, long-term secured bank borrowings amounting to RMB107,000 (2015: RMB1,349,000) will mature until 2017 and bear effective interest rate of 2.28% per annum (2015: comprising long-term borrowings amounting to RMB92,000 and current portion amounting to RMB1,257,000, and bear effective interest rate of 3.04% per annum).

(ii) As at 31 December 2016, short-term secured bank borrowings amounting to RMB101,027,000 (2015: RMB126,000,000) will mature in 1 year and bear annual interest rate of 5.74% (2015: 6.49%).

As at 31 December 2016, short-term unsecured bank borrowings amounting to RMB60,000,000 (2015: RMB131,689,000) will mature in 1 year and bear annual interest rate from 3.80% to 5.90% (2015: 3.80% to 6.90%).

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Long-term bank borrowings including its current portion		
Secured by		
– Property, plant and equipment (Note 6)	**107**	642
– Long-term prepayments (Note 12)	**7,040**	7,921
	7,147	8,563
Short-term bank borrowings		
Secured by:		
– Trade and note receivables (Note 11)	**56,027**	126,000
– Land use right (Note 7)	**21,758**	–
– Restricted bank deposits (Note 13)	**1,500**	–
	79,285	126,000

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

17. BORROWINGS (CONTINUED)

Notes (continued)

(a) Bank borrowings (continued)

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**161,027**	236,000
USD	**–**	61,689
SGD	**7,147**	8,563
	168,174	306,252

(b) Short-term entrusted loans

As at 31 December 2016, short-term entrusted loans amounting to RMB70,000,000 (2015: nil) will mature in 1 year and bear annual interest rate of 5.10% (2015: nil).

The collaterals of the short-term entrusted loans are corporate guarantee provided by certain subsidiaries of the Group.

The carrying amounts of the short-term entrusted loans approximate their fair value, and are denominated in RMB.

(c) Short-term borrowings from certain individuals

As at 31 December 2016, short-term borrowings from certain individuals amounting to RMB32,660,000 (2015: nil) will mature in 1 year and bear annual interest rate of 10% (2015: nil).

17. BORROWINGS (CONTINUED)

Notes (continued)

(d) Convertible bonds

On 20 August 2012, the Company issued USD15,000,000 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 USD15,000,000 or can be converted into shares at a conversion price of HKD1.65 (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 HKD1.60 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 HKD1.69. As such, the original convertible bonds were derecognised whilst the new convertible bonds were recognised, and the difference of RMB28,780,000 were recorded in other reserve.

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

	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

	2016 ***RMB'000***
Liability component as at 31 December 2015	**67,662**
Add: Interest expense in 2016 (Note 24)	**12,591**
Less: Interest paid and payable	**(3,122)**
Add: Exchange difference	**6,335**
Liability component as at 31 December 2016	**83,466**

18. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 6 months	**209,606**	290,696
6 months to 1 year	**66,274**	52,162
1 – 2 years	**100,124**	162,751
2 – 3 years	**89,033**	29,909
Over 3 years	**27,886**	18,320
	492,923	553,838

19. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest payable	**4,742**	5,436
Rental fee payable	**4,470**	4,256
Others	**20,620**	16,331
Total financial liabilities	**29,832**	26,023
Customer deposits and receipts in advance	**4,134**	6,155
Payroll and welfare payable	**43,347**	46,882
Taxes other than income taxes payable	**32,776**	32,399
Total non-financial liabilities	**80,257**	85,436
	110,089	111,459

20. DEFERRED INCOME TAXATION

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deferred income tax assets:		
– To be recovered after more than 12 months	**112,881**	101,721
– To be recovered within 12 months	**25,961**	35,888
	138,842	137,609
Deferred income tax liabilities:		
– To be settled after 12 months	**(22,014)**	(23,271)
– To be settled within 12 months	**(127)**	(229)
	(22,141)	(23,500)
	116,701	114,109

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

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**114,109**	63,352
Credited to the income statement (Note 25)	**2,910**	57,304
Currency translation difference	**(318)**	(6,547)
As at 31 December	**116,701**	114,109

20. DEFERRED INCOME TAXATION (CONTINUED)

The movement in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income 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 2015	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
(Charged)/credited to the income statement	(7,101)	12,937	(4,695)	136	1,277
Currency translation differences	–	–	(44)	–	(44)
As at 31 December 2016	**57,818**	**39,934**	**30,679**	**10,411**	**138,842**

* 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 income 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 2015	6,506	18,642	578	65	25,791
Credited to the income statement	(2,151)	–	(134)	(6)	(2,291)
As at 31 December 2015	4,355	18,642	444	59	23,500
Credited to the income statement	(1,182)	–	(444)	(7)	(1,633)
Currency translation differences	274	–	–	–	274
As at 31 December 2016	**3,447**	**18,642**	**–**	**52**	**22,141**

* Deferred income 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 RMB102,476,000 as at 31 December 2016 (2015: RMB51,089,000), in respect of losses amounting to RMB495,272,000 (2015: RMB218,829,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2017 and 2021.

(b) As at 31 December 2016, the Group did not recognise deferred income tax liabilities of RMB11,276,000 (2015: RMB10,198,000) on withholding tax of unremitted earnings of certain subsidiaries earned prior to 1 July 2011 and during 2013, 2014, 2015 and 2016, as such unremitted earnings amounting to RMB490,035,000 (2015: RMB417,715,000) 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	
	2016	2015
	RMB'000	*RMB'000*
Net foreign exchange (losses)/gains	**(27,256)**	26,104
Others	**(2,759)**	(892)
	(30,015)	25,212

22. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wages, salaries and allowances	**316,579**	455,202
Housing benefits	**9,460**	12,030
Pension costs	**33,279**	45,073
Share-based payments (Note 16)	**6,598**	16,147
Welfare and other expenses	**10,314**	15,971
	376,230	544,423

Notes

(a) Five highest paid individuals

	Year ended 31 December Number of individuals	
	2016	2015
Director	**3**	1
Non-director individual	**2**	4
	5	5

22. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

Notes (continued)

(a) Five highest paid individuals (continued)

The aggregate amounts of emoluments paid and payable to the non-director individuals whose emoluments were the highest in the Group for the years are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salary	**2,055**	4,210
Discretionary bonus	**–**	302
Housing allowance	**29**	54
Estimated money value of other benefits	**435**	1,727
	2,519	6,293

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2016	2015
Emolument band		
HKD1,000,001 to HKD1,500,000	**1**	–
HKD1,500,001 to HKD2,000,000	**1**	1
HKD2,000,001 to HKD2,500,000	**–**	2
HKD2,500,001 to HKD3,000,000	**–**	1
	2	4

23. EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment	**1,567**	122
Sales tax and surcharges	**5,623**	7,665
Depreciation	**95,732**	88,703
Amortisation of land use right and intangible assets	**22,128**	13,188
Auditor's remuneration		
– PwC	**4,100**	4,100
– Others	**910**	1,005

24. FINANCE EXPENSES, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net foreign exchange gains on financing activities	**–**	44
Interest income on short-term bank deposits	**1,772**	2,178
Finance income	**1,772**	2,222
Net foreign exchange losses on financing activities	**(47)**	–
Interest expense:		
– Bank borrowings	**(13,410)**	(22,968)
– Bank charges and others	**(6,025)**	(4,167)
– Liability component of convertible bonds	**(12,591)**	(12,889)
Total finance expenses	**(32,073)**	(40,024)
Net finance expenses	**(30,301)**	(37,802)

25. INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**14,180**	13,918
Deferred income tax	**(2,910)**	(57,304)
Income tax expense/(credit)	**11,270**	(43,386)

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 Netherlands 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 rate of 10%.

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 2016 and 2015, 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, Canada, Indonesia, Russia and the United Arab Emirates are 20%, 25%, 25%, 30% and 0% respectively.

25. INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

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	
	2016	2015
	RMB'000	*RMB'000*
Loss before income tax	**(303,384)**	(485,941)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(51,052)**	(83,269)
Expenses not deductible for taxation purposes	**1,158**	6,295
Losses not recognised as deferred tax assets	**51,283**	33,588
Withholding tax paid in foreign jurisdiction not deductible against local tax	**9,881**	–
Income tax expense/(credit)	**11,270**	(43,386)

26. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2016 and 2015.

27. LOSSES PER SHARE

(a) Basic

Basic losses 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	
	2016	2015
	RMB'000	*RMB'000*
Loss attributable to equity owners of the Company	**(292,346)**	(412,165)
Weighted average number of ordinary shares in issue (thousands)	**1,534,790**	1,534,632
Basic losses per share (RMB per share)	**(0.190)**	(0.269)

27. LOSSES PER SHARE (CONTINUED)

(b) Diluted

Diluted losses 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 per share for the year ended 31 December 2016, both of the convertible bonds and share options were excluded as anti-dilutive factors for the period.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Losses		
Loss attributable to equity owners of the Company	**(292,346)**	(412,165)
Interest expense on convertible bonds (Note 24)	**Anti-dilutive**	Anti-dilutive
	(292,346)	(412,165)
Weighted average number of ordinary shares in issue (thousands)	**1,534,790**	1,534,632
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**Anti-dilutive**	Anti-dilutive
	1,534,790	1,534,632
Diluted losses per share	**(0.190)**	(0.269)

28. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loss before income tax	**(303,384)**	(485,941)
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 23)	**95,732**	88,703
– net losses on disposals (Note 23)	**1,567**	122
Land use right and intangible assets		
– amortisation (Notes 7 & 8)	**22,128**	13,188
Provision for impairment of assets	**87,580**	47,457
Net foreign exchange losses/(gains) (Notes 21 & 24)	**27,303**	(26,148)
Interest income (Note 24)	**(1,772)**	(2,178)
Interest expenses on borrowing (Note 24)	**13,410**	22,968
Interest expenses on convertible bonds (Note 24)	**12,591**	12,889
Share-based payments	**6,598**	16,147
Changes in working capital:		
Inventories	**(694)**	137,048
Trade receivables	**40,677**	741,477
Prepayments and other receivables	**7,461**	26,087
Trade payables	**(78,856)**	(170,347)
Accruals and other payables	**26,237**	(241,853)
Net cash (outflows)/inflows from operations	**(43,422)**	179,619

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net book amount (Note 6)	**90,831**	4,504
Loss on disposal of property, plant and equipment (Note 23)	**(1,567)**	(122)
Less: unsettled receivables in relation to the disposal	**(84,397)**	(1,497)
Proceeds from disposal of property, plant and equipment	**4,867**	2,885

Non-cash transactions

The principal non-cash transaction is the disposal of certain equipment amounted to RMB84,401,000 included in prepayments and other receivables (Note 12).

29. CONTINGENCIES

As at 31 December 2016 and 2015, the Group did not have any significant contingent liabilities.

30. COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment		
– Contracted for but not provided for	**–**	5,596

(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	
	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**8,659**	2,918
Later than 1 year and no later than 5 years	**25,116**	1,648
Later than 5 years	**35,256**	5,757
	69,031	10,323

31. 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 2016 and 2015:

(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	
	2016 ***RMB'000***	2015 *RMB'000*
Salary	**5,875**	9,528
Discretionary bonuses	**–**	777
Housing allowance	**141**	163
Estimated money value of other benefits	**2,100**	4,557
	8,116	15,025

32. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		**1,095,863**	1,104,993
Current assets			
Prepayments and other receivables		**334**	287
Cash and cash equivalents		**2,864**	2,367
Total assets		**1,099,061**	1,107,647
Equity and liabilities			
Share capital		**974**	974
Share premium		**591,651**	591,651
Other reserves	Note (a)	**432,978**	426,380
Currency translation differences		**56,685**	15,573
Accumulated losses	Note (a)	**(87,216)**	(60,944)
Total equity		**995,072**	973,634
Liabilities			
Non-Current liabilities			
Borrowings		**83,466**	67,662
Current liabilities			
Borrowings		**–**	61,689
Accruals and other payables		**20,523**	4,662
Current portion of long-term borrowings		**–**	–
Total liabilities		**103,989**	134,013
Total equity and liabilities		**1,099,061**	1,107,647

The balance sheet of the Company was approved by the Board of Directors on 21 March 2017 and was signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

32. 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 2015	(27,417)	591,251	381,455	(20,094)	925,195
Loss 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
At 1 January 2016	**(60,944)**	**591,651**	**426,380**	**15,573**	**972,660**
Loss for the year	**(26,272)**	**–**	**–**	**–**	**(26,272)**
Currency translation differences	**–**	**–**	**–**	**41,112**	**41,112**
Share-based payments	**–**	**–**	**6,598**	**–**	**6,598**
At 31 December 2016	**(87,216)**	**591,651**	**432,978**	**56,685**	**994,098**

33. 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 2016 is set out below:

	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Allowances and benefit in kind money value other benefits *RMB'000*	Total *RMB'000*
Executive Directors					
Mr. 王國強 (Mr. Wang Guoqiang)*	610	–	11	269	890
Mr. 吳東方 (Mr. Ethan Wu)	606	–	11	269	886
Mr. 劉若岩 (Mr. Liu Ruoyan)	310	–	–	175	485
Mr. 金樹茂 (Mr. Jin Shumao)	953	–	–	175	1,128
Non-executive Directors					
Mr. 林煬 (Mr. Lin Yang)	–	–	–	71	71
Ms. 陳春花 (Ms. Chen Chunhua)	866	–	–	149	1,015
Independent Non-Executive Directors					
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	257	–	–	149	406
Mr. 溫嘉明 (Mr. Wan Kah Ming)	257	–	–	149	406
Ms. 張渝涓 (Ms. Zhang Yujuan)	257	–	–	149	406
Chief Executive					
Mr. 蔣青松 (Mr. Jiang Qingsong)**	569	–	–	256	825
	4,685	–	22	1,811	6,518

33. 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 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. 王國強 (Mr. Wang Guoqiang)*	788	–	14	445	1,247
Mr. 吳東方 (Mr. Ethan Wu)	790	–	14	448	1,252
Mr. 劉若岩 (Mr. Liu Ruoyan)	423	125	–	377	925
Mr. 金樹茂 (Mr. Jin Shumao)	1,908	–	–	356	2,264
Non-executive Directors					
Mr. 林煬 (Mr. Lin Yang)	–	–	–	–	–
Ms. 陳春花 (Ms. Chen Chunhua)	818	–	–	379	1,197
Independent Non-Executive Directors					
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	376	–	–	329	705
Mr. 溫嘉明 (Mr. Wan Kah Ming)	289	–	–	329	618
Ms. 張渝涓 (Ms. Zhang Yujuan)	318	–	–	313	631
	5,710	125	28	2,976	8,839

* Mr. 王國強 (Mr. Wang Guoqiang) is also the chief executive of the Company till 31 August 2016.

** On 23 August 2016, the board of directors of the Company has approved the appointment of Mr. Jiang Qingsong as the chief executive officer of the Company in place of Mr. 王國強 (Mr. Wang Guoqiang) with effect from 1 September 2016.

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

33. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year ended 31 December 2016, 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 (2015: nil).

(c) Directors' termination benefits

During the year ended 31 December 2016, 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 (2015: nil).

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

During the year ended 31 December 2016, no consideration was provided to or receivable by third parties for making available director's services (2015: 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 (2015: 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 (2015: nil).

SPT Energy Group Inc.
華油能源集團有限公司*