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

* For identification purpose only

2017 Annual Report

Contents

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang
(Chairman and Chief Executive Officer) Note
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
(postal code: 100012)

Note: Mr. Jiang Qingsong was the chief executive officer of the Company during the period from 1 January 2017 to 31 August 2017. Mr. Wang Guoqiang has been appointed by the board of directors as the chief executive officer of the Company in place of Mr. Jiang Qingsong with effect from 1 September 2017.

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
CITIC Bank
Bank of Kunlun Company Limited
Bank of China

INVESTOR RELATIONS

Porda Havas International Finance Communications Group

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

1251

DATE OF LISTING

23 December 2011

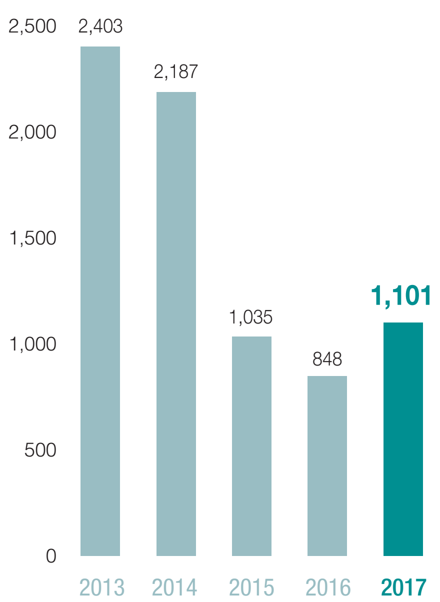
Financial Summary

The following financial information is extracted from the consolidated financial statements of SPT Energy Group Inc. (the "Company") and its subsidiaries (the "Group"), which is prepared under the International Financial Reporting Standards:

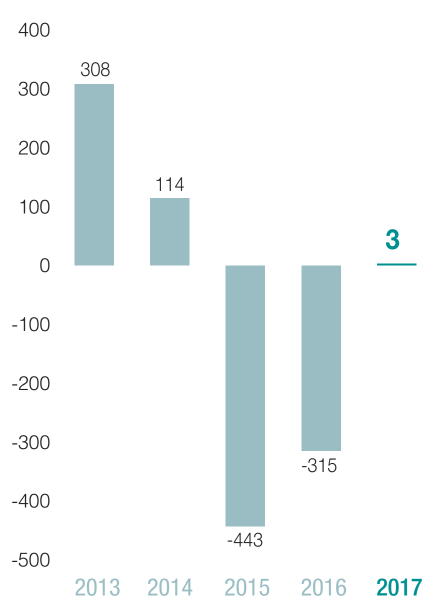
CONDENSED CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
RMB'000	**2017**	2016	2015	2014	2013
Revenue	**1,100,642**	848,131	1,035,007	2,186,958	2,402,767
Other gains/(losses), net	**36,618**	(30,015)	25,212	(17,960)	12,608
Operating costs	**(1,090,448)**	(1,086,199)	(1,508,358)	(1,964,813)	(2,001,247)
Operating profit/(loss)	**46,812**	(268,083)	(448,139)	204,185	414,128
Finance expenses, net	**(29,677)**	(30,301)	(37,802)	(43,820)	(24,638)
Profit/(loss) before income tax	**17,135**	(303,384)	(485,941)	160,365	389,490
Profit/(loss) for the year	**3,260**	(314,654)	(442,555)	114,267	308,397
Attributable to:					
Equity owners of the Company	**5,541**	(292,346)	(412,165)	116,176	300,377
Non-controlling interests	**(2,281)**	(22,308)	(30,390)	(1,909)	8,020
Dividends proposed after balance sheet date	**–**	–	–	–	76,520

Revenue Growth (RMB million)

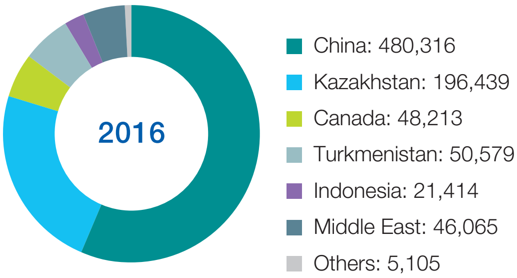


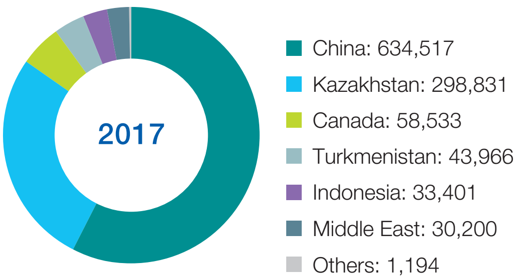
Profit Growth (RMB million)



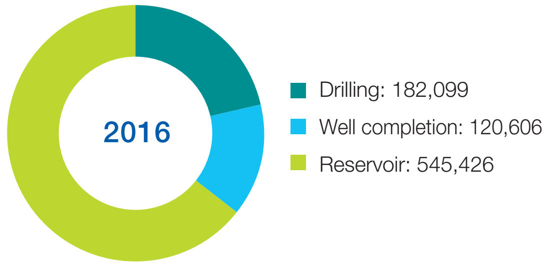
Financial Summary

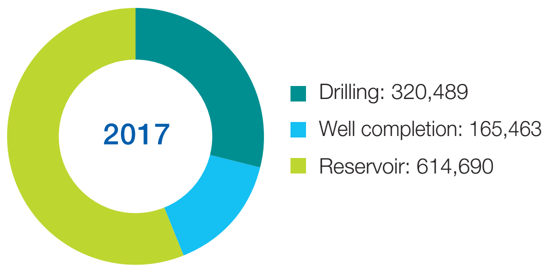
Revenue by Region





Revenue by Business





CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2017**	2016	2015	2014	2013
Assets					
Non-current assets	**558,928**	612,864	789,360	832,278	544,272
Current assets	**1,430,895**	1,447,429	1,560,881	2,750,919	2,507,924
Total assets	**1,989,823**	2,060,293	2,350,241	3,583,197	3,052,196
Total equity	**978,098**	1,012,334	1,247,263	1,922,054	1,831,194
Liabilities					
Non-current liabilities	**39,300**	125,234	137,856	84,521	106,861
Current liabilities	**972,425**	922,725	965,122	1,576,622	1,114,141
Total liabilities	**1,011,725**	1,047,959	1,102,978	1,661,143	1,221,002
Total equity and liabilities	**1,989,823**	2,060,293	2,350,241	3,583,197	3,052,196

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 (the "Board") of the Company, I present the annual report of the Group for the year ended 31 December 2017 (the "Reporting Year").

During the Reporting Year, the Group's revenue amounted to RMB1,100.6 million and the profit attributable to the equity owners of the Company amounted to RMB5.5 million.

MARKET REVIEW

Looking back in the past year, the global economic condition has improved in general. Benefiting from the Output Reduction Agreement between Organization of Petroleum Exporting Countries ("OPEC") members and other major oil producing countries and the strong demand from recovery of the three major economies in the US, China and Europe, the oil and gas prices have rebounded and consumption has grown steadily alongside a more balanced market in general. As a result, the capital expenditures of the oil companies have restored growth and the losses in oil-field industry have shrunk.

On the overseas markets front, during the Reporting Year, the global oil market revealed a V-shaped trend. In the first half of the year, the global crude oil price zigzagged downwards and in the second half of the year, the global oil market experienced a turnaround. As at the end of the Reporting Year, the Brent global prices rallied to US$66.62 per barrel. Given this impact, the market size of the global engineering technology services has bottomed out and started picking up. According to the statistics of the 2017 Domestic and International Oil and Gas Development Report issued by CNPC Research Institute of Economics and Technology, the market size of the global engineering technology services amounted to approximately US$233.5 billion in 2017, up by 5% over 2016, among which, the oilfield production and service segment grew by 29.2%; the logging and workover service segment grew by 14.7%; and the drilling and well completion service segment grew by 5%.

On the People's Republic of China ("PRC") market front, after three years of profound adjustments, during the Reporting Year, the three major traditional oil companies in the PRC revealed a steady trend in terms of exploration and development with an increase in upstream investments and more oil and gas field discoveries. The additional proven geological oil and gas reserves amounted to approximately 1.0 billion tonnes and more than 500.0 billion cubic metres. Crude oil consumption in the PRC continued to grow rapidly. Throughout the year, the apparent consumption of crude oil was 610 million tonnes, up by 6% year-on-year and setting a new high in the past six years. In particular, with the launch of "coal-to-gas" switching policy to control air pollution, the domestic demand for natural gas in the PRC increased. Various oil companies stepped up efforts in the exploration, development of and investment in conventional natural gas and shale gas. Some oil-field service providers experienced a turnaround.

Under such external environment, the Group actively adjusted its own business strategy. On the one hand, it continued to optimise the cost and business structures. The Group's ability to adapt to low oil price was strengthened significantly. On the other hand, the Group stepped up the R&D efforts in the products and technologies required by customers under the new landscape and made a number of breakthroughs in areas of new products and core markets. With the picking up of the overall market and full recovery of equipment utilisation and workload, the size of sales and operating results throughout the year substantially picked up. In addition, in terms of market, the Group made major breakthroughs in China Sichuan's shale gas market and the Iraq market. As for technologies and products, the Group devoted great efforts to push ahead the innovation of new technologies. New technologies and new processes, namely, ultrasound plug removal technology, permanent optic fibre monitoring technology, plugging technology and soluble bridge plugs and annular pressure control technology were successfully applied onsite in different regions and were well received by customers. The applicability and diversity of technologies were greatly improved; and the Group's ability to resist risks and satisfy customer demand for products and technologies under the new landscape was further enhanced.

PROSPECT

Looking into year 2018, we think it will be a key turning point for the global oil and gas industry to further pick up at full speed. After three years of market correction, the demand and supply of the global oil and gas market have approached its equilibrium again. As the demand for oil and gas, particularly the demand for natural gas in China, increases gradually, we expect that the global oil price will further increase in 2018 subject to the objective law of long cycle of oil and gas exploration and development. Investments in the global oil and gas exploration and development will further restore growth where the extent of growth is expected to exceed the level in 2017. In short, after three consecutive years of market downturn, the oil and gas service industry is faced with numerous favourable factors and is expected to achieve faster growth in the new year.

Chairman's Statement

Based on the foregoing, the Group's core market strategies in 2018 are to: centralise quality resources, seize the operation of key projects, and endeavour to devote efforts and focuses to the quality markets which maximise the Group's value. Key projects include: i) Xinjiang market: Leveraging on the launch of a 50 million-tonne project by PetroChina Company Limited ("PetroChina") and capitalising on the opportunities arising from the planned oil and gas output equivalent of 30 million tonnes at Tarim Oilfield by 2020, the Group will stabilise the existing markets, expand into new markets, strengthen project management and consolidate competitive strengths; ii) Sichuan's shale gas market: The Group will do its best to accomplish the awarded projects while upholding technology innovation and aligning with advanced levels so as to increase the Group's core competitiveness; iii) Overseas new markets: The Group will center around the awarded projects in Iraq and expand the Middle East market and further achieve sustainable growth horizontally and vertically by capitalising on the "Belt and Road" initiative to build a solid and diversified profit model which can simultaneously increase risk resistance, innovation effectiveness and globalisation in the region.

Faced with increasing oil prices, the profitability of oil-field service providers will resume comprehensively. Driven by the mixed-ownership reform of large-scale oil companies, the competitiveness of independent oil-field service providers is expected to grow gradually. In response to the development needs under the new landscape, the Group has finetuned the relevant business strategies and the development of management systems. We believe that the performance of the Group will take off again in year 2018.

ACKNOWLEDGEMENTS

On behalf of the Board, 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

Management Discussion and Analysis

BUSINESS OVERVIEW

During the Reporting Year, the global crude oil market initially declined and gradually picked up throughout the year and revealed an upward trend in general despite the volatility. In spite of the phasing effects brought by the uncertainties, given the profound adjustments in the past three years, the overall demand and supply have almost reached an equilibrium. The international oil and gas market has bottomed out and continued to pick up. It is expected that this trend will be further strengthened in 2018. In pace with the trend of the global oil price, the oil companies gradually increased their exploration and development expenditures in 2017, but the extent and momentum of growth was limited and varied market performance was recorded in different regions. In particular, after surviving more than two years of low oil price, oil companies have generally introduced the business philosophy of cost saving and continued to implement it. Not only did they have higher requirements on quality of service regarding external tender projects, the pricing of oil-field service remained relatively low. However, significant improvement was seen in terms of workload.

During the Reporting Year, the Group seized the favourable timing when oil companies resumed their capital expenditures to actively penetrate into the traditional markets and greatly expand into new business segments so as to generate good growth momentum following the bottoming out of the Group's overall business. First, the Group strengthened the relationship with its customers in the traditional market to pay closer attention to customer needs and timely grasped the latest market information on policies, technologies and competitors. By taking a pioneer move and responding quickly, the Group sought and seized the market opportunities in the course of embracing changes on its own initiatives. In the PRC market such as Tarim Oilfield and Sichuan Oilfield and the Caspian Sea Region in Kazakhstan, the workload of traditional projects including drilling services and well completion significantly increased. Second, the Group streamlined the organisation and reduced the management hierarchy level, placing the focus of management on the market and quality of service. While the cost of management was reduced, the quality of service, customer satisfaction and project efficiency remained unchanged. Third, the Group strove to expand into new markets and explore new business segments in pursuit of new markets and new opportunities. In 2017, in addition to securing new trade orders from regions like Russia and Turkmenistan, the Group made a breakthrough and secured the workover service contract at Maysan Oilfield in Iraq. Not only is it conducive to rationalising the Group's business layout, it also helps lay a solid foundation for future development. Fourth, the Group continued to implement cost control unswervingly and optimised the organisational structure to fully and continuously implement "cost reduction and efficiency improvement" on a top-down management approach with a view to enhancing the operational and management standard of the Group.

During the Reporting Year, the Group realised revenue of RMB1,100.6 million, representing an increase of RMB252.5 million or 29.8% as compared with that in the previous year. Revenue from both the PRC market and overseas markets revealed significant growth, among which, revenue from the PRC market amounted to RMB634.5 million, representing an increase of RMB154.2 million or 32.1% as compared with that in the previous year; and revenue from the overseas markets amounted to RMB466.1 million, representing an increase of RMB98.3 million or 26.7% as compared with that in the previous year. As to business segments, revenue from oil reservoir services amounted to RMB614.7 million, representing an increase of RMB69.3 million or 12.7% as compared with that in the previous year; revenue from drilling services amounted to RMB320.5 million, representing an increase of RMB138.4 million or 76.0% as compared with that in the previous year; revenue from well completion services amounted to RMB165.5 million, representing an increase of RMB44.9 million or 37.2% as compared with that in the previous year.

Management Discussion and Analysis

REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,100.6 million, representing an increase of RMB252.5 million or 29.8% as compared with that in the previous year. The increase in revenue was attributable to the recovery of the oil-field service industry, the Group's active market expansion efforts and the improvement of overall quality of service and efficiency. Accordingly, revenue from the three major business segments grew significantly, among which, percentage of revenue from oil reservoir services, drilling services and well completion services was 55.9%, 29.1% and 15.0% respectively, up by 12.7%, 76.0% and 37.2% as compared with those in the previous year respectively. As a traditional principal business of the Group, the oil reservoir services segment remained the largest contributor to revenue. However, revenue from well completion and drilling services also grew significantly. In particular, as the oil companies increased the capital expenditures on exploration and development of well construction, the Group's revenue from drilling services revealed significant growth. The analysis of the Group's revenue by business segment is as follows:

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*(%)*
Reservoir	**614,690**	545,426	12.7%
Drilling	**320,489**	182,099	76.0%
Well Completion	**165,463**	120,606	37.2%
Total	**1,100,642**	848,131	29.8%

Reservoir Services Segment

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*(%)*
Revenue			
Overseas	**292,002**	254,459	14.8%
PRC	**322,688**	290,967	10.9%
Total	**614,690**	545,426	12.7%

During the Reporting Year, revenue from the oil reservoir services segment amounted to RMB614.7 million, representing an increase of RMB69.3 million or 12.7% as compared with that in the previous year, among which, revenue from the overseas markets amounted to RMB292.0 million, accounting for 47.5% of the total revenue from oil reservoir services; and revenue from the PRC market amounted to RMB322.7 million, accounting for 52.5% of the total revenue of oil reservoir services. The Group's oil reservoir services comprise oil reservoir research services, dynamic monitoring service, oil testing and oil recovery 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 focused on enhancing oil recovery and solving the problems of customers in the course of production and development of existing oilfields. As a result, the Group successfully made the following achievements in certain markets.

1. The Group successfully introduced the ultrasound plug removal technology to South China Sea regional market and Kazakhstan market. As a new green and environmentally friendly oil stimulation process, the ultrasound plug removal technology can be widely applied in the water well stimulation, oil well stimulation and green areas at low cost with significant stimulation results and no damage to the reservoir layers upon multiple applications. Upon implementation of the plug removal process in South China Sea, daily oil stimulation per single well increased to 49 barrels and liquid stimulation of the target plug removal layer increased by 38.2%, representing growth of 8.7 times, thus generating good economic benefits to customers.

2. The Group attained initial success at Tarim Oilfield for the implementation of the optic fibre plus electric cable integrated monitoring process, which is able to collect the pressure and temperature of the target layer and monitor the cross-sectional well casing temperature at the same time. One well, upon implementation of the process, has been operating steadily for four months and the data accuracy completely meets the designed requirements. The process is set to be widely promoted and applied at Tarim Oilfield.

3. The Group introduced, for the first time, the water discharge/gas recovery compressor and gas lifting process to a gas field in China. Reservoirs in the region are faced with rising bottom water level and descending output or even total suspension of production. This process can effectively increase gas well output, slow down output lapse and eventually extend the development cycle of the gas field.

4. The Group implemented, for the first time, the deep oil well plugging process at an oilfield in Kazakhstan. The oilfield is in the process of development with fast rising level of water in the reservoir and a fairly high output lapse rate. The cement plugging used by customers in the past could only achieve certain effects in the near well zone but was unable to solve the issue of water covering the surface of the reservoir. The Group applied the process in three wells at the oilfield. Initial oil stimulation upon completion reached 1,460 barrels, thus generating direct economic benefits to customers.

The application of these processes and techniques that target at the difficulty in oil recovery in the course of subsequent development of oilfields has greatly enriched the contents of the products and technologies of the Group's oil reservoir services segment. It has also strengthened the Group's competitiveness in satisfying oil fields' demand for control of development costs and higher oil recovery. Looking ahead, these processes and techniques will be applied in more regions, thus generating greater economic benefits.

Drilling Services Segment

	For the year ended 31 December		
	2017 *RMB'000*	2016 *RMB'000*	Change *(%)*
Revenue from Drilling Services			
Overseas	**118,618**	56,176	111.2%
PRC	**201,871**	125,923	60.3%
Total	**320,489**	182,099	76.0%

During the Reporting Year, revenue from drilling services segment amounted to RMB320.5 million, representing an increase of RMB138.4 million or 76.0% as compared with that of the previous year, among which, revenue from the overseas market amounted to RMB118.6 million, up by 111.2% year-on-year and accounting for 37.0% of the total revenue from drilling services; and revenue from the PRC market amounted to RMB201.9 million, up by 60.3% year-on-year and accounting for 63.0% of the total revenue from drilling services. The Group's drilling services comprise 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, benefiting from oil companies' increased investment in well construction, the drilling services business of the Group recovered rapidly. In particular, the drilling business at Tarim Oilfield in China and the workover business in Kazakhstan resumed the quickest. In addition, given the increasing workload, the Group made material breakthroughs in a number of areas.

1. The testing centre of Xinjiang SPT Engineering Service Co., Ltd. of the Group was granted an approval certificate by China National Accreditation Service for Conformity Assessment ("CNAS"), signifying that the testing centre has become a standard inspection laboratory recognised by the State where its hardware facilities, management standards and testing capabilities meet the internationally recognised standard requirements and its testing reports issued are internationally recognised. Occupying a site area of approximately 1,000 square metres, the laboratory testing centre has a range of high-quality and high-performance testing apparatuses and equipment, which meet the standards set by American Petroleum Institute including Fann75 high temperature high pressure rheometer, OFITE high temperature high pressure filter press and gradiometer. The areas recognised by CNAS are the five major testing projects namely crude oil, drilling liquid, oilfield chemicals, water and chemical reagents. Not only do these facilitate the Company's response to customer demand, they can also expand the business and strengthen the Group's market competitiveness. Currently, the testing centre has secured a three-year contract for drilling liquid testing at Tarim Oilfield.

2. The plugging technology developed by the engineering and technology centre of the Group was applied successfully in the Chongqing region. The target well experienced significant leakage of drilling fluid in the course of drilling with oil-based slurry leaking of more than 200 cubic metres. More than 60 tonnes of local slurry plugging materials were used to tackle the problem but the effect was minimal. The HyperLCasing technology of the Group uses high temperature resistant and high pressure resistant natural materials as the materials for leakage treatment. In particular, it can be directly added to the slurry via bottom hole assembly without tripping, placing bare drill rods and bypass valves which is simple and easy to operate without impeding the performance of slurry. Once it enters the leakage layer, it will quickly form an effective and strong film to prevent leakage, which significantly increases the completeness and stability of borehole, thus enjoying a series of advantages such as reducing one layer of technology casing and enhancing the potential of well cementing quality. Under the guidance of the Group's experts, successful plugging was achieved at the target well using the Group's process and was recognised and praised by customers.

3. The Group increased drilling workload at Ordos by 283%. The Group shared its production process and management experience at several service provider conferences upon the request of customers, and completed drilling for 23 wells during the year, representing a significant increase as compared with the workload last year.

4. The Group made material breakthroughs in securing orders from the drilling turnkey project in Sichuan's shale gas market and workover services at Maysan Oilfield in Iraq.

Well Completion Services Segment

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from Well Completion Services			
Overseas	**55,505**	57,180	(2.9%)
PRC	**109,958**	63,426	73.4%
Total	**165,463**	120,606	37.2%

During the Reporting Year, revenue from well completion services segment amounted to RMB165.5 million, representing an increase of RMB44.9 million or 37.2% as compared with that of the previous year, among which, revenue from the overseas market amounted to RMB55.5 million, accounting for 33.5% of the total revenue from well completion services; and revenue from the PRC market amounted to RMB110.0 million, accounting for 66.5% of the total revenue from well completion services. The Group's well completion services comprise trading and relevant service of well completion tools and stimulation and fracturing service.

Management Discussion and Analysis

During the Reporting Year, in addition to seizing the opportunities arising from the market recovery, the well completion services segment of the Group endeavoured to guarantee the success rate for market orders in its core regions. While stepping efforts in developing its own R&D tools and products, the Group further enhanced the diversification of the well completion tools and achieved success in certain markets. For instance, at the factory in Singapore, the 5"10K and 5"15K large-bore packers were delivered to the customers in Sichuan, China for their application; 2 7/8"10k Inc718 material safety valves were sold to Afghanistan; and North factory's SLIP ON oil swellable packers were sold to Baker Hughes, Malaysia. With continued R&D efforts and improvement, the annular pressure control 3E technology system was applied in five other wells at the Daqing Oilfield this year following its application in two wells last year, which demonstrated promising results.

MARKET ANALYSIS

During the Reporting Year, the global oil market revealed a V-shaped trend. In the first half of the year, the global crude oil price zigzagged downwards where the price of Brent crude oil futures fell from its highest of US$58.37 per barrel to its lowest of US$44.35 per barrel. The global oil market experienced a turnaround in the second half of the year. The crude oil market picked up with less volatilities. Since November, the oil price has resumed to the level at the beginning of the year and continued to zigzag upwards. Since mid-December, the oil price has surged and continued to go up. Market sentiments began to pick up substantively with the strong performance of oil price. As at the end of the Reporting Year, the Brent global crude oil prices rallied to its highest of US$66.62 per barrel.

The rise in the global oil price was mainly attributable to the improvement in the demand and supply of crude oil, which was primarily due to: 1) the OPEC's ongoing execution of the Output Reduction Agreement; 2) the slower pace of production of shale gas in the United States; 3) the decreasing inventory of crude oil in the United States; and 4) the geopolitical factors such as the referendum in Iraq and possible sanction of Iran. The steady growth in the global oil price contributed to the recovery of the oil-field service industry, resulting in a rally in investment in oil and gas exploration and development. However, during the Reporting Year, the extent of rally was limited. In addition, faced with the changes in the competition in the global oil-field service market, there was a marked differentiation in regional market development with intensifying competition.

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, driven by the recovery of oil price, customers in the overseas markets slowly resumed their investments and the exploration and development workload increased. Couple with the rally and gradual stability in the exchange rate of Tenge ("KZT") against USD, the overall scale of the Group's operations in the Central Asia region picked up considerably in 2017. In addition, as the operations in the Middle East and Southeast Asia regions are settled in USD in general, the revenue in these regions basically maintained a relatively stable level as compared with the level in the same period of last year, and the market scale expanded from 2016.

During the Reporting Year, as for the overseas markets, the Group took proactive measures to seize the opportunities arising from the global price rally and resumption of market demand so as to stabilise the production and operation conditions. First, it continued to strengthen its business expansion through cost reduction and efficiency enhancement of oil field development. The Group focused on developing high recovery rate related businesses and successfully introduced the application of the ultrasound plugging technology to the Kazakhstan market. Second, the Group stepped up efforts in exploring the opportunities in the existing markets to actively secure projects. The Kazakhstan market outperformed the annual target with a growth rate of 52.1% in revenue as compared with that of 2016; the Indonesia and Canada markets achieved growth of varying degrees as compared to 2016. Third, the Group actively expanded into new markets and new businesses. At the beginning of the year, the Group obtained the market access approval issued by the Petroleum Administration Bureau of Maysan, Iraq. In the second half of the year, the Group officially won the bid for the two-year service contract regarding the workover rig of Iraq's Maysan project. Currently, the project is under preparation and will commence operation in 2018. In May 2017, the Group secured the monitoring service contract from Sierra Oil and Gas and the liner hanger and stage collar contract from Mingbulak Company in Uzbekistan, and initially entered into a long-term letter of intent with customers, marking a milestone achievement of the Group in market expansion within the region. The Group also made some breakthroughs in the Russia market and initially tapped into the environment business.

PRC Market

The sluggish oil price since 2014 has dampened the upstream operations of the three PRC oil giants namely PetroChina, China Petroleum & Chemical Corporation ("Sinopec") and China National Offshore Oil Corporation ("CNOOC") with decreasing production. At the same time, oil imports continued to grow. In 2017, the degree of reliance on imports of crude oil of China increased by 3 percentage points to 67.4%. Given the rebound in oil price, on the one hand, the increase in the reliance on imports forced oil companies to increase capital expenditures to stabilise the scale of production. On the other hand, as the operating results of the three PRC oil giants namely PetroChina, Sinopec and CNOOC improved significantly in 2017, oil companies were more willing to increase capital expenditures. According to the 2017 interim report of PetroChina, the capital expenditures for the exploration and production segment of PetroChina amounted to RMB45,303 million for the first half of 2017, representing an increase of 14.5% compared with the first half of 2016. According to the 2017 interim report of Sinopec, the capital expenditures for the exploration and production segment of Sinopec amounted to RMB6,870 million for the first half of 2017, representing an increase of 32.9% compared with the first half of 2016.

In 2017, the natural gas related exploration and development in the PRC saw a pickup in its speed. According to the Strategic Action Plan for Energy Development (2014-2020) published by the State, by 2020, the natural gas consumption in the PRC will reach 360.0 billion cubic metres, representing an increase of 41.7% as compared to 2016 and accounting for 10% of the primary energy. PetroChina made significant breakthroughs in natural gas exploration in Tarim and Tsaidam, while gradually pushed ahead the non-conventional oil and gas exploration. Sinopec accelerated the shale gas capacity expansion in Fuling and the natural gas capacity expansion in Hangjin County, Northern China.

Management Discussion and Analysis

During the Reporting Year, while seizing favourable opportunities arising from the gradual pickup of the global oil price and market recovery, the Group actively extended the existing markets in the PRC and expanded into the new markets. The Group also stepped up efforts in the following areas and made remarkable results.

- Ensure the recovery of workload regarding the existing products and technologies: During the Reporting Year, the Group's well completion tool manufacturing capabilities and service level in the PRC market were further enhanced. The well completion business in Tarim Oilfield and Sichuan Oilfield rapidly recovered. The well completion services in the PRC market grew by 73.4% year-on-year; drilling workload in Changqing Oilfield grew by 283%; and there were 23 wells which completed drilling during the year. In addition, the Group closely monitored the opportunities arising from the strong growth of the non-conventional natural gas market in the PRC market. At the shale gas block in Changning, Sichuan, the Group successfully expanded and completed the rotary steerable service for 10 wells. Another breakthrough and milestone achievement was that, after one year of project tracking, the Group successfully landed the shale gas turnkey drilling project in February 2018.

- Accelerate the marketing of new featured products and technologies to satisfy the customers' demand for cost reduction and efficiency enhancement in the slow recovery of the industry. The Group attained initial success at Tarim Basin for the implementation of the optic fibre plus electric cable integrated monitoring process, which is able to collect the pressure and temperature of the target layer and monitor the cross-sectional well casing temperature at the same time. The Group introduced, for the first time, the water discharge/gas recovery compressor and gas lifting process to a gas field in Xinjiang. In early December 2017, SPT's HyperLCasing drilling and plugging technology was successfully applied for the first time at a shale gas block of Sinopec in Chongqing where the technology was proved to have a promising future. In December 2017, the ultrasound removal technology was applied at an oilfield in South China Sea. As a result, daily oil stimulation per single well increased to 49 barrels and liquid stimulation of the target plug removal layer increased by 38.2%, representing growth of 8.7 times. It was a huge success. In 2018, CNOOC will widely promote the use the such technology in other blocks.

Based on the foregoing, after a year's effort, we have survived the toughest industry cycle and gradually displayed our competitiveness and further established the direction of our future development under the condition of survival of the fittest. We are confident that, in 2018, while seizing the industry opportunities, we will enhance the organic capabilities of our products through satisfying customers' demand and focus on developing core technologies to turn opportunities into business achievements so as to maintain sustainable growth of our business and profitability.

R&D AND MANUFACTURING

During the Reporting Year, the scientific and research division of the Group tackled the new technology challenges through independent innovation and incubation based on specific projects. In addition to the enhanced R&D and market application of the submersible direct-drive screw pump oil recovery process, FulconFrac™ full-length diversion fracturing technology and new well completion tools in the first half of the year, new breakthrough was made by the Group in areas of ultrasound stimulation, drilling plugging and drilling/well completion process.

Following the successful application of the submersible direct-drive screw pump oil recovery process and FulconFrac™ full-length diversion fracturing technology in the Kazakhstan market at the beginning of the year, the project technology centre successfully introduced the ultrasound stimulation technology to Kazakhstan market and China's Changqing market and South China Sea market, and smoothly completed the trial run of eight wells, demonstrating significant stimulation effects. For instance, a well at an oilfield in Kazakhstan recorded oil production of only 0.9 tonnes as at the end of August 2017. Following the implementation of ultrasound stimulation, the daily oil production increased to 5.2 tonnes. As at the end of December 2017, the net increase in crude oil amounted to 508 tonnes. At an oilfield in South China Sea, daily oil production of a well increased from 5 barrels to 54 barrels after the implementation of ultrasound stimulation, representing a net increase of 49 barrels of crude oil. In addition, the drilling slurry plugging technology attained initial success at a shale gas block in Chongqing. The technology brought an initial victory as compared to the traditional process which was unable to achieve plugging in the 20-day period and was thus named the most effective plugging technology by customers.

The well completion manufacturing centre focused on developing low-cost and sustainable new tools ancillary to well completion with high market demand, and filed the application for two invention patents and six utility model patents, among which, some scientific and research achievements have been launched to the market, generating significant economic benefits. For instance, at the factory in Singapore, 5"10K and 5"15K large-bore packers were delivered to the clients in Sichuan for their application; 2 7/8"10k Inc718 material safety valves, SLIP ON oil swellable packers and the 5.5" fully soluble bridge plugs passed the third-party testing as well as a contract was secured. With the further enhancement of the annular pressure control 3E technology system, it was applied in five wells at the Daqing Oilfield in 2017 as compared to two wells last year, which further demonstrated the advanced level, applicability and effectiveness of the technology. Full-scale market launch of the technology is expected in 2018.

After three years of efforts, Xinjiang SPT Engineering Service Co., Ltd., a subsidiary within the Group, has developed a high performance environmentally friendly water-based drilling fluid/well completion fluid system that can satisfy the requirements of piedmont drilling project at the Tarim Oilfield at the end of 2017, among which, the highest density of drilling fluid is 2.60g/cm^3 and the maximum temperature resistance is 200℃ with stronger resistance to cuttings, cement and brine pollution, which offers better protection to the reservoir; the highest density of well completion fluid is 2.00g/cm^3 and the maximum temperature resistance is 180℃ with good stability in terms of hot soak 15-day subsidence. Currently, the system has passed the testing of Tarim Oilfield Branch Company's quality testing centre. All the parameters outperformed its peer products available in the market and surpassed the Requirements on DB 65/T 3997-2017 Drilling Solid Waste Integrated Utilisation Pollution Control at Oil and Gas Fields.

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, during the year, the Group further optimised the organisational structure and reduced the management hierarchy to achieve fast response, flexible and efficient operations. At the same time, the Group redefined and clarified its structure and reporting line functions, stated the duties and responsibilities of each department and each unit under the Group, and supervised and evaluated the specific implementations.

To further enhance the management capabilities of the senior management, during the year, the Group pushed ahead the implementation of the comprehensive appraisal of the senior management team.

To enhance the core technology capabilities, the Group optimised the talent structure and continued to introduce elite talents with high qualifications. At the same time, through introducing reasonable scientific selection standards, internal scientific talent training programme and other training programmes tailored for employees of different levels and different positions, the Group offered more possibilities to the development of its internal key personnel.

In 2017, the Group stepped up the human resources efforts in new market expansion. Now, these efforts have begun to bear fruit. Meanwhile, the Group inclined to support its key projects by adjusting organisational design and allocation of professionals so as to help determine relevant responsibilities and ensure the smooth operation of the key projects.

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. As at 31 December 2017, the Group had a total of 3,411 employees, up by 398 employees from 3,013 employees as at 31 December 2016.

Our Plans

The Group considers that, as the market environment further improves, the investment in oilfield exploration will continue to pick up. After almost three years of correction, oil price began to zigzag upwards since the second half of 2017. The weak oil-field service providers will be eliminated under the condition of survival of the fittest with marked differentiation in regional market development. Objectively speaking, it has provided room and opportunities for a new industry and market layout. In conclusion, the year 2018 will be a year of upside for the oil-field service industry. Performance of oil-field service companies will significantly improve as oil price further increases. 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:

- The Group will centralise its quality resources with focus on developing businesses with material market opportunities and allocate its limited resources to the big projects to achieve exponential growth of the Group.

- The Group will strengthen the market development and customer management efforts for core customers. Setting a firm foot in the market and better serving the customers, the Group endeavours to establish a new customer relationship through legal compliance, work safety, environmental protection and technology innovation.

- The Group will step up the investment and management efforts in the integrated turnkey project of shale gas and fully capitalises on its own strengths of strong technology and comprehensive business lines to successfully achieve systematic operation of projects as part of its core competitiveness.

- The Group will increase the investment in scientific research and technology innovation, grasp the core direction of technology advance and make breakthrough in innovation. Through introducing, integrating with and creating comprehensive technology capabilities, technologies are to be blended in with the actual operations effectively.

- The Group will accelerate growth of business through strengthening the teambuilding of talents. While introducing more high-end talents to its core team, the Group will offer a development platform and career ladder, and increase investment in training to greatly enhance the talent capabilities.

- The Group will continue to push ahead its efforts in the new business areas such as environmental protection, utilisation of natural gas and geothermal energy to develop new and sustainable profit growth areas for the Group.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, revenue of the Group was RMB1,100.6 million, representing an increase of RMB252.5 million, or 29.8%, as compared with that of RMB848.1 million for the previous year. The increase was mainly due to the slight increase in crude oil prices, which led to the recovery of the industry investment and the picking up of the oil-field services market.

Other gains/(losses), net

For the year ended 31 December 2017, other gains, net of the Group were RMB36.6 million, while other losses, net for the previous year were RMB30.0 million. The net gains were mainly due to exchange gain in USD denominated liabilities held by a PRC subsidiary as a result of strengthening of RMB against USD.

Material costs

For the year ended 31 December 2017, material costs of the Group were RMB235.0 million, representing an increase of RMB57.3 million, or 32.2%, as compared with that of RMB177.7 million for the previous year. The increase of material costs was mainly due to the picking up of operating activities of the Group.

Employee benefits expenses

For the year ended 31 December 2017, employee benefit expenses of the Group were RMB367.0 million, representing a decrease of RMB9.2 million, or 2.4%, as compared with that of RMB376.2 million for the previous year. The decrease reflected the efforts of the Group to cut labour costs by layoff of excessive employees and reduction of salary level.

Operating lease expenses

For the year ended 31 December 2017, operating lease expenses of the Group was RMB69.4 million, representing an increase of RMB16.6 million, or 31.4%, as compared with that of RMB52.8 million for the previous year. It was mainly due to the picking up of operating activities of the Group.

Transportation costs

For the year ended 31 December 2017, transportation costs of the Group were RMB19.0 million, representing a decrease of RMB3.7 million, or 16.3%, as compared with that of RMB22.7 million for the previous year. The decrease was mainly due to the efforts taken by the Group to cut costs.

Depreciation and amortisation

For the year ended 31 December 2017, depreciation and amortisation of the Group was RMB92.2 million, representing a decrease of RMB25.7 million, or 21.8%, as compared with that of RMB117.9 million for the previous year. The decrease was mainly because the equipment impaired and fully depreciated in 2016 was not depreciated in the Reporting Year.

Technical service expenses

For the year ended 31 December 2017, technical service expenses of the Group were RMB188.3 million, representing an increase of RMB81.1 million, or 75.7%, as compared with that of RMB107.2 million for the previous year. The increase was mainly due to the expansion of operating activities of the Group.

Reversal/(impairment losses) of assets

For the year ended 31 December 2017, reversal of impairment loss of assets of the Group was RMB22.9 million while impairment loss of assets was RMB82.6 million in the previous year. The reversal of impairment loss of assets was mainly due to the reversal of inventory impairment.

Others

For the year ended 31 December 2017, other operating costs of the Group were RMB142.5 million, representing a decrease of RMB6.7 million, or 4.5%, as compared with that of RMB149.2 million for the previous year. The decrease reflects the efforts taken by the Group to reduce the general administrative expenses.

Operating profit/(loss)

As a result of the aforementioned changes, the Group's operating profit during the Reporting Year was RMB46.8 million, compared with the operating loss of RMB268.1 million for the previous year.

Finance expenses, net

For the Reporting Year, the Group's finance expenses (net) was RMB29.7 million, representing a decrease of RMB0.6 million, or 2.0%, as compared with that of RMB30.3 million for the previous year. The decrease was mainly due to the decline of interest rates.

Income tax expense

For the Reporting Year, income tax expense was RMB13.9 million, compared with the income tax expense of RMB11.3 million for the previous year. The income tax expense was as a result of the picking up of the operating activities of the Group.

Profit/(loss) for the year

As a result of the explanations above, the Group's profit for the Reporting Year was RMB3.3 million, while net loss amounted to RMB314.7 million for the previous year.

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

For the Reporting Year, profit attributable to equity owners of the Company was RMB5.5 million, while loss attributable to equity owners of the Company amounted to RMB292.3 million for the previous year.

Property, plant and equipment

As at 31 December 2017, property, plant and equipment was RMB348.6 million, representing a decrease of RMB44.3 million, or 11.3%, from RMB392.9 million as at 31 December 2016. The change was mainly due to the disposal of certain equipment and continuing depreciation of existing equipment.

Land use rights

As at 31 December 2017, the carrying value of land use right was RMB21.3 million, representing a decrease of RMB0.5 million, or 2.3%, from RMB21.8 million as at 31 December 2016. This was mainly due to the continuing amortisation of existing land use rights.

Intangible assets

As at 31 December 2017, intangible assets were RMB23.2 million, representing a decrease of RMB12.5 million, or 35.0%, from RMB35.7 million as at 31 December 2016. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2017, deferred income tax assets were RMB141.9 million, representing an increase of RMB3.1 million, or 2.2%, from RMB138.8 million as at 31 December 2016. The increase was mainly due to the recognition of deferred income tax assets related to unutilised loss.

Prepayments and other receivables

As at 31 December 2017, non-current portion of prepayments and other receivables was RMB22.3 million, representing a decrease of RMB1.4 million, or 5.9%, from RMB23.7 million as at 31 December 2016, while current portion of prepayments and other receivables was RMB261.6 million, representing an increase of RMB13.1 million, or 5.3%, from RMB248.5 million as at 31 December 2016. The increase was mainly due to the disposal of certain equipment of the Group.

Inventories

As at 31 December 2017, inventories were RMB337.0 million, representing a decrease of RMB34.6 million, or 9.3%, from RMB371.6 million as at 31 December 2016. The decrease was mainly due to the better control in the management of inventories.

Trade and notes receivables/Trade payables

As at 31 December 2017, trade and notes receivables amounted to RMB682.6 million, representing an increase of RMB118.9 million, or 21.1%, from RMB563.7 million as at 31 December 2016. The increase was mainly due to the increase of revenue realised during the Reporting Year.

As at 31 December 2017, trade payables amounted to RMB517.0 million, representing an increase of RMB24.1 million, or 4.9%, from RMB492.9 million as at 31 December 2016. The increase was mainly due to the increase of materials purchases and subcontracting expenses.

Liquidity and capital resources

As at 31 December 2017, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB149.6 million, representing a decrease of RMB113.9 million, or 43.2%, from RMB263.5 million as at 31 December 2016. The decrease was mainly due to operating activities expansion of the Group, the repayment of bank borrowings and equipment purchases.

As at 31 December 2017, the Group's short-term borrowings and current portion of long-term borrowings were RMB263.2 million while the long-term borrowings were RMB18.3 million. 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 were RMB103.1 million.

As at 31 December 2017, the Group's gearing ratio was 28.8%, representing a decrease of 9% as compared with 37.8% as at 31 December 2016. 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 2017, the total number of ordinary shares of the Company in issue was 1,535,192,332 shares (31 December 2016: 1,534,790,332 shares). As at 31 December 2017, equity attributable to the equity owners of the Company was RMB880.0 million, representing a decrease of RMB35.3 million, or 3.9%, as compared with RMB915.3 million as at 31 December 2016.

Significant investment held

As at 31 December 2017, 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 2017, 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 2017 ***RMB'000***	As at 31 December 2016 *RMB'000*
Property, plant and equipment	**–**	107
Long-term prepayments	**6,565**	7,040
Trade and note receivables	**73,200**	56,027
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:

	2017 ***RMB'000***
Liability component as at 31 December 2016	**83,466**
Add: Interest expense in 2017	**14,576**
Less: Interest paid and payable	**(2,940)**
Add: Exchange difference	**(5,316)**
Liability component as at 31 December 2017	**89,786**

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2017, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2017, the Group had no capital expenditure commitments, while operating lease commitments were mainly lease of offices, warehouses and equipment with the amount of RMB57.6 million.

Directors’ and Senior Management’s Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 55, is an executive Director and chairman of the Board. He had been the chief executive officer of the Company during the period from 1 December 2011 to 31 August 2016 and was appointed by the Board as the chief executive officer of the Company again during the Reporting Year, responsible for the overall operation and management of the Group, with effect from 1 September 2017. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Wang has over 33 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 North China Oil Field Testing Company (華北油石測試公司), 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 Petroleum Vocational College (華北石油職工大學) (currently known as Beijing Institute of Economics and 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 46, is an executive Director of the Company. He is responsible for business development of the Group. Mr. Wu has over 26 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 North China Oil Field Testing Company (華北油田測試公司), a subsidiary of CNPC, 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 70, is an executive Director 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 44 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 September 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.

Li Qiang (李強), aged 43, 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 20 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 43, 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 served as a non-executive director of China Outfitters Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 1146)) from January 2014 to December 2017. 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 54, 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 Company. 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, and now she is a professor and a tutor of doctoral students in the Business Administration School. She is concurrently an independent director of Vtron Group Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002308). She served as the joint chairman and chief executive officer of Kaisa Health Group Holdings Limited (a company listed on the Shenzhen Stock Exchange (stock code: 000876)) from May 2013 to May 2016 responsible for overall operation 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 December 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wu Kwok Keung Andrew (胡國強), aged 64, 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 is also a board member and the Chairman of the Finance Committee of HKU School of Professional and Continuing Education. He was an independent non-executive director of China Mengniu Dairy Company Limited, a company listed on the Stock Exchange (stock code: 2319), from April 2013 to October 2016. 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, and 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 for Far East in 2006 to 2007. 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 a member of the Hong Kong Institute of Certified Public Accountants.

Zhang Yujuan (張渝涓), aged 44, 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. She has served as the vice chairman of Beijing Zhiyuan Weiku Culture Development Co., Ltd. since January 2018. From January 2016 to December 2017, she was 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.

Wan Kah Ming (溫嘉明), aged 47, 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 23 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. (邦溋資本有限公司), Boen Resources Ltd. (邦溋資源有限公司) and Boen Land Ltd. (邦溋建地有限公司) since May 2006, December 2007 and June 2008, respectively. 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 by the High Court of Hong Kong in 1996 and the Supreme Court of Wales in 2001. He is also currently a 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 (中國司法部委托公證人) 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), the director of Hong Kong Association for the Promotion of Peaceful Reunification of China, the founding director of the China Industrial Overseas Development Association (中國產業海外發展協會), the executive director of China Merger & Acquisition Association (中國併購公會) and the vice chairman of its Hong Kong Branch.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Li Zhiguo (李志國), aged 44, has been the chief operating officer of the Group since 20 January 2017. He is primarily responsible for the planning of business development, demonstration and implementation of technology development direction, as well as the organisation, coordination and advancement of daily production and operations of the Group. Mr. Li joined the Group in 1996. He held the positions of department manager, deputy manager of the Group's branch, general manager of West Region, vice president of the Group, etc. Mr. Li obtained the first prize of science and technology innovation award by Tarim Oilfield Company in 2008. He was later named the "Innovation Expert of the Autonomous Prefecture" in 2013 and the person in charge for the third prize of science progress award in Xinjiang Uyghur Autonomous Region in 2015. He has obtained 21 valid patients including 11 invention patents and 10 utility model patents.

Zhao Feng (趙峰), aged 52, is the vice president and general manager of North America Region of the Group. 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 2000. 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 CNPC (中石油集團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 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.

Ma Hongguo (馬洪果), aged 45, has been the vice president 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 in China. Mr. Ma has more than 20 years of experience in the petroleum industry. He joined the Group in 2003. Mr. Ma served as the engineer of North China Oilfield Testing Company, a subsidiary of CNPC, from 1997 to 2003. He held the positions of the Aqtobe project manager of the Central Asia Region of the Group, the executive deputy general manager of the Group's subsidiary, SPT Engineering Company, the general manager of the East Region of the Group, etc. Mr. Ma graduated from China University of Geosciences (Wuhan) with a bachelor's degree in geological exploration in 1997.

Jiang Qingsong (蔣青松), aged 44, is the vice president of the Group. He is primarily responsible for the market development and resource integration for the business segments including environmental protection, natural gas and geothermal energy of the Group. Mr. Jiang has more than 20 years of work experience in the petroleum industry. Mr. Jiang joined the Group in 2003. He was the chief executive officer of the Company from 1 September 2016 to 31 August 2017. He served as the vice president and general manager of the Pan-Russia Region of the Group from January 2015 to August 2016. He held the positions of the deputy general manager of the Group, the director, deputy general manager and general manager of the Group's Central Asia Region, general manager of Kazakhstan branch, etc. 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.

Wang Xiaoyong (王曉勇), aged 46, has been the vice president of the Group since 20 January 2017. He is primarily responsible for various works in the Pan-Russia Region of the Group. He has over 20 years of experience in the petroleum industry. He joined the Group in May 2004. He held the positions of the general manager of Kazakhstan Region, general manager of Kyzyl branch, etc. From September 1995 to May 2004, he was the engineer, deputy head and head of the interpretation centre of North China Oilfield Oil and Gas Logging Company, a subsidiary of CNPC. He graduated from Chengdu University of Technology with a bachelor's degree in petroleum engineering in July 1995.

Wan Wenjiang (萬文江), aged 57, is the vice president of the Group. He is primarily responsible for the development projects of the Group's big clients and the Group's projects in the South East Asia Region and South Asia Region. Mr. Wan has more than 37 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 Economics and Management) with a diploma in petroleum geology in July 1986 and a master's degree in petroleum engineering from Southwest Petroleum Institute (now known as Southwest Petroleum University) in July 2004.

Report of the Directors

The board (the "Board") of directors (the "Directors") of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group's operations are substantially conducted through its subsidiaries in PRC, Kazakhstan, Turkmenistan, 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 2017 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 employees are provided in the Management Discussion and Analysis on pages 9 to 24 of this Annual Report. No important events affecting the Group have occurred since the end of the financial year ended 31 December 2017. 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

1. *Environmental system improvement*

   In 2017, the Group continued to strengthen the implementation of the environmental protection systems such as the Management Manual on Quality, Safety, Health and Environment (《質量安全健康環境管理手冊》) and Energy Management Procedures (《能源管理程序》). Through the promulgation of Letter of Responsibilities for Health, Safety and Environment in 2017 (《二零一七年健康安全環境責任狀》), 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 Group's production and operation.

2. *Environmental protection target*

   Adhering to the environmental protection mission of "respect for nature and care for environment", the Group achieved the 2017 environmental protection target of "zero" environmental pollution incident.

3. *ISO14001 certification*

   The Group actively promotes the development of environmental management system. Through ongoing implementation of environmental management, Sinopetroleum Technology Inc., Shaanxi Huayou Energy Technology Services Co. Ltd., Chongqing Huayou Energy Technology Services Co. Ltd. and Petrotech (Xinjiang) Engineering Co., Ltd. have passed the ISO14001 environmental management system certification as well as the annual supervision and review.

4. 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. The Group actively communicates and grasps the respective local environmental policies of its overseas operations so that they could meet the respective environmental operational requirements.

MAIN RISKS AND UNCERTAINTIES

The uncertainties associated with the recovery and picking up of oil price constitute the fundamental risk of the Group. The Group's businesses in its various markets rely on the oil producers' continuing spending and investments. Although the global oil price has continued to pick up since mid-November 2017 and it is widely estimated that the petroleum industry will enter a new cycle of upside, there is no assurance the situation will continue to pick up and stabilise as expected. Accordingly, this brings significant uncertainties to the Group's future operation.

Fluctuations in exchange rates of Kazakhstan Tenge ("KZT") brings foreign currency exchange risk to the Group. So far, Kazakhstan is the largest overseas market of the Group in terms of revenue contribution. In accordance with certain laws and regulations, local service contracts are required to be denominated in KZT. In 2017, exchange rates of KZT against USD remained stable in general and therefore it did not bring significant adverse impact to the profitability of the Group.

There are uncertainties in the development of some new businesses and new markets. New businesses development such as geothermal energy development and utilisation and oilfield environmental protection, as well as new markets including Myanmar, Russia and Uganda which the Group is expanding to are at the initial stage. It is difficult to accurately foresee the pace of business development.

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

Due to the characteristic of oil and gas market in PRC, the Group mainly provides services to CNPC and its affiliates in the domestic market. In overseas market, the Group targets the Sino-foreign oilfield joint ventures as major customers, as supplemented by the business from international oil companies and local national oil companies. The Group has been taking various measures to diversify its customers and to solve the problem of customer concentration. The Group is able to negotiate on price and other terms with these customers on a fair basis. For the years ended 31 December 2016 and 2017, revenue generated from CNPC and its affiliates accounted for 86.3% and 69.1% of total revenue, respectively.

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 development. 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 on a fair basis.

COMPLIANCE WITH LAWS AND REGULATIONS

Having operations and subsidiaries in different countries and areas, the Group is subject to various requirements of laws and regulations 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 laws and regulations database, laws and regulations compliance trainings and timely legal matters reviews and approvals. During the year ended 31 December 2017, 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 2017 are set out in the consolidated income statement on page 82 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, purchases from the Group's five largest suppliers accounted for 19.1% (2016: 15.5%) of the Group's total purchases and purchases from the largest supplier accounted for 8.1% (2016: 5.6%).

For the year ended 31 December 2017, the Group's sales to its five largest customers accounted for 54.0% (2016: 65.6%) of the Group's total sales and sales to the largest customer accounted for 31.5% (2016: 38.9%)[note].

None of the Directors of the Company or any of their associates or any shareholders of the Company (the "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 Group during the year ended 31 December 2017 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 Reporting Year are set out in note 14 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the issued convertible bonds of the Company during the Reporting 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 40 to 44 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 during the Reporting Year are set out on page 84 to page 85 in the consolidated statement of changes in equity.

Note: Based on the 2016 annual report of the Group, for the year ended 31 December 2016, sales to the five largest customers of the Group accounted for 95.67% of the total sales amount of the Group and sales to the largest customer accounted for 86.33%. This was mainly due to the fact that, when compiling statistics of sales to customers, CNPC and its affiliated companies are aggregated and deemed as the same customer, and Sinopec and its affiliated companies are also aggregated and deemed as the same customer. To more clearly reflect the sales to single customer and increase information transparency, sales made to each of the independent corporations by the Group was deemed as sales to different customers in 2017.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,037.4 million (as at 31 December 2016: RMB1,024.6 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in note 17 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors:
Mr. Wang Guoqiang *(Chairman and Chief Executive Officer)*
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 article 108 of the articles of association of the Company (the "Articles of Association"), Ms. Zhang Yujuan, Mr. Wu Kwok Keung Andrew and Mr. Lin Yang 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 Company are set out on pages 25 to 29 of this annual report.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that Directors 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 duties as Directors. The Company has arranged appropriate directors' and officers' liability insurance cover for the Directors and officers of the Company.

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 2017.

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 Company 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 2017.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into by the Group or existed during the year ended 31 December 2017.

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.

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

As at 31 December 2017, 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)	42.24%
	Beneficial owner (note 3)	2,590,000 (L)	0.17%
Mr. Ethan Wu	Beneficiary of trusts (note 2)	648,484,000 (L)	42.24%
	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	Beneficial owner	33,333 (L)	0.002%
	Beneficial owner (note 3)	2,833,334 (L)	0.18%
Mr. Wu Kwok Keung Andrew (note 3)	Beneficial owner	3,500,000 (L)	0.23%
Mr. Li Qiang (note 3)	Beneficial owner	11,568,000 (L)	0.75%
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%

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. Ethan Wu 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. Li Qiang, Ms. Zhang Yujuan and Mr. Lin Yang 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. "L" denotes long position.

Save as disclosed above, as at 31 December 2017, 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, during the year ended 31 December 2017, none of the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were 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 2017, 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 (notes 1 and 7)	Interest of controlled corporation	158,972,000 (L)	10.36%
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 (notes 3 and 7)	Trustee	763,182,442 (L)	49.71%
Greenwoods Asset Management Limited (notes 4 and 7)	Interest of controlled corporation	120,062,000 (L)	7.82%
Greenwoods Assets Management Holdings Limited (notes 4 and 7)	Interest of controlled corporation	120,062,000 (L)	7.82%
Jiang Jinzhi (notes 4 and 7)	Interest of controlled corporation	120,062,000 (L)	7.82%
Unique Element Corp. (notes 4 and 7)	Interest of controlled corporation	120,062,000 (L)	7.82%
Central Huijin Investment Ltd. (notes 5 and 7)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Group Ltd. (notes 5 and 7)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Holdings Company Limited (notes 5 and 7)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Limited (notes 5 and 7)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Special Opportunities Fund III, L.P. (notes 5 and 7)	Interest of controlled corporation	90,068,769 (L)	5.87%
CSOF III GP Limited (notes 5 and 7)	Interest of controlled corporation	90,068,769 (L)	5.87%
Forebright Partners Limited (notes 5 and 7)	Interest of controlled corporation	90,068,769 (L)	5.87%

Notes:

1. According to the record of the Stock Exchange, Elegant Eagle Investments Limited owned 157,972,000 shares of the Company through controlled corporations. However, 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. Therefore, Elegant Eagle Investments Limited is deemed to be interested in 158,972,000 shares of the Company.

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 in form of trusts via 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 and Jumbo Wind Limited.

4. Such 120,062,000 shares represent the same parcel 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 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 2017, 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 2017, 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 the Company or any of its affiliates.

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 2017.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2017, 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 2017, 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 2017 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 on the same date. 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).

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 3 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 2017 are as follows:

	Number of share options								
Grantee	Outstanding as at 1 January 2017	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2017	Date of grant	Date of expiry	Exercise price per share
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. Ethan Wu	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

Grantee	Outstanding as at 1 January 2017	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2017	Date of grant	Date of expiry	Exercise price per share
	Number of share options								
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
Mr. Li Qiang	568,000 (note 2)	–	–	–	–	568,000	20/02/2012	19/02/2022	HK$1.292
	1,000,000 (note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	10,000,000 (note 4)	–	–	–	–	10,000,000	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)	106,500,000 (note 4)	–	402,000	–	568,000	105,530,000	31/08/2016	30/08/2026	HK$0.490
	41,110,000 (note 3)	–	–	–	1,750,000	39,360,000	13/06/2013	12/06/2023	HK$4.694
	9,291,334 (note 2)	–	–	–	338,667	8,952,667	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	**195,412,668**	**–**	**402,000**	**–**	**2,656,667**	**192,354,001**			

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 2017 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2017, 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 2017.

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 46 to 57 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.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders are unsure about the taxation implication of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the share of the Company, they are advised to consult an expert.

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 December 2017.

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, 20 March 2018

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 2017.

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. During the period from 1 January 2017 to 31 August 2017, the chairman of the Board and the chief executive officer are two positions held by Mr. Wang Guoqiang and Mr. Jiang Qingsong respectively. On 24 August 2017, the Board has approved the appointment of Mr. Wang Guoqiang as the chief executive officer of the Company in place of Mr. Jiang Qingsong with effect from 1 September 2017. 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.

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 2017. 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 the 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 37 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 2017, 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. Li Qiang	Executive Director	√	√
Mr. Jin Shumao (Note)	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	√	√

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

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 2017 to 31 August 2017, the chairman of the Board and the chief executive officer are two positions held by Mr. Wang Guoqiang and Mr. Jiang Qingsong respectively. On 24 August 2017, the Board has approved the appointment of Mr. Wang Guoqiang as the chief executive officer of the Company in place of Mr. Jiang Qingsong with effect from 1 September 2017. 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.

Appointment and Re-election of Directors

Each of the 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 Company 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 2017 annual general meeting on 6 June 2017 (the "2017 AGM"), Mr. Wang Guoqiang, Mr. Ethan Wu and Mr. Liu Ruoyan retired by rotation pursuant to article 108 of the Articles and Association. Mr. Li Qiang retired pursuant to article 112 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 2018 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 2017, five Board meetings and one general meeting (2017 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	5/5	1/1
Mr. Ethan Wu	2/5	0/1
Mr. Liu Ruoyan	4/5	1/1
Mr. Li Qiang (Note 1)	5/5	1/1
Mr. Jin Shumao (Note 2)	1/5	0/1
Mr. Lin Yang	5/5	1/1
Ms. Chen Chunhua (Note 3)	4/5	1/1
Ms. Zhang Yujuan	5/5	1/1
Mr. Wu Kwok Keung Andrew	5/5	1/1
Mr. Wan Kah Ming	5/5	1/1

Note 1: Mr. Li Qiang was appointed as Director of the Company with effect from 21 March 2017.

Note 2: Mr. Jin Shumao resigned as a Director of the Company with effect from 21 March 2017.

Note 3: Ms. Chen Chunhua has appointed another Director as her alternate to attend a Board meeting, and it is not counted as attendance by herself.

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 present.

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 2017.

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, and 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. The written terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, three meetings of the Nomination Committee were held on 21 March 2017, 24 August 2017 and 6 December 2017 and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wang Guoqiang	3/3
Ms. Zhang Yujuan	3/3
Mr. Wu Kwok Keung Andrew	3/3

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 2017. All members of Directors have made contribution to their respective areas. All of the four executive Directors are professionals 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, and 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 operating results of the Company as well as market practice and conditions. The written terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, three meetings of the Remuneration Committee were held on 21 March 2017, 24 August 2017 and 6 December 2017 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Zhang Yujuan	3/3
Mr. Wang Guoqiang	3/3
Mr. Wu Kwok Keung Andrew	3/3

During the year, the Remuneration Committee discussed and reviewed the remuneration policy for directors and senior management of the Company, and made recommendations to the Board on the remuneration packages of individual executive Directors and senior management. To avoid potential conflict of interest, members have abstained from voting on resolutions which he/she or his/her associates have a material interest.

Details of the remuneration by band of the 6 members of the senior management of our Company, whose biographies are set out on pages 28 to 29 of this annual report, for the year ended 31 December 2017 are set out below:

Remuneration band (RMB)	Number of individual
400,000–1,000,000	4
1,500,000–2,000,000	2

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 2017, three meetings of the Audit Committee were held on 21 March 2017, 24 August 2017 and 6 December 2017 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 (Note 1)	2/3
Mr. Wan Kah Ming	3/3

Note 1: Ms. Chen Chunhua has appointed another Director as her alternate to attend an Audit Committee meeting, and it is not counted as attendance by herself.

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 made by Company 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 regarding reporting on the risk management and internal control system, is available on the websites of the Company and the Stock Exchange.

The Audit Committee met with the external auditor, without the presence of management, and discussed matters relating to audit and internal control on 21 March 2017, 24 August 2017 and 6 December 2017.

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 2017 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 2017, 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 Group has a risk management department to take charge of the internal control and risk management functions. During the year, the risk management department formulated the audit plan and carried out immediate risk assessment of the overall operations of the Group after taking into account various factors including the changes in organisation structure and new market business expansion during the year. With the commencement of routine audit activities, the Group was able to timely identify the development trend of the Group's potential risks, dynamically adjust the Group's risk matrix, strengthen the risk warning system and tailor contingency measures in relation to high risk matters.

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 through sampling tests. In the course of building the Group's internal control system, the internal audit function combines pre-event forecasts and checks, follow-ups and examinations during the event, and post-event audit investigations to take a preventive approach instead of the detection approach to manage major risks. The risk management department facilitates the effective implementation of the system and procedures in the course of operation and management through strengthening the supervision and assessment of the effectiveness of the internal control system, and continues to optimise the internal control system on a risk-oriented basis.

The risk management department reports to the Audit Committee on the findings of the audit and high risk matters on a bi-annual basis and continues to follow up on the execution of the management's audit 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 Year.

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 coping strategies in relation to the high risk matters. The summary of the risk management matrix and coping strategies has been reported to the Board via the Audit Committee and has been approved by the Board and the Audit Committee.

The coping 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 system of the Group for the year ended 31 December 2017, which covers the areas including strategies, operations, legal and compliance as well as finance, and considered that the risk management and internal control system 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 Reporting 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 connection with internal control.

INSIDE INFORMATION DISCLOSURE AND CONTROL MEASURES

With respect to inside information, the Group has adopted from time to time certain regulatory measures as appropriate 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 material facts, or false or misleading through the omission of material facts, and presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, audit fees of RMB 4.5 million were paid or payable to the Company's auditor, PricewaterhouseCoopers, for their audit services rendered.

COMPANY SECRETARY

The Company engages Ms. Mok Ming Wai, a director of TMF 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 2017, 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 investors' 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.sptenergygroup.com, 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 2017 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@sptenergygroup.com.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, there is no significant change in constitutional documents of the Company.

Hong Kong, 20 March 2018

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. Within its scope of business, the Group protects the environment and actively promotes waste and greenhouse gas emission reduction, implements energy-saving and emission reduction, reduces water resources to unit output value and energy consumption ratio with a view to achieving sustainable development. The Group operates in accordance with the laws and regulations and is barred from engaging in bribery, extortion, fraud and money laundering. It is a pre-requisite condition for the Group to perform its environmental, social and governance responsibilities in providing good engineering and technology services to satisfy customers' needs.

1. ENVIRONMENTAL PROTECTION

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:

1) continuously increase the production efficiency and reduce emission of greenhouse gases; and raise the environmental awareness; strictly comply with the industry environmental standards in the course of providing oil-field technology services, including the Guidelines for Health, Safety and Environmental Management System of Petroleum and Natural Gas Drilling, etc.

2) promote the sustainable use of energy, water, gas, paper and other raw materials;

3) reduce the impact of its course of business on the species diversity and ecosystem; comply with the environmental protection laws and regulations in the jurisdictions where the Group operates including the Environmental Protection Law of the People's Republic of China, Energy Conservation Law of the People's Republic of China, etc.

During the year ended 31 December 2017, the Group did not experience any punishment in relation to environmental protection.

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 diesel (the source of power for drilling and work over operations) and gasoline (the source of power for various vehicles used in the course of production and operation). Waste gases emitted include carbon dioxide, sulphur dioxide and hydrocarbon related pollutants.

Solid waste and waste liquid: it mainly refers to domestic garbage and domestic wastewater.

1.1.1 Major Emissions and Emission Profile

Indicator	During the year ended 31 December 2017
Nitrogen oxide (kg)	**4,799.9**
Sulphur oxide (kg)	**49.3**
Particulates (kg)	**454.2**

1.1.2 Gross Emissions of Greenhouse Gases

Indicator	During the year ended 31 December 2017
Carbon dioxide (kg)	**2,997,963.6**
Carbon dioxide equivalent in methane (kg)	**1.2**
Carbon dioxide equivalent in nitrous oxide (kg)	**77.3**
Gross greenhouse gases (kg)	**2,998,042.1**

1.1.3 Gross Hazardous Wastes

Hazardous wastes arising in the course of production and operation are centrally handled by certified professional institutions employed by the customers. Accordingly, the Group has no emission of hazardous wastes.

1.1.4 Gross Non-Hazardous Wastes

Indicator	During the year ended 31 December 2017
Domestic wastes (ton)	**644.0**
Domestic wastewater (ton)	**33,949.8**

1.1.5 Emission Reduction Measures and Achievements

In the course of oil-field service development, the Group prioritises the use of raw materials with high efficiency in resource utilisation, and non-toxic and harmless or low toxic or less harmful, and the use of cleaning process, technology and equipment with less pollutant discharge. At the same time, without prejudice to normal production, firstly, the Group makes reasonable arrangements for the use of vehicles and promotes the use of public transport. Secondly, the Group controls the idle time of the diesel engines, compressors and power generation units. Thirdly, the Group uses gasoline and diesel that are in compliance with the latest international standards. Through the above measures, the Group has successfully reduced the emission of waste gases and the generation of nitrogen oxides, sulphur oxides and particulates in waste gas emission, which minimises the adverse impacts on the eco-environment.

1.1.6 Waste Treatment Methods and Effectiveness

As to waste liquid, with respect to general domestic wastewater, it is directed to sewage treatment plant via sewage pipes.

As to solid wastes, general solid wastes and industrial solid wastes are collected, sorted and safely stored by category, and measures are taken to prevent dust spread and leakage. Waste papers, waste cartons and domestic wastes are identified and sorted at the source, which are eventually provided to recyclers for collection, treatment and reuse.

The waste liquid and solid wastes of the Group arising in the course of production and operation are treated in accordance with the above measures. During the year, there was no emission of toxic and hazardous waste, thus preventing environmental pollution.

1.2 Use of Resources

The resource consumption involved in the course of production and office business of the Group mainly includes water, power, fuel oil, paper and etc. The Group reduces the consumption of resources through the application of energy-saving equipment, technological innovation and reasonable planning.

1.2.1 *Gross Energy Consumption*

Indicator		During the year ended 31 December 2017
Electricity (kWh)		**4,720,006.0**
Gas (m^3)		**336,636.3**
Oil (m^3)	Diesel	**2,923.0**
	Gasoline	**483.5**
	Engine oil	**34.1**
Paper (piece)		**1,136,776.0**

1.2.2 *Gross Water Consumption*

Indicator	During the year ended 31 December 2017
Water consumption for production (m^3)	**35,996.0**
Water consumption for domestic and office use (m^3)	**44,425.1**

1.2.3 *Energy Use Plans and Achievements*

Fuel-saving and efficient equipment is used. The Group reasonably plans the operation flow, utilises state-of-the-art technology and process to enhance operation efficiency and effectively minimises the operation cycle so as to achieve the target of energy consumption reduction.

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 or 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 masters the ways of car maintenance and fuel saving driving skills to save fuel and minimise wear and tear. The Group reduces the use of vehicles and adds more vehicles to the suspension list, encouraging users to commute to work by public transportation.

Through taking the above energy-saving and consumption reduction measures, the Group's consumption for the year decreased significantly with a substantial increase in the energy utilisation rate.

1.2.4 Water Efficiency Plans and Achievements

As to operations, the Group promotes recycling of water resources. At the same time, it educates its employees and raises the awareness of employees on water saving. Running gas, water emergence, dripping and leakage of equipment are prohibited. During the year, there was no wastage of water resources and the water saving efforts were proved effective.

1.2.5 Total Amount of Packaging Materials Used in Finished Products

Indicator	During the year ended 31 December 2017
Cartons (m^3)	**19.5**

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 commencement of production activities, certificates of safety and product liability are entered into between the companies comprising the Group and the chief executive officer to minimise the adverse impacts of the production and operations of the Group on environment and climate.

1.3.1 Impacts on the Environment and Natural Resources and Related Measures

The impacts of the Group's business activities on the environment mainly relate to the energy consumption and the production of wastewater, waste gases and solid wastes in the course of production and operation. The Group endeavours to minimise its impacts on the environment through strengthening the development of environmental management system, improving the production technologies, utilising clean energy and raw materials, reinforcing the environmental training and education on employees and introducing green office. The Group requires all business regions to establish and implement the assessment of the impacts of the environmental factor based on actual circumstances, to accept the worksite's environmental assessment and review by local government and to strengthen control of the Group in an effort to contribute to environmental protection.

2. SOCIETY

In carrying out its production and operating activities, the Group is in compliance with the laws and regulations. In addition, it ensures the health and safety of employees, maintains a high standard of technical service, satisfies the customer requirements on services and strengthens the communication with surrounding dwellers residing in the places it operates regarding their living and environmental needs. To enhance its returns on social resources, the Group maintains 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, disability, and 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 unusual 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 Regulation on Leave Management* are formulated to state the details of the entitlement, number and procedures of various leaves entitled by the employees such as 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 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 relevant laws and regulations.

2.1.1 *Employee Structure*

The Group's physical functional departments and business coverage are located in China, Kazakhstan, Canada, Middle East, Turkmenistan, Indonesia and other regions. As at 31 December 2017, the Group had 3,411 employees. The following chart sets out the employee structure:

Employee distribution

Employee distribution (by age)

Age	Aged above 60	Aged 50-59	Aged 40-49	Aged 30-39	Aged 20-29	Total
Number of employees	16	269	803	1,263	1,060	3,411
As a percentage of total number of employees	0.5%	7.9%	23.5%	37.0%	31.1%	100%

Employee distribution (by gender)

Gender	Number of employees	As a percentage of total number of employees
Male	2,895	84.9%
Female	516	15.1%
Total	3,411	100%

Employee distribution (by region)

Region	Number of employees	As a percentage of total number of employees
China	1,808	53.0%
Kazakhstan	1,172	34.4%
Others	431	12.6%
Total	3,411	100%

2.1.2 *Employee Turnover*

During the year ended 31 December 2017, the employee turnover rate was 17.8%.

Employee turnover (by age)

Age	Aged above 60	Aged 50-59	Aged 40-49	Aged 30-39	Aged 20-29	Total
Number of resigned employees	2	32	80	300	195	609
As a percentage of total number of resigned employees	0.3%	5.3%	13.1%	49.3%	32.0%	100%

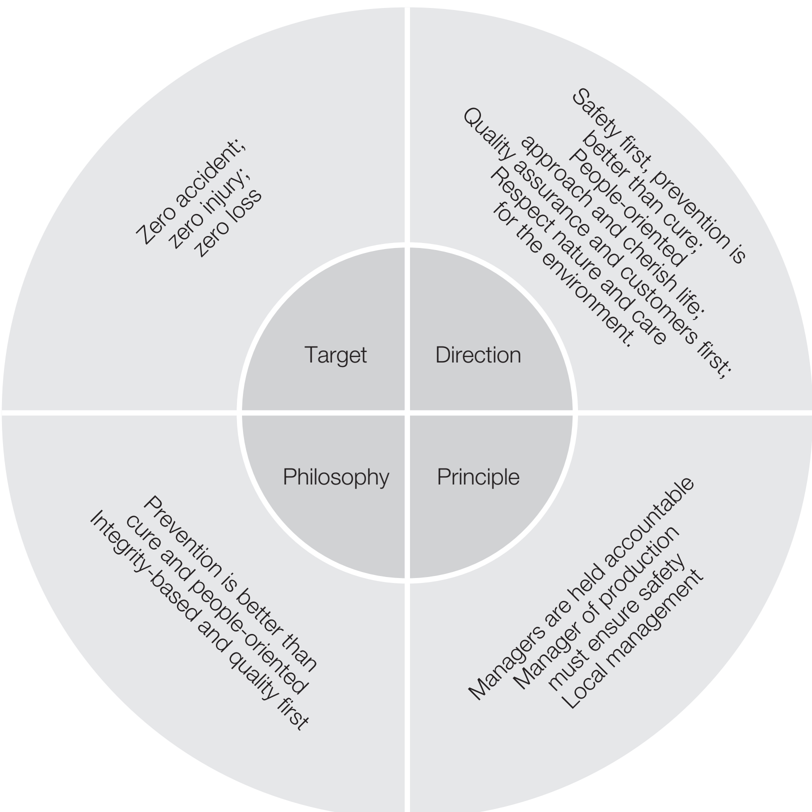
Employee turnover (by region)

Region	Number of resigned employees	As a percentage of total Number of resigned employees
China	332	54.5%
Kazakhstan	175	28.7%
Others	102	16.7%
Total	609	100%

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 relevant 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 on safety 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. 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 chemicals on employees.



2.3 Development and Training

The Group endeavours to create a learning environment and establish an organisational structure suitable for employees' learning. As to career development management model, the Group implements a dynamic management model to enhance standard of employees' comprehensive services.

Aiming to strengthen its occupational training internally, a training system suitable for the Group is established. Focusing on modern management and high and 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 employees' 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 training system.

Through effective trainings, the overall quality and capabilities of employees are enhanced to maximise profitability. While enhancing the value of employees, these trainings facilitate management, production and efficiency as well as drive the development targets of the enterprise which ultimately achieve a win-win situation for both the enterprise and individual employees.

2.3.1 Development and Training Data Analysis

Employee training (by gender)

Gender	Male	Female	Total
Total number of employees under training	1,780	296	2,076
As a percentage of total no. of employees under training	85.7%	14.3%	100%
Number of training hours	7,317	682	7,999
Average number of training hours	4	2	4

2.4 Labour Standards

The Group upholds 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*, and undertakes not to use forced labour, pledged labour (including bonded labour), indentured 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.

2.4.1 Description of the Review of Measures on Recruitment Practice to Avoid Child Labour and Forced Labour

The Group complies with the state laws and local laws in relation to recruitment. These laws and regulations include: the *Labour Law of the People's Republic of China*, the *Employment Contract Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of Minors*, the *Provisions on the Prohibition of Using Child Labour* and the *Provisions on Special Protection of Minors*. The Group has no events of child labour nor forced labour. All forbidden labour arrangements are strictly prohibited. All employees must meet the statutory work age. The human resources department requires applicants to present valid ID documentation upon recruitment and carries out background checks as appropriate based on the information provided.

2.4.2 Description of the Procedures to be Taken to Eliminate Non-Compliance upon its Discovery

During the Reporting Year, there was no violation against the laws and regulations involving child labour or force labour. In the future, in case of child labour or forced labour, the Group shall immediately report to the police and local labour bureau and provide assistance to the principal as appropriate, including returning the principal to the place where he/she resides. In the course of investigation, the Group shall endeavour to ensure that the employees cooperate with the police and local labour bureau regarding the investigation. In the event that, after investigation, the incident is due to the Group's negligence, the Group shall immediately terminate the employment contract with the principal and compensate for the losses and damages arising from the incident to the principal. In the event that the incident is due to fraud, the Group shall take necessary legal action against such fraudulent behaviours.

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. Meanwhile, the Group has reinforced the regional purchase management and has strictly carried out the environmental management standard for 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 up the compilation of comprehensive local administrative measures on purchase in accordance with the laws and regulations of the jurisdictions it is located and taking into account the actual business conditions of the overseas regions 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 endeavours to provide efficient and safe service to satisfy the requirements of the customers on quality, health, safe and environment.

The Group strengthens comprehensive quality control and promotes the application of advanced quality control methods. Through scientific management of institutionalisation, standardisation and ongoing improvement, the quality control standard among all employees in all processes has been enhanced comprehensively. As a result, the health, safety and environmental management standard of the quality of products and services continues to increase, which greatly enhances the quality of products and services. The Group conducts customer satisfaction survey from time to time to reflect customers' feedbacks on the increasing quality of products and technical services. To this end, customers of the Group are truly satisfied, thus enhancing the Group's brand value.

During the year ended 31 December 2017, the Group did not violate any laws and regulations in the jurisdictions where the Group operates in relation to quality, health, safety and environment with respect to the products and services provided, nor receive any complaints or charges.

The Group has formulated and strictly implemented the *Regulation on Trade Secrets* which safeguards privacy and information security and employees have to enter into *Employee Confidentiality Agreement* upon engagement. In the daily course of business, the Group attaches great importance to safeguarding customers' privacy and uses its best endeavours to protect the privacy and safety of every customer.

The Group places great emphasis on technology research and development and regards customers' demand as the focus of technology innovation. The Group specialises in, inter alia, the technologies and other features of the improved products and services; development of new products, processes and services; and provision of tailored solutions to customers to cater to their special needs and requirements. Through continued research and development efforts, the Group has obtained a number of utility model patents and invention patents.

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. The Group has formulated routine and special audit systems; established and improved anti-fraud work system; stepped up the development of anti-fraud efforts; built a whistleblowing reporting platform; as well as investigated and handled fraud incidents.

There were no legal cases regarding corrupt practices brought against the Group or its employees during the year ended 31 December 2017.

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, wechat 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 is 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 duties.

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

The audit department of the Group has the responsibility to identify potential acts of fraud, negligence of duty and malfeasance in the course of internal audit. Interviews are arranged to figure out details of irregularities and random interviews are organised with employees or suppliers. With respect to the suspected fraud whistleblowing, it would 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. During the year ended 31 December 2017, the Group's expenditure on social investment totalled RMB49,000.

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 80 to 156, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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.

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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)

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.

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 in the PRC region

- Provisions for inventories

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)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the carrying amounts of machinery and equipment in the PRC region 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 in the PRC region might be impaired. As at 31 December 2017, the carrying amount of machinery and equipment in the PRC region amounted to RMB120 million. Management therefore prepared discounted cash flow models based on fair value less costs of disposal method for the assessment of potential impairment over the carrying amounts of machinery and equipment in the PRC region, where certain key assumptions have been adopted. Because of the significance of the carrying amounts of machinery and equipment in the PRC region as at 31 December 2017, together with the application of significant management judgement of 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.	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 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 in the PRC region. • 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 in the PRC region. Based on our work, there was no significant exceptions found in the assessment of recoverability of the carrying amounts of machinery and equipment in the PRC region.

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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
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 certain subsidiaries 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. As at 31 December 2017, the carrying amounts of inventories amounted to RMB337 million, net of provision of RMB27 million. Because of the significance of the carrying amount of inventories as at 31 December 2017, 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.	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. • 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.

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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)

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.

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.

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)

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.

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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)

- 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, 20 March 2018

(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

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	*6*	**348,626**	392,852
Land use rights	*7*	**21,275**	21,758
Intangible assets	*8*	**23,219**	35,727
Investments in associates		**1,570**	–
Deferred income tax assets	*20*	**141,899**	138,842
Prepayments	*12*	**22,339**	23,685
		558,928	612,864
Current assets			
Inventories	*10*	**337,033**	371,631
Trade and note receivables	*11*	**682,644**	563,744
Prepayments and other receivables	*12*	**261,644**	248,532
Restricted bank deposits	*13*	**2,552**	17,619
Cash and cash equivalents	*13*	**147,022**	245,903
		1,430,895	1,447,429
Total assets		**1,989,823**	2,060,293
Equity			
Equity attributable to the Company's equity owners			
Share capital	*14*	**975**	974
Share premium	*15*	**591,991**	591,651
Other reserves	*16*	**346,624**	333,874
Currency translation differences		**(456,981)**	(403,382)
Retained earnings		**397,373**	392,184
		879,982	915,301
Non-controlling interests		**98,116**	97,033
Total equity		**978,098**	1,012,334

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*17*	**18,343**	103,093
Deferred income tax liabilities	*20*	**20,957**	22,141
		39,300	125,234
Current liabilities			
Borrowings	*17*	**159,021**	263,687
Current portion of long-term borrowings	*17*	**104,194**	15,504
Trade payables	*18*	**516,973**	492,923
Accruals and other payables	*19*	**143,878**	110,089
Current income tax liabilities		**48,359**	40,522
		972,425	922,725
Total liabilities		**1,011,725**	1,047,959
Total equity and liabilities		**1,989,823**	2,060,293

The notes on pages 87 to 156 are an integral part of these consolidated financial statements.

The financial statements on pages 80 to 156 were approved by the Board of Directors on 20 March 2018 and were signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Consolidated Income Statement

	Note	Year ended 31 December 2017 RMB'000	 2016 RMB'000
Revenue	5	**1,100,642**	848,131
Other gains/(losses), net	21	**36,618**	(30,015)
Operating costs			
Material costs		**(234,966)**	(177,672)
Employee benefit expenses	22	**(366,974)**	(376,230)
Operating lease expenses		**(69,413)**	(52,818)
Transportation costs		**(18,955)**	(22,660)
Depreciation and amortisation		**(92,176)**	(117,860)
Technical service expenses		**(188,299)**	(107,226)
Reversal/(impairment losses) of assets		**22,880**	(82,580)
Others		**(142,545)**	(149,153)
		(1,090,448)	(1,086,199)
Operating profit/(loss)		**46,812**	(268,083)
Finance income	24	**643**	1,772
Finance expenses	24	**(30,320)**	(32,073)
Finance expenses, net		**(29,677)**	(30,301)
Share of post-tax results of an associate		**–**	(5,000)
Profit/(loss) before income tax		**17,135**	(303,384)
Income tax expense	25	**(13,875)**	(11,270)
Profit/(loss) from continuing operations		**3,260**	(314,654)
Profit/(loss) for the year		**3,260**	(314,654)
Attributable to:			
Equity owners of the Company		**5,541**	(292,346)
Non-controlling interests		**(2,281)**	(22,308)
		3,260	(314,654)
Earnings/(losses) per share for the profit/(loss) from continuing operations attributable to the equity owners of the Company			
Basic earnings/(losses) per share	27	**0.004**	(0.190)
Diluted earnings/(losses) per share	27	**0.004**	(0.190)
Earnings/(losses) per share for the profit/(loss) attributable to the equity owners of the Company			
Basic earnings/(losses) per share	27	**0.004**	(0.190)
Diluted earnings/(losses) per share	27	**0.004**	(0.190)

The notes on pages 87 to 156 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Profit/(loss) for the year		**3,260**	(314,654)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**(17,284)**	32,015
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**(35,880)**	41,112
Total comprehensive income for the year		**(49,904)**	(241,527)
Total comprehensive income for the year attributable to:			
Equity owners of the Company		**(48,058)**	(218,592)
Non-controlling interests		**(1,846)**	(22,935)
		(49,904)	(241,527)
Total comprehensive income for the year attributable to owners of the Company arises from:			
Continuing operations		**(49,904)**	(241,527)

The notes on pages 87 to 156 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 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)
Other comprehensive income		–	–	–	73,754	–	73,754	(627)	73,127
Total comprehensive income/(loss)		–	–	–	73,754	(292,346)	(218,592)	(22,935)	(241,527)
Transactions with owners in their capacity as owners									
Share-based payments	*22*	–	–	6,598	–	–	6,598	–	6,598
Total transactions with owners in their capacity as 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

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Company							
		Share capital	Share premium	Other reserves	Currency translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2017		974	591,651	333,874	(403,382)	392,184	915,301	97,033	1,012,334
Comprehensive income/(loss)									
Profit/(loss) for the year		–	–	–	–	5,541	5,541	(2,281)	3,260
Other comprehensive income/(loss)		–	–	–	(53,599)	–	(53,599)	435	(53,164)
Total comprehensive income/(loss)		–	–	–	(53,599)	5,541	(48,058)	(1,846)	(49,904)
Transactions with owners in their capacity as owners									
Share-based payments	22	–	–	12,572	–	–	12,572	–	12,572
Appropriation		–	–	352	–	(352)	–	–	–
Share options exercised		1	340	(174)	–	–	167	–	167
Capital injection of subsidiaries		–	–	–	–	–	–	2,929	2,929
Total transactions with owners in their capacity as owners		1	340	12,750	–	(352)	12,739	2,929	15,668
Balance as at 31 December 2017		975	591,991	346,624	(456,981)	397,373	879,982	98,116	978,098

The notes on pages 87 to 156 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	*28*	**69,264**	(43,422)
Interest paid		**(25,563)**	(26,695)
Interest received		**643**	1,772
Income tax paid		**(11,780)**	(13,925)
Net cash generated from/(used) in operating activities		**32,564**	(82,270)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(52,203)**	(23,482)
Proceeds from disposal of property, plant and equipment		**4,281**	4,867
Purchases of intangible assets		**(200)**	(5,538)
Purchase of investment in associates		**(1,570)**	(5,000)
Proceeds from disposal of investment in an associate		**5,000**	–
Restricted bank deposits		**15,067**	1,236
Net cash used in investing activities		**(29,625)**	(27,917)
Cash flows from financing activities			
Proceeds from borrowings		**226,094**	361,870
Repayments of borrowings		**(326,820)**	(353,500)
Proceeds from share options exercised		**167**	–
Contributions from minority shareholders		**2,929**	–
Net cash (used in)/generated from financing activities		**(97,630)**	8,370
Net decrease in cash and cash equivalents		**(94,691)**	(101,817)
Cash and cash equivalents at beginning of the year		**245,903**	344,855
Exchange (losses)/gains on cash and cash equivalents		**(4,190)**	2,865
Cash and cash equivalents at end of the year		**147,022**	245,903

The notes on pages 87 to 156 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 "Stock Exchange").

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.

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. The financial statements are for prepared the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

2.1.1 Compliance with IFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622 ("HKCO").

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.

2.1.2 Historical cost convention

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities, which are measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.3 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and*
- *Disclosure initiative – amendments to IAS 7.*

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 28.

2.1.4 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 Financial Instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.4 New standards and interpretations not yet adopted (continued)

IFRS 9 Financial Instruments (continued)

Impact (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income ("FVOCI"), contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect a significant impact on the loss allowance compared with current practice.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

IFRS 15 Revenue from Contracts with Customers

Nature of change

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Based on management assessment, the effects of applying the new standard on the Group's financial statements will not be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.4 New standards and interpretations not yet adopted (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Date of adoption by Group

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB57,585,000. The Group estimates that approximately 13% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date/Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.4 New standards and interpretations not yet adopted (continued)

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (continued)

2.2.1 Subsidiaries (continued)

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.

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.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.2.3 below), after initially being recognised at cost.

2.2.3 Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (continued)

2.2.3 Equity accounting (continued)

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

2.2.4 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes 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 or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

2.4 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.

2.5 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 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. 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 are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (continued)

(c) Group companies (continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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.

(d) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

2.7 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)

2.7 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 2.10).

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

2.8 Land use rights

Land use rights 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 rights is written down to its recoverable amount if its carrying amount exceeds its estimated recoverable amount (Note 2.10).

2.9 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (continued)

(b) Technology (continued)

- 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.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 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.

2.12 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.

2.13 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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.

2.14 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.

2.15 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).

2.16 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.

2.17 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 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.

2.19 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.

2.20 Borrowing costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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.

2.22 Current and deferred income tax

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (continued)

(b) Deferred income tax

Deferred income tax is provided in full, 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 the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits

The Group operates various 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (continued)

(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)

2.24 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.

2.25 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.26 Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee 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.

Operating lease income where the Group is a lessor 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.

2.28 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.

The Group is primarily exposed to changes in USD/RMB exchange rates.

On 31 December 2017, if RMB 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.

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB against USD		
– Weakened 5%	**(19,152)**	(11,542)
– Strengthened 5%	**19,152**	11,542

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2017			31 December 2016		
	USD	**SGD**	**Others**	USD	KTZ	Others
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Cash	**51,654**	**1,080**	**1,723**	57,464	1,709	1,896
Trade receivables	**40,724**	**–**	**621**	78,820	–	–
Other receivables	**17,740**	**196**	**9**	11,372	380	126
Trade payables	**10,865**	**59**	**238**	21,464	140	180
Other payables	**323**	**2,312**	**8,873**	343	1,308	596
Borrowings	**–**	**6,565**	**–**	–	7,039	–

(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 2017, if interest rates on floating interest borrowings at that date had been higher/lower 100 basis points (31 December 2016: 100 basis points), profit/loss before income tax for the year would have been RMB172,000 (2016: RMB193,000) lower/higher.

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 69.1% and 86.3% of the revenue of the Group for the years ended 31 December 2017 and 2016 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 2017 and 2016, 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 2017 and 2016:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC		
– State owned listed banks	**49,449**	94,844
– Other listed banks	**28,174**	92,401
	77,623	187,245
Kazakhstan government owned banks	**24,932**	20,686
Hong Kong listed banks	**650**	2,030
Singapore listed banks	**2,216**	8,236
Canada listed banks	**33,840**	32,823
Other listed banks	**5,835**	11,540
Others	**4,478**	962
Total	**149,574**	263,522

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 such as 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*	Total contractual cash flows *RMB'000*	Carrying amount liabilities *RMB'000*
As at 31 December 2017						
Borrowings	**269,850**	**13,671**	**2,362**	**3,022**	**288,905**	**281,558**
Trade payables	**516,973**	**–**	**–**	**–**	**516,973**	**516,973**
Accruals and other payables	**45,937**	**–**	**–**	**–**	**45,937**	**45,937**
Total	**832,760**	**13,671**	**2,362**	**3,022**	**851,815**	**844,468**
As at 31 December 2016						
Borrowings	286,082	99,605	2,833	2,696	391,216	382,284
Trade payables	492,923	–	–	–	492,923	492,923
Accruals and other payables	29,832	–	–	–	29,832	29,832
Total	808,837	99,605	2,833	2,696	913,971	905,039

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

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 2017 and 2016 are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Total borrowings	**281,558**	382,284
Total equity	**978,098**	1,012,334
Gearing ratio	**28.8%**	37.8%

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 2.7, Note 2.9 and Note 2.10 respectively. The recoverable amounts of cash-generating units have been determined based on higher of value-in-use and fair value less cost of disposal. 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 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Drilling	**320,489**	182,099
Well completion	**165,463**	120,606
Reservoir	**614,690**	545,426
	1,100,642	848,131

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 before income tax, depreciation and amortisation, interest income, finance costs and certain unallocated expense ("EBITDA").

Revenue amounting to RMB760,092,000 (2016: RMB732,178,000) are derived from CNPC and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

The segment information for the years ended 31 December 2017 and 2016 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Revenue from external customers	**320,489**	**165,463**	**614,690**	**1,100,642**
EBITDA	**49,792**	**24,647**	**149,343**	**223,782**
Total assets	**441,900**	**696,276**	**452,460**	**1,590,636**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**9,913**	**27,755**	**6,539**	**44,207**

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *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

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	
	2017	2016
	RMB'000	*RMB'000*
EBITDA for reportable segments	**223,782**	(28,189)
Unallocated expenses		
– Share-based payments	**(12,572)**	(6,598)
– Other gains/(losses), net	**36,618**	(30,015)
– Unallocated overhead expenses	**(108,840)**	(90,421)
	(84,794)	(127,034)
	138,988	(155,223)
Depreciation and amortisation	**(92,176)**	(117,860)
Finance expenses	**(30,320)**	(32,073)
Finance income	**643**	1,772
Gain/(Loss) before income tax	**17,135**	(303,384)

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,590,636**	1,518,935
Unallocated assets		
– Deferred income tax assets	**141,899**	138,842
– Unallocated inventories	**8,803**	15,579
– Unallocated prepayment and other receivables	**97,341**	123,415
– Restricted bank deposits	**2,552**	17,619
– Cash and cash equivalents	**147,022**	245,903
– Investments in associates	**1,570**	–
	399,187	541,358
Total assets per balance sheet	**1,989,823**	2,060,293

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	
	2017	2016
	RMB'000	*RMB'000*
PRC	**634,517**	480,316
Kazakhstan	**298,831**	196,439
Middle East	**30,200**	46,065
Turkmenistan	**43,966**	50,579
Canada	**58,533**	48,213
Indonesia	**33,401**	21,414
Others	**1,194**	5,105
	1,100,642	848,131

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	
	2017	2016
	RMB'000	*RMB'000*
PRC	**270,651**	290,308
Kazakhstan	**73,558**	91,746
Middle East	**69**	8
Turkmenistan	**25,602**	30,237
Canada	**13,065**	17,500
Indonesia	**8,912**	14,117
Others	**25,172**	30,106
	417,029	474,022

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and others RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 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
Year ended 31 December 2017						
Opening net book value	**65,739**	**231,692**	**11,937**	**25,492**	**57,992**	**392,852**
Additions	**18,347**	**23,370**	**87**	**2,215**	**2,807**	**46,826**
Depreciation charge	**(11,426)**	**(54,538)**	**(4,633)**	**(8,277)**	**–**	**(78,874)**
Disposals	**–**	**(3,526)**	**(408)**	**(325)**	**–**	**(4,259)**
Transfer	**36,269**	**1,265**	**786**	**240**	**(38,560)**	**–**
Exchange differences	**(372)**	**(6,967)**	**(11)**	**(277)**	**(292)**	**(7,919)**
Closing net book value	**108,557**	**191,296**	**7,758**	**19,068**	**21,947**	**348,626**
At 31 December 2017						
Cost	**154,012**	**473,711**	**65,067**	**103,264**	**21,947**	**818,001**
Accumulated depreciation and impairment	**(45,455)**	**(282,415)**	**(57,309)**	**(84,196)**	**–**	**(469,375)**
Net book value	**108,557**	**191,296**	**7,758**	**19,068**	**21,947**	**348,626**

For the year ended 31 December 2017, depreciation expenses amounting to RMB78,874,000 (2016: RMB95,732,000) has been charged in operating costs.

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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).

As at 31 December 2017, impairment indicator as machinery and equipment in the PRC region totally RMB120 million still existed. Based on the assessment by management, no further provision for impairment is required, as the fair value less cost of disposal of these assets was higher than their carrying value.

7. LAND USE RIGHTS

	RMB'000
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
Year ended 31 December 2017	
Opening net book value	**21,758**
Amortisation charge	**(483)**
Closing net book value	**21,275**
At 31 December 2017	
Cost	**24,131**
Accumulated amortisation	**(2,856)**
Net book value	**21,275**

The Group's land use rights represent operating lease prepayments for the leasehold land in the PRC for a period of 50 years. As at 31 December 2017, land use rights have a remaining period of 45 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 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
Year ended 31 December 2017			
Opening net book value	**33,994**	**1,733**	**35,727**
Additions	**200**	**–**	**200**
Amortisation charge	**(12,277)**	**(542)**	**(12,819)**
Exchange differences	**6**	**105**	**111**
Closing net book value	**21,923**	**1,296**	**23,219**
At 31 December 2017			
Cost	**84,739**	**4,465**	**89,204**
Accumulated amortisation and impairment	**(62,816)**	**(3,169)**	**(65,985)**
Net book value	**21,923**	**1,296**	**23,219**

9. SUBSIDIARIES

The following is a list of the principal subsidiaries of the Group at 31 December 2017:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2017	2016	2017	2016
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%	95%	5%	5%
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%	95%	5%	5%
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%	90.3%	9.7%	9.7%
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%	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	100%	100%	–	–
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%	95%	5%	5%
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%	95%	5%	5%
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%	70%	30%	30%
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%	95%	5%	5%
M-Tech service Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT87,200	100%	100%	–	–
CNEC Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT150,000	100%	100%	–	–
FD Services Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT110,000	100%	100%	–	–

9. SUBSIDIARIES (CONTINUED)

The following is a list of the principal subsidiaries of the Group at 31 December 2017: (continued)

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2017	2016	2017	2016
OS Services (Kazakhstan) Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%	100%	–	–
Dowell LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT500,000	70%	70%	30%	30%
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%	100%	–	–
HY Oil Technology Service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%	100%	–	–
NE TKM Hyzmat Limited	Turkmenistan, Limited liability entity	Oil field services, Turkmenistan	Manats 142,500	100%	100%	–	–
Pioneer Petrotech Services Inc.	Canada, Limited liability entity	Manufacturing, Canada	CAD15	100%	100%	–	–
Enecal Canada Corporation	Canada, Limited liability entity	Trading, Canada	CAD86	100%	100%	–	–
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%	100%	–	–
SPT Oil Field Service Inc. Limited	Hong Kong, Limited liability entity	Trading, Hong Kong	HKD100,000	100%	100%	–	–
PT. Enecal Indonesia	Indonesia, Limited liability entity	Oil field services, Indonesia	USD1,000,000	95%	95%	5%	5%
Enecal PTE. Limited (a)	Manufacturing, Singapore	Manufacturing, Singapore	SGD3,550,000*	63.2%	63.2%	36.8%	36.8%
AWP Precision Engineering Pte. Ltd.	Singapore, Limited liability entity	Manufacturing, Singapore	SGD360,000	100%	100%	–	–

9. SUBSIDIARIES (CONTINUED)

The following is a list of the principal subsidiaries of the Group at 31 December 2017: (continued)

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2017	2016	2017	2016
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	95%	95%	5%	5%
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	95%	95%	5%	5%
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%	51%	49%	49%
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%	51%	49%	49%
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%	100%	-	-
SPT Energy PTE. Ltd.	Singapore, Limited liability entity	Oil field services, Singapore	USD35,503	100%	100%	-	-
Petroleum Services Global DMCC	UAE, Limited liability entity	Oil field services, UAE	AED100,000	100%	100%	-	-
SPT-Techservice RUS Co., Ltd.	RUS, Limited liability entity	Oil field services, RUS	USD160,000	51%	51%	49%	49%
UU Energy Services Corporation	USA, Limited liability entity	Oil field services, USA	USD1,000,000	85%	–	15%	–
SPT Trading (SG) Pte. Ltd.	Singapore, Limited liability entity	Oil field services, Singapore	SGD510,000	51%	–	49%	–

9. SUBSIDIARIES (CONTINUED)

Notes

(a) The issued share capital includes preferred shares amounting to SGD 3,200,000 (equivalent to RMB16,302,000) (2016: 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 2017, the total non-controlling interest was RMB98,116,000 (2016: RMB97,033,000) of which RMB85,025,000 (2016: RMB83,278,000) was attributable to 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.

Summarised balance sheet

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current		
Assets	**177,353**	129,274
Liabilities	**17,192**	18,893
Total current net assets	**160,161**	110,381
Non-current		
Assets	**13,368**	63,324
Liabilities	**–**	1,823
Total non-current net assets	**13,368**	61,501
Net assets	**173,529**	171,882

9. SUBSIDIARIES (CONTINUED)

Notes (continued)

(b) Material non-controlling interests (continued)

Summarised income statement

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**407**	4,576
Gain/(loss) before income tax	**1,646**	(18,256)
Income tax expense	**–**	(498)
Post-tax gain/(loss)	**1,646**	(18,754)
Total comprehensive gain/(loss)	**1,646**	(18,754)
Total comprehensive gain/(loss) allocated to non-controlling interests	**806**	(9,189)

Summarised cash flows statement

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net cash used in operating activities	**(2,027)**	(8,971)
Net cash used in investing activities	**–**	(3,464)
Net decrease in cash and cash equivalents	**(2,027)**	(12,435)
Cash, cash equivalents at beginning of year	**2,188**	14,623
Exchange losses on cash and cash equivalents	**–**	–
Cash and cash equivalents at end of year	**161**	2,188

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

10. INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Project materials and consumables	**343,198**	420,373
Work in progress	**20,453**	20,737
	363,651	441,110
Less: provision for inventories	**(26,618)**	(69,479)
	337,033	371,631

The cost of inventories recognised as expense and included in "operating costs" amounted to RMB232,748,000 (2016: RMB177,672,000).

Movements of provision for inventories are as follows:

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**(69,479)**	(46,592)
Provision	**(1,745)**	(22,887)
Reversal	**30,783**	–
Written off	**13,823**	–
As at 31 December	**(26,618)**	(69,479)

Note

(a) Based on the Group's assessment, RMB30,783,000 of provision for inventories was reversed in the year ended 31 December 2017 as the net realisable value of the related inventories had recovered.

(b) The written off of provisions of inventory amounted to RMB13,823,000 for the year ended 31 December 2017 is due to sales of the goods that had been written down to third party customers.

11. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables (a)	**756,385**	621,847
Less: provision for trade receivables	**(86,244)**	(84,198)
Trade receivables – net	**670,141**	537,649
Note receivables (a)	**12,503**	26,095
	682,644	563,744

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 deposit amounting to RMB7,032,000 (2016: RMB2,107,000). 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 and note receivables is as follows:

At 31 December, the ageing analysis of the trade and note receivables based on invoice date were as follows:

	2017	2016
	RMB'000	*RMB'000*
Up to 6 months	**539,550**	366,131
6 months – 1 year	**36,817**	67,962
1 – 2 years	**59,930**	76,529
2 – 3 years	**23,058**	59,445
Over 3 years	**109,533**	77,875
Trade receivables, gross	**768,888**	647,942
Less: provision for trade receivables	**(86,244)**	(84,198)
Trade receivables, net	**682,644**	563,744

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
6 months to 1 year	**36,686**	67,270
1 to 2 years	**56,359**	76,069
2 to 3 years	**22,372**	53,046
Over 3 years	**22,080**	–
	137,497	196,385

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:

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**(84,198)**	(56,825)
Provision	**(11,695)**	(27,373)
Reversal	**5,165**	–
Written off	**4,484**	–
As at 31 December	**(86,244)**	(84,198)

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	
	2017	2016
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**523,633**	383,817
KZT	**93,930**	79,184
USD	**56,363**	91,181
Others	**8,718**	9,562
	682,644	563,744

(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	
	2017	2016
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**92,739**	66,893
Prepayment for taxes	**23,238**	43,370
Total non-financial assets	**115,977**	110,263
Deposits and other receivables	**63,908**	61,461
Receivable relating to disposal of certain equipment	**86,976**	84,401
Less: provision for other receivables	**(5,217)**	(7,593)
Total financial assets	**145,667**	138,269
	261,644	248,532
Non-current		
Advances to suppliers (Non-financial assets)	**6,708**	6,708
Prepayment for operating lease (Non-financial assets)	**15,631**	16,977
	22,339	23,685
Total	**283,983**	272,217

Notes

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

	As at 31 December	
	2017	2016
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**119,529**	117,841
KZT	**5,993**	7,666
SGD	**196**	381
USD	**18,528**	11,651
Others	**1,421**	730
	145,667	138,269

12. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Notes (continued)

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

(c) Movements in impairment of other receivables representing those that were part due are as follows:

	2017 RMB'000	2016 RMB'000
As at 1 January	**(7,593)**	(7,441)
Provision	**–**	(152)
Reversal	**372**	–
Written off	**2,004**	–
As at 31 December	**(5,217)**	(7,593)

(d) 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	
	2017 ***RMB'000***	2016 *RMB'000*
Restricted bank deposits (a)	**2,552**	17,619
Cash and cash equivalent Advances to suppliers		
– Cash on hand	**516**	496
– Deposits in banks	**146,506**	245,407
	147,022	245,903
	149,574	263,522

Notes

(a) As at 31 December 2017, the restricted bank deposits comprised of deposits of RMB2,552,000 (2016: RMB16,119,000) held as securities for issuance of bank letter of credit and nil (2016: RMB1,500,000) pledged for the Group's borrowings (Note 17).

13. CASH AND CASH EQUIVALENTS (CONTINUED)

Notes (continued)

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

	As at 31 December	
	2017	2016
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**36,996**	119,123
USD	**66,713**	67,067
KZT	**36,071**	57,975
CAD	**5,253**	5,830
Others	**4,541**	13,527
	149,574	263,522

14. SHARE CAPITAL

	Number of shares *(Thousands)*	**Share capital *RMB'000***
Authorised shares:		
Ordinary shares of USD0.0002 each as at 31 December 2017 and 2016	2,000,000	1,295
Issued and fully paid		
Issued shares:		
As at 31 December 2015	1,534,790	974
As at 31 December 2016	1,534,790	974
Add: share options exercised	402	1
As at 31 December 2017	**1,535,192**	**975**

15. SHARE PREMIUM

	2017 RMB'000	2016 RMB'000
As at 1 January	591,651	591,651
Share options exercised	340	–
As at 31 December	591,991	591,651

16. OTHER RESERVES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Merger reserves (a)	(148,895)	(148,895)
Equity component of convertible bonds	61,150	61,150
Share-based payments (b)	171,327	158,929
Statutory reserves (c)	54,120	53,768
Capital reserves (d)	208,922	208,922
	346,624	333,874

Notes

(a) Merger reserves

As at 31 December 2017 and 2016, 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, other 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, other 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.

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

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

	2017 Average exercise price per share options HKD	**2017** Number of share options (Thousands)	2016 Average exercise price per share options HKD	2016 Number of share options) (Thousands)
As at 1 January	**1.64**	**195,413**	3.94	73,420
Granted during the year	**–**	**–**	0.49	130,000
Forfeited during the year	**3.28**	**(2,657)**	3.98	(8,007)
Exercised during the year	**0.49**	**(402)**	–	–
As at 31 December	**1.62**	**192,354**	1.64	195,413
Vested and exercisable at 31 December	**2.53**	**106,066**	3.92	65,413

As at 31 December 2017 and 2016, out of the outstanding share options listed above, the exercisable share options are as follow:

Grant Date	**Expiry date**	**Exercise price HK$**	**Share options 31 December 2017 (Thousands)**	Share options 31 December 2016 (Thousands)
20 February 2012	19 February 2022	1.29	**9,521**	9,860
29 March 2012	28 March 2022	1.36	**5,083**	5,083
13 June 2013	12 June 2023	4.69	**48,720**	50,470
31 August 2016	30 August 2026	0.49	**42,742**	–
Total			**106,066**	65,413
Weighted average remaining contractual life of options outstanding at end of period			**6.57 years**	6.16 years

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(c) Statutory reserves

Subsidiaries incorporated in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When balance of such reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of registered capital after such usage. For the years ended 31 December 2017 and 2016, 10% of statutory net profit of each entity was appropriated to this reserve. This reserve is non-distributable. The movement is as follows:

	RMB'000
As at 31 December 2015	53,768
As at 31 December 2016	53,768
Appropriation	352
As at 31 December 2017	**54,120**

(d) Capital reserves

The capital reserves balances as at 31 December 2017 and 2016 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	
	2017	2016
	RMB'000	*RMB'000*
Non-current:		
Secured bank borrowings (a)(i)(iii)	**18,343**	6,159
Finance lease payable (e)	**–**	13,468
Unsecured liability component of convertible bonds (d)	**–**	83,466
	18,343	103,093
Current:		
Short-term bank borrowings		
– Secured (a)(ii)(iii)	**58,700**	101,027
– Unsecured (a)(ii)	**70,000**	60,000
Short-term entrusted loan (b)	**20,000**	70,000
Short-term borrowings from certain individuals (c)	**10,321**	32,660
	159,021	263,687
Current portion of long-term borrowings:		
Secured bank borrowings (a)(i)(iii)	**2,722**	988
Finance lease payable (e)	**11,686**	14,516
Unsecured liability component of convertible bonds (d)	**89,786**	–
	104,194	15,504
Total borrowings	**281,558**	382,284

17. BORROWINGS (CONTINUED)

Notes

(a) Bank borrowings

(i) As at 31 December 2017, long-term secured bank borrowings amounting to RMB6,565,000 (2016: RMB7,040,000), comprising long-term bank borrowings amounting to RMB5,843,000 (2016: RMB6,159,000) and its current portion amounting to RMB722,000 (2016: RMB881,000), will be repaid by installment annually through 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 annum (2016: 4.79%).

Long-term secured bank borrowings amounting to RMB107,000 as at 31 December 2016 was repaid in 2017 and bore an effective interest rate of 2.28% per annum.

As at 31 December 2017, long-term secured bank borrowings amounting to RMB14,500,000 (2016: RMB0), comprising long-term bank borrowings amounting to RMB12,500,000 (2016: RMB0) and its current portion amounting to RMB2,000,000 (2016: RMB0), will be repaid by installment annually through 2019 and bear effective interest rate of 7.13% per annum (2016: 0%).

(ii) As at 31 December 2017, short-term secured bank borrowings amounting to RMB58,700,000 (2016: RMB101,027,000) will mature in 1 year (2016: 1 year) and bear annual interest rate of 6.52% (2016: 5.74%).

As at 31 December 2017, short-term unsecured bank borrowings amounting to RMB70,000,000 (2016: RMB60,000,000) will mature in 1 year (2016: 1 year) and bear annual interest rate from 5.00% to 5.66% (2016: 3.80% to 5.90%).

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Long-term bank borrowings including its current portion		
Secured by:		
– Property, plant and equipment (Note 6)	**–**	107
– Long-term prepayments (Note 12)	**6,565**	7,040
– Trade and note receivables	**14,500**	–
	21,065	7,147
Short-term bank borrowings		
Secured by:		
– Trade and note receivables (Note 11)	**58,700**	56,027
– Land use rights (Note 7)	**–**	21,758
– Restricted bank deposits (Note 13)	**–**	1,500
	58,700	79,285

17. BORROWINGS (CONTINUED)

Notes (continued)

(a) Bank borrowings (continued)

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

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB	**143,200**	161,027
SGD	**6,565**	7,147
	149,765	168,174

(b) Short-term entrusted loans

As at 31 December 2017, short-term entrusted loans amounting to RMB20,000,000 (2016: RMB70,000,000) will mature in 1 year and bear annual interest rate of 8.00% (2016: 5.10%).

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 2017, short-term borrowings from certain individuals amounting to RMB10,321,000 (2016: RMB32,660,000) will mature in 1 year and bear annual interest rate of 10% (2016: 10%).

The carrying amounts of the short-term borrowings from certain individuals approximate their fair value, and are denominated in RMB.

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, which is 20 August 2018. 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.

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

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

	2017 ***RMB'000***
Liability component as at 31 December 2016	**83,466**
Interest expense in 2017 (Note 24)	**14,576**
Interest paid and payable	**(2,940)**
Exchange difference	**(5,316)**
Liability component as at 31 December 2017	**89,786**

17. BORROWINGS (CONTINUED)

Notes (continued)

(e) Finance lease payable

The Group leases certain machinery with a carrying amount of RMB6,091,000 (2016 – RMB11,825,000) under finance leases expiring in 2018.

(i) Fair value

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

(ii) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 3.1.

18. TRADE PAYABLES

Ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Up to 6 months	**253,763**	209,606
6 months to 1 year	**43,535**	66,274
1 – 2 years	**59,227**	100,124
2 – 3 years	**64,560**	89,033
Over 3 years	**95,888**	27,886
	516,973	492,923

19. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest payable	**4,529**	4,742
Rental fee payable	**3,381**	4,470
Others	**38,027**	20,620
Total financial liabilities	**45,937**	29,832
Customer deposits and receipts in advance	**20,166**	4,134
Payroll and welfare payable	**37,775**	43,347
Taxes other than income taxes payable	**40,000**	32,776
Total non-financial liabilities	**97,941**	80,257
	143,878	110,089

20. DEFERRED INCOME TAXATION

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Deferred income tax assets:		
– To be recovered after more than 12 months	**102,516**	112,881
– To be recovered within 12 months	**39,383**	25,961
	141,899	138,842
Deferred income tax liabilities:		
– To be settled after 12 months	**(20,957)**	(22,014)
– To be settled within 12 months	**–**	(127)
	(20,957)	(22,141)
	120,942	116,701

20. DEFERRED INCOME TAXATION (CONTINUED)

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

	2017 *RMB'000*	2016 *RMB'000*
As at 1 January	**116,701**	114,109
Credited to the income statement (Note 25)	**5,742**	2,910
Currency translation difference	**(1,501)**	(318)
As at 31 December	**120,942**	116,701

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 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
Credited/(charged) to the income statement	18,477	(11,907)	(2,387)	(71)	4,112
Currency translation differences	(204)	(172)	(483)	(196)	(1,055)
As at 31 December 2017	**76,091**	**27,855**	**27,809**	**10,144**	**141,899**

* 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 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
Credited to the income statement	(1,630)	–	–	–	(1,630)
Currency translation differences	446	–	–	–	446
As at 31 December 2017	**2,263**	**18,642**	**–**	**52**	**20,957**

* 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 RMB114,687,000 as at 31 December 2017 (2016: RMB102,476,000), in respect of losses amounting to RMB601,062,000 (2016: RMB495,272,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2018 and 2022.

(b) The Board did not propose final dividend for the year ended 31 December 2017. As at 31 December 2017, the Group did not recognise deferred income tax liabilities of RMB14,251,000 (2016: RMB11,276,000) on withholding tax of unremitted earnings of certain subsidiaries earned prior to 1 July 2011 and during 2013, 2014, 2015, 2016 and 2017, as such unremitted earnings amounting to RMB278,596,000 (2016: RMB490,035,000) 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	
	2017	2016
	RMB'000	*RMB'000*
Net foreign exchange gains/(losses)	**31,448**	(27,256)
Gain on disposal of an associate	**5,000**	–
Others	**170**	(2,759)
	36,618	(30,015)

22. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Wages, salaries and allowances	**304,238**	316,579
Housing benefits	**8,853**	9,460
Pension costs	**30,894**	33,279
Share-based payments (Note 16)	**12,572**	6,598
Welfare and other expenses	**10,417**	10,314
	366,974	376,230

Notes

(a) Five highest paid individuals

	Year ended 31 December Number of individuals	
	2017	2016
Director	**3**	3
Non-director individual	**2**	2
	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	
	2017	2016
	RMB'000	*RMB'000*
Salary	**2,161**	2,055
Housing benefits	**32**	29
Estimated money value of other benefits	**1,245**	435
	3,438	2,519

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2017	2016
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	**1**	–
HKD2,500,001 to HKD3,000,000	**–**	–
	2	2

23. EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
(Gains)/losses on disposal of property, plant and equipment	**(22)**	1,567
Sales tax and surcharges	**5,697**	5,623
Depreciation	**78,874**	95,732
Amortisation of land use rights and intangible assets	**13,302**	22,128
Auditor's remuneration		
– PricewaterhouseCoopers	**4,500**	4,100
– Others	**730**	910

24. FINANCE EXPENSES, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest income on short-term bank deposits	**643**	1,772
Total finance income	**643**	1,772
Net foreign exchange losses on financing activities	**(1,018)**	(47)
Interest expense:		
– Bank borrowings	**(10,774)**	(13,410)
– Bank charges and others	**(3,952)**	(6,025)
– Liability component of convertible bonds	**(14,576)**	(12,591)
Total finance expenses	**(30,320)**	(32,073)
Net finance expenses	**(29,677)**	(30,301)

25. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**19,617**	14,180
Deferred income tax	**(5,742)**	(2,910)
Income tax expense	**13,875**	11,270

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%.

25. INCOME TAX EXPENSE (CONTINUED)

Notes (continued)

e. PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in PRC for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the years ended 31 December 2017 and 2016, 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 Turkmenistan, Kazakhstan, Canada, Indonesia, Russia, America and the United Arab Emirates are 20%, 20%, 25%, 25%, 30%, 35% and 0% respectively.

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	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) before income tax	**17,135**	(303,384)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(4,539)**	(51,052)
Expenses not deductible for taxation purposes	**6,202**	2,738
Utilisation of previously unrecognised tax losses	**(12,944)**	(1,580)
Losses not recognised as deferred tax assets	**25,156**	51,283
Withholding tax paid in foreign jurisdiction	**–**	9,881
Income tax expense	**13,875**	11,270

26. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2017 and 2016.

27. EARNINGS/(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	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) attributable to equity owners of the Company	**5,541**	(292,346)
Weighted average number of ordinary shares in issue (thousands)	**1,534,838**	1,534,790
Basic earnings/(losses) per share (RMB per share)	**0.004**	(0.190)

(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 2017, both of the convertible bonds and share options were excluded as anti-dilutive factors for the period.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Earnings/(losses)		
Profit/(loss) attributable to equity owners of the Company	**5,541**	(292,346)
Interest expense on convertible bonds (Note 24)	**Anti-dilutive**	Anti-dilutive
	5,541	(292,346)
Weighted average number of ordinary shares in issue (thousands)	**1,534,838**	1,534,790
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**3,823**	Anti-dilutive
	1,538,661	1,534,790
Diluted earnings/(losses) per share	**0.004**	(0.190)

28. CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Gain/(Loss) before income tax	**17,135**	(303,384)
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 23)	**78,874**	95,732
– net (gains)/losses on disposals (Note 23)	**(22)**	1,567
Land use rights and intangible assets		
– amortisation (Notes 7&8)	**13,302**	22,128
(Reversal)/provision for impairment of assets	**(22,880)**	87,580
Gain on disposal of an associate	**(5,000)**	–
Net foreign exchange (gains)/losses (Notes 21&24)	**(30,430)**	27,303
Interest income (Note 24)	**(643)**	(1,772)
Interest expenses on borrowings (Note 24)	**10,774**	13,410
Interest expenses on convertible bonds (Note 24)	**14,576**	12,591
Share-based payments	**12,572**	6,598
Changes in working capital:		
Inventories	**63,845**	(694)
Trade and note receivables	**(124,786)**	40,677
Prepayments and other receivables	**(10,976)**	7,461
Trade and note payables	**26,333**	(78,856)
Accruals and other payables	**26,590**	26,237
Net cash inflows/(outflows) from operations	**69,264**	(43,422)

(b) Non-cash investing and financing activities

There was no significant non-cash investing and financing activities for the year ended 31 December 2017.

The principal non-cash transaction for the year ended 31 December 2016 was the disposal of certain equipment amounted to RMB84,401,000 included in prepayments and other receivables (Note 12).

28. CASH GENERATED FROM OPERATIONS (CONTINUED)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	**147,022**	245,903
Borrowings – repayable within one year	**(263,215)**	(279,191)
Borrowings – repayable after one year	**(18,343)**	(103,093)
Net debt	**(134,536)**	(136,381)
Cash and liquid investments	**147,022**	245,903
Gross debt – fixed interest rates	**(274,993)**	(355,245)
Gross debt – variable interest rates	**(6,565)**	(27,039)
Net debt	**(134,536)**	(136,381)

	Other assets	Liabilities from financing activities		
	Cash/bank overdraft RMB'000	Borrow. Due within 1 year RMB'000	Borrow. Due after 1 year RMB'000	Total RMB'000
Net debt as at 1 January 2016	344,855	(271,574)	(102,340)	(29,059)
Cash flows	(101,817)	(7,617)	(753)	(110,187)
Foreign exchange adjustments	2,865	–	–	2,865
Net debt as at 31 December 2016	245,903	(279,191)	(103,093)	(136,381)
Cash flows	(94,691)	15,976	84,750	6,035
Foreign exchange adjustments	(4,190)	–	–	(4,190)
Net debt as at 31 December 2017	**147,022**	**(263,215)**	**(18,343)**	**(134,536)**

29. CONTINGENCIES

As at 31 December 2017 and 2016, the Group did not have any significant contingent liabilities.

30. COMMITMENTS

(a) Capital commitments

There are no capital expenditures contracted for at the end of the period.

(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	
	2017	2016
	RMB'000	*RMB'000*
No later than 1 year	**7,730**	8,659
Later than 1 year and no later than 5 years	**22,277**	25,116
Later than 5 years	**27,578**	35,256
	57,585	69,031

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 2017 and 2016:

(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	
	2017	2016
	RMB'000	*RMB'000*
Salary	**5,197**	5,875
Housing allowance	**340**	141
Estimated money value of other benefits	**2,408**	2,100
	7,945	8,116

32. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		**1,057,764**	1,095,863
Current assets			
Prepayments and other receivables		**315**	334
Cash and cash equivalents		**12,196**	2,864
Total assets		**1,070,275**	1,099,061
Equity and liabilities			
Share capital		**975**	974
Share premium		**591,991**	591,651
Other reserves	*Note (a)*	**445,376**	432,978
Currency translation differences		**20,805**	56,685
Accumulated losses	*Note (a)*	**(106,465)**	(87,216)
Total equity		**952,682**	995,072
Liabilities			
Non-Current liabilities			
Borrowings		**–**	83,466
Current liabilities			
Accruals and other payables		**27,807**	20,523
Current portion of long-term borrowings		**89,786**	–
Total liabilities		**117,593**	103,989
Total equity and liabilities		**1,070,275**	1,099,061

The balance sheet of the Company was approved by the Board of Directors on 20 March 2018 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 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
At 1 January 2017	**(87,216)**	**591,651**	**432,978**	**56,685**	**994,098**
Loss for the year	**(19,249)**	**–**	**–**	**–**	**(19,249)**
Currency translation differences	**–**	**–**	**–**	**(35,880)**	**(35,880)**
Share options exercised	**–**	**340**	**(174)**	**–**	**166**
Share-based payments	**–**	**–**	**12,572**	**–**	**12,572**
At 31 December 2017	**(106,465)**	**591,991**	**445,376**	**20,805**	**951,707**

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 2017 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)**	424	–	74	202	700
Mr. 吳東方 (Mr. Wu Ethan)	424	–	74	202	700
Mr. 劉若岩 (Mr. Liu Ruoyan)	300	–	–	173	473
Mr. 金樹茂 (Mr. Jin Shumao)***	64	–	–	–	64
Mr. 李強 (Mr. Li Qiang)***	416	–	27	70	513
Non-executive Directors					
Mr. 林煬 (Mr. Lin Yang)	–	–	–	173	173
Ms. 陳春花 (Ms. Chen Chunhua)	881	–	60	178	1,119
Independent Non-Executive Directors					
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	260	–	–	173	433
Mr. 溫嘉明 (Mr. Wan Kah Ming)	260	–	–	173	433
Ms. 張渝涓 (Ms. Zhang Yujuan)	260	–	–	173	433
Chief executive					
Mr. 蔣青松 (Mr.Jiang Qingsong)*	400	–	21	979	1,400
	3,689	–	256	2,496	6,441

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 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. Wu Ethan)	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)*	200	–	–	104	304
	4,316	–	22	1,659	5,997

33. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

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

* Mr. 蔣青松 (Mr. Jiang Qingsong) is also the chief executive of the Company till 31 August 2017.

** On 24 August 2017, the board of directors of the Company has approved the appointment of Mr. 王國強 (Mr. Wang Guoqiang) as the chief executive officer of the Company, replacing Mr. 蔣青松 (Mr. Jiang Qingsong) with effect from 1 September 2017.

*** On 21 March 2017, the board of directors of the Company has approved the appointment of Mr. 李強 (Mr. Li Qiang) as an executive director of the Company and Mr. 金樹茂 (Mr. Jin Shumao) was resigned with effect from 21 March 2017.

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

(b) Directors' retirement benefits

During the year ended 31 December 2017, 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 (2016: nil).

(c) Directors' termination benefits

During the year ended 31 December 2017, 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 (2016: nil).

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

During the year ended 31 December 2017, no consideration was provided to or receivable by third parties for making available director's services (2016: 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 (2016: 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 (2016: nil).

SPT Energy Group Inc.
華油能源集團有限公司*