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

2018
Annual Report


SinoPetroleum

Contents

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang *(Chairman)* *Note 1*
Mr. Ethan Wu *(Chief Executive Officer)* *Note 1*
Mr. Liu Ruoyan *Note 2*
Mr. Li Qiang
Mr. Wu Jiwei *Note 3*

Non-Executive Directors

Mr. Lin Yang *Note 2*
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)

Notes:

1. Mr. Wang Guoqiang was the chief executive officer of the Company during the period from 1 September 2017 to 10 May 2018. Mr. Ethan Wu has been appointed by the board of directors of the Company as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 11 May 2018.

2. Mr. Liu Ruoyan and Mr. Lin Yang resigned as an executive director and a non-executive director of the Company respectively with effect from 31 August 2018.

3. Mr. Wu Jiwei has been appointed as an executive director of the Company by the board of directors of the Company, with effect from 26 March 2019.

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

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

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

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

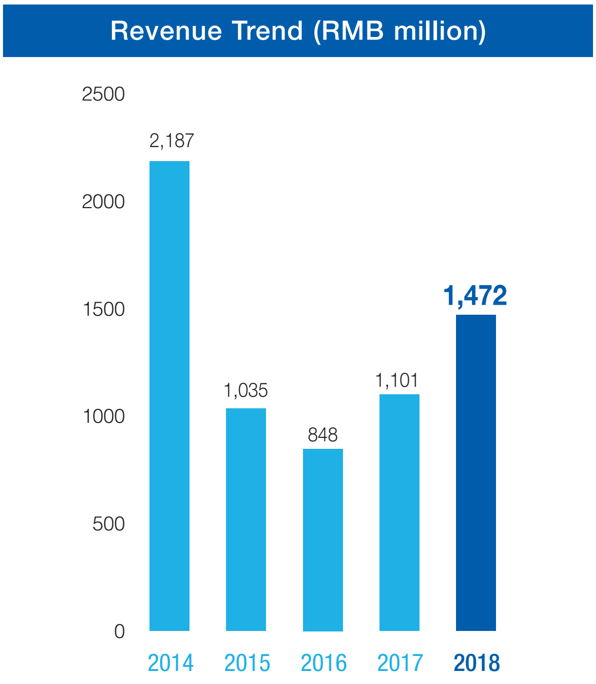
23 December 2011

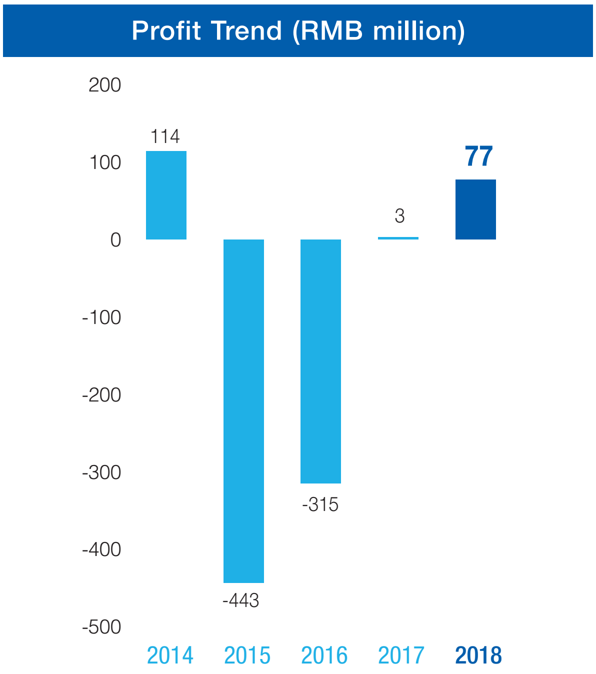
Financial Summary

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	**2018**	2017	2016	2015	2014
Revenue	**1,471,649**	1,100,642	848,131	1,035,007	2,186,958
Other (losses)/gains, net	**(28,947)**	36,618	(30,015)	25,212	(17,960)
Operating costs	**(1,315,791)**	(1,090,448)	(1,086,199)	(1,508,358)	(1,964,813)
Operating profit/(loss)	**126,911**	46,812	(268,083)	(448,139)	204,185
Finance costs, net	**(30,804)**	(29,677)	(30,301)	(37,802)	(43,820)
Profit/(loss) before income tax	**96,107**	17,135	(303,384)	(485,941)	160,365
Profit/(loss) for the year	**76,639**	3,260	(314,654)	(442,555)	114,267
Attributable to:					
Equity owners of the Company	**81,798**	5,541	(292,346)	(412,165)	116,176
Non-controlling interests	**(5,159)**	(2,281)	(22,308)	(30,390)	(1,909)
Dividends proposed after balance sheet date	**–**	–	–	–	–

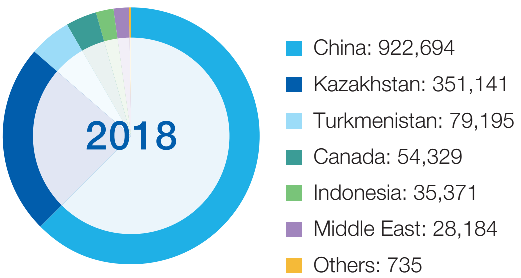


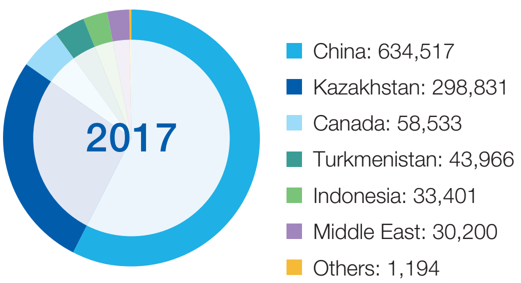


Financial Summary

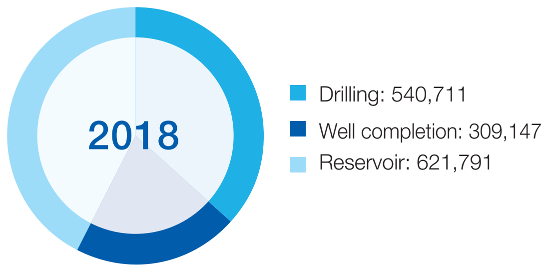
Revenue by Region	Revenue by Business

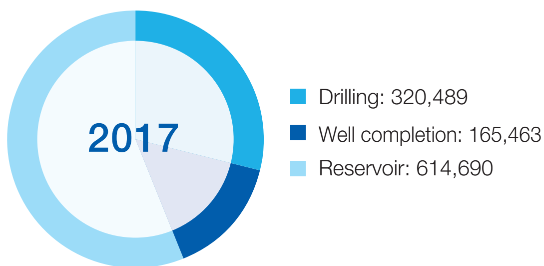
Revenue by Region





Revenue by Business





CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2018**	2017	2016	2015	2014
Assets					
Non-current assets	**521,081**	558,928	612,864	789,360	832,278
Current assets	**1,938,916**	1,430,895	1,447,429	1,560,881	2,750,919
Total assets	**2,459,997**	1,989,823	2,060,293	2,350,241	3,583,197
Total equity	**1,251,412**	978,098	1,012,334	1,247,263	1,922,054
Liabilities					
Non-current liabilities	**161,632**	39,300	125,234	137,856	84,521
Current liabilities	**1,046,953**	972,425	922,725	965,122	1,576,622
Total liabilities	**1,208,585**	1,011,725	1,047,959	1,102,978	1,661,143
Total equity and liabilities	**2,459,997**	1,989,823	2,060,293	2,350,241	3,583,197

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I present the annual report of the Group for the year ended 31 December 2018 (the "Reporting Year").

During the Reporting Year, the Group's revenue amounted to RMB1,471.6 million and the profit attributable to the equity owners of the Company amounted to RMB81.8 million.

MARKET REVIEW

Looking back in the past year, the global economy sustained the steadily growing momentum during the first half of 2018 but the momentum weakened in the second half of the year affected by the escalating global trade friction and the rate hike by the United States Federal Reserve, alongside with growing uncertainties and increasing risks of downturn.

During the Reporting Year, the international oil and gas market continued to recover in general, yet with increasing market volatilities. The average annual international oil price was significantly higher than last year. However, as a result of economic and geopolitical factors, the international oil price remained highly volatile throughout the year with an initial increase followed by a downward trend. In early October 2018, the crude oil price of Brent set a record high during the year. But since mid-October, the oil price plunged as a result of the disappearance of market fear of shortage and growing pressure of global economic downturn. In 2018, the investment in exploration and development by upstream petroleum enterprises revealed a growing trend around the globe with large variations in the growth of different regions.

On the domestic market front, the growth of energy consumption in China expedited and its reliance on foreign trade of oil and gas continued to grow. In 2018, the apparent consumption of oil in China, for the first time, exceeded 600 million tonnes, up by 7% from last year. The growth rate increased by 1.8 percentage points. In 2018, demand for natural gas increased by approximately 17% year-on-year. In 2018, China's reliance on foreign trade of petroleum was around 70% and its reliance on foreign trade of natural gas exceeded 40%. After China has become the world's largest crude oil importer in 2017, China has exceeded Japan and become the largest natural gas importer in the world as well. To safeguard the energy safety for China and cater for the growing demand for energy, the Chinese government successively introduced industrial policies to facilitate the domestic producers to step up the exploration and development efforts.

In 2018, the oil and gas exploration and development activities in China picked up. The three Chinese oil giants made new breakthroughs in the Bohai Bay, Xinjiang and Chuanyu areas. In 2018, crude oil production in China was 190 million tonnes, down by 1.3% year-on-year. The decrease narrowed by 2.7 percentage points from last year. The decline in crude oil production was effectively contained. In 2018, as China continued to step up efforts in exploration, development and utilisation of natural gas, natural gas production grew substantially. Natural gas production throughout the year was 161 billion cubic metres, up by 7.5% year-on-year. Driven by the investment in exploration and development, workload in the domestic oil-field service industry expanded in 2018 and it promoted the development of the industry in general.

Under such external environment, the Group actively adjusted its own business strategy and voluntarily adapted to and catered for the market demand. After a series of sharp corrections in oil price, the Group's ability to adapt to oil price fluctuations and cater for market demand under new landscape was strengthened substantially. As to the market, the Group continued to actively expand the key markets including West China and Kazakhstan, and vigorously developed the traditional conventional oil and gas business on the one hand. On the other hand, the Group actively expanded into new businesses such as non-conventional natural gas business and new overseas markets such as Africa and the Middle East. As to product and technology, the Group successively applied the technology of ultrasound production increase and injection increase, matching technology of profile control and water shutoff technique, negative pressure pump drainage and gas production technology and integrated tool for casing damage, which were well-received by the market. As to internal management, the Group optimised the organisational structure, actively pushed ahead cost reduction and efficiency enhancement, and improved the management systems to further enhance the level of operational management. As to external cooperation, the Group strengthened the in-depth strategic cooperation with partners including Halliburton China Company and Xinjiang Energy (Group) Petroleum & Natural Gas Co., Ltd. to achieve a win-win outcome.

Chairman's Statement

PROSPECT

Looking into 2019, the global economy is expected to lack growth momentum with growing risks of downturn, and based on market estimates, the growth of petroleum demand is likely to slow down. Affected by the global economic landscape, rebalancing of demand and supply as well as geopolitical conditions, the international oil price is expected to remain highly volatile with an upward trend and yet a lot of uncertainties.

In recent years, from the supply-side perspective, the petroleum market has seen a gradual shift of dominance from the members of Organization of Petroleum Exporting Countries ("OPEC") to the United States, Saudi Arabia and Russia. Its dynamic equilibrium will determine the future global supply of petroleum. In addition, the energy consumption pattern around the world is also experiencing profound changes where emerging economies will account for an increasingly bigger portion in the demand for global energy.

On the domestic market front, as the oil and gas reform in China intensifies, the three PRC oil giants will further step up the investment in exploration and development in 2019 and business volume of domestic oil-field service companies will further increase in general, which will usher in more development opportunities for the domestic oil-field service industry.

Based on the foregoing, the Group's core market strategies in 2019 are to follow closely the regional strategic dynamics, seize the operation of key projects, prioritise profitable projects, introduce and develop new technologies and focus on solving customers' concerns. Key projects include: i) Xinjiang market: the Group will maintain the high-temperature high-pressure well completion and oil reservoir business, quickly resume the high-end drilling service market, actively expand into new businesses including environmental protection, and consolidate and strengthen regional competitive strengths; ii) Sichuan and Chongqing regions: the Group will ensure the smooth implementation of shale gas projects already secured and strive to obtain long-term service contract in the region in an effort to expand into the high-end drilling technical service market; iii) Central Asia region: the Group will maintain its traditional business that enjoys comparative strengths, further explore new projects and new opportunities and seek new profit growth points; and iv) New overseas markets: the Group will, base on the existing projects in the Middle East, actively expand the scope of business and selectively develop new projects with potential in emerging markets such as Africa to accelerate the Group's level of internationalisation.

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 average annual international oil price was significantly higher than last year. However, as a result of economic and geopolitical factors, the international oil price remained highly volatile throughout the year with an initial increase followed by a downward trend. Oil and gas companies gradually increased the expenditure on exploration and development and expanded production in response to the trend of rising oil price during the Reporting Year. Driven by the growth in investment in exploration and development, the global oil-field service market revealed a growing trend in 2018 in general and the growth rate of workload increased from last year. It was the second year since bottoming out of the oil price in 2016 to attain an overall growth of the market. However, as the oil-field service price remained relatively weak, the industry concept and business strategy of cost reduction and efficiency enhancement as well as innovation for change and maintaining steady development accumulated by the oil-field service companies over the past few years did not have any fundamental changes.

During the Reporting Year, the Group closely followed the market direction and seized the opportunities arising from the industry recovery in prior period. On the one hand, it endeavoured to consolidate the existing market share. On the other hand, it actively expanded new markets and new businesses. Thus, the Group maintained sound growth momentum in general. Firstly, it deeply penetrated into the regions and projects with traditional strengths, captured new growth areas and new opportunities and accelerated technological innovation to quickly respond to customer demands. In addition to providing customers with professional and comprehensive service, it consolidated the conventional oil and gas business segments in the northwest region of China and Central Asia to achieve steady growth in orders. Secondly, it expanded the industry layout and continued to step up its investment in new energy markets including non-conventional natural gas to gradually expand the proportion of new energy business. Thirdly, it strengthened horizontal cooperation. The Group established a joint venture with Xinjiang Energy (Group) Oil and Gas Co., Ltd., as a platform to greatly push ahead the Group's one-stop turnkey business. The long-term strategic partnership with Halliburton China Company was further strengthened where both parties established a tighter working mechanism and carried out widespread cooperation in areas including horizontal well drilling, optic fibre monitoring and high temperature logging. Fourthly, it continued to enhance the internal management efficiency, accelerated the optimisation of the Group's structure, rationalised the business flow, reduced redundant inventory, optimised the information system and built a more effective employee incentive system.

Based on the foregoing, the Group seized the opportunities in 2018 and quickly completed the self-transformation in the course of market turn and recorded steady increase in revenue and profits, thus laying a solid foundation for the market growth in 2019.

REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,471.6 million, representing an increase of RMB371.0 million or 33.7% over the previous year. The analysis of the Group's revenue by business segment is as follows:

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue			
Reservoir	**621,791**	614,690	1.2%
Drilling	**540,711**	320,489	68.7%
Well Completion	**309,147**	165,463	86.8%
Total	**1,471,649**	1,100,642	33.7%

The increase in revenue of the Group in 2018 was mainly due to market recovery, rising oil price, the Group's proactive market expansion efforts and enhancement of overall service standard and operating efficiency. Among which, the revenue contribution from reservoir segment accounted for 42.3%, up by 1.2% as compared with that of last year; the revenue contribution from drilling segment accounted for 36.7%, up by 68.7% as compared with that of last year; and the revenue contribution from well completion segment accounted for 21.0%, up by 86.8% as compared with that of last year. The oil reservoir services segment remained the largest contributor to revenue. In addition, benefiting from the oil companies' increased expenditure on exploration and development of well construction, revenue from the drilling segment and well completion segment grew considerably.

Oil Reservoir Service Segment

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from reservoir services			
Overseas	**284,084**	292,002	-2.7%
PRC	**337,707**	322,688	4.7%
Total	**621,791**	614,690	1.2%

The Group's oil reservoir service segment comprises geology research and oil reservoir research services, dynamic monitoring service, oil testing and oil recovery service, oil extraction process service, coiled tubing service and repair service of surface production devices.

During the Reporting Year, revenue from the oil reservoir services segment amounted to RMB621.8 million, representing an increase of RMB7.1 million or 1.2% as compared with that in the previous year, among which, revenue from the overseas markets decreased by 2.7% year-on-year to RMB284.1 million, accounting for 45.7% of the total revenue from oil reservoir services, mainly due to the depreciation of Kazakhstan Tenge; and revenue from the PRC market slightly increased by 4.7% year-on-year to RMB337.7 million, accounting for 54.3% of the total revenue of oil reservoir services.

During the Reporting Year, the Group's oil reservoir service segment further satisfied the demand for cost reduction and drilling efficiency enhancement of oil fields at current stage through enhancing the oil and gas reservoir extraction process technique. Various new oil and gas reservoir process techniques, including the technology of ultrasound production increase and injection increase, the negative pressure pump drainage and gas production technology and the matching technology of profile control and water shutoff technique, were successfully applied in certain markets. These technologies are expected to be widely applied in more regions.

Drilling Service Segment

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from drilling services			
Overseas	**162,082**	118,618	36.6%
PRC	**378,629**	201,871	87.6%
Total	**540,711**	320,489	68.7%

The drilling services of the Group include drilling rig service, workover rig service, complex well workover and fishing service, rotary geological steering service, vertical drilling technology service, horizontal drilling technology service, side tracking technology service, underbalanced drilling technology service, fine managed pressure drilling technology service, cementing services and drilling fluid services. The Group has carried out research and development (the "R&D") and integration of the slim-hole short radius sidetrack horizontal well technology, the old well potential layer logging process technology and the drilling efficiency enhancement technology to better cater for the demand of oilfields for drilling efficiency enhancement.

During the Reporting Year, revenue from drilling services segment amounted to RMB540.7 million, representing a substantial increase of RMB220.2 million or 68.7% as compared with that of the previous year, among which, revenue from the overseas market amounted to RMB162.1 million, up by 36.6% year-on-year and accounting for 30.0% of the total revenue from drilling services; and revenue from the PRC market amounted to RMB378.6 million, up by 87.6% year-on-year and accounting for 70.0% of the total revenue from drilling services.

As to the PRC market, the Group fully capitalised on the favourable conditions of growing business volume, stepped up the efforts to strengthen technological aspects, and voluntarily and actively expanded the business segments of shale gas, coal-bed gas and high performance environmentally friendly water-based slurry. The Group successively won the tender for the one-stop turnkey project of shale gas drilling and oil testing in Sichuan, the turnkey technical service project of high-performance water-based drilling fluid in Xinjiang and the coal-bed gas drilling service project in Shanxi. The drilling workload and revenue recorded substantial growth as a result. As to the overseas markets, the workload of workover business in both Iraq and Kazakhstan grew.

Well Completion Service Segment

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from well completion services			
Overseas	**102,789**	55,505	85.2%
PRC	**206,358**	109,958	87.7%
Total	**309,147**	165,463	86.8%

The Group provides comprehensive well completion tools, products and services to customers, including well completion project design, well completion tools trading as well as stimulation and fracturing service.

During the Reporting Year, revenue from well completion services segment amounted to RMB309.1 million, representing an increase of RMB143.7 million or 86.8% as compared with that of the previous year, among which, revenue from the overseas market increased by 85.2% as compared with that of last year to RMB102.8 million, accounting for 33.2% of the total revenue from well completion services; and revenue from the PRC market increased by 87.7% as compared with that of last year to RMB206.4 million, accounting for 66.8% of the total revenue from well completion services.

Through optimising the well completion market layout and increasing the compatibility between the well completion process and products and customer demand, the Group's well completion business strengths were consolidated and such business performed remarkably well in both the PRC and overseas markets. As to the PRC market, benefiting from the significant increase in well completion workload in Xinjiang and Southwest China, revenue from the well completion service of the Group in the PRC market grew substantially. During the Reporting Year, the Group secured the three-year sales contract for ultra-deep, ultra-high pressure and ultra-high temperature gas well completion in Xinjiang, thus laying a solid foundation for steadily pushing ahead the business of high-end well completion. The growth in revenue from well completion service in the overseas markets was mainly due to the growth in revenue from well completion and fracturing business in Central Asia.

MARKET ENVIRONMENT

During the Reporting Year, the average annual international oil price was higher than last year in general. The international oil price was volatile during the first quarter and rising in the second and third quarters. Until early October, the crude oil futures price of Brent and WTI marked a four-year high before plunging down in the fourth quarter.

The Group noted that the market trend during the Reporting Year was mainly due to the following factors:

1. The United States (the "US") resumed sanctions on Iran and caused changes in the fundamentals of the related markets. This affected the oil price throughout the year. The surge in oil price in the second and third quarters was mainly due to the estimated shortage that may arise due to the US's resumption of sanctions on Iran. However, in November, the US issued a 180-day crude oil import wavier to eight countries and regions, resulting in a significant decrease in international oil price at the end of the year.

2. During the Reporting Year, the market was dominated by three major parties, namely, the US, Russia and OPEC. As the US production expanded, it surpassed Russia and became the largest crude oil producer in the world in November, thus gradually increasing its influence on the international oil market. On the other hand, the influence of the alliance formed by OPEC and other non-OPEC oil producing countries to cut production shrank.

3. Weakening global economic outlook, tightening financial environment, tense geopolitical conditions, trade friction and rising cost of petroleum imports increased the pressure on economic downturn of the emerging economies, and the growth in demand for petroleum worldwide was affected.

During the Reporting Year, as the international oil and gas market sustained the upside in 2017 and grew in the first three quarters, major oil and gas producers globally performed fairly well. In 2019, the international oil and gas market trend will remain to be driven by a combination of factors including fundamental factors and political factors. It is expected to remain highly volatile with an upward trend.

Overseas Markets

The Group's overseas markets mainly cover Central Asia such as Kazakhstan and Turkmenistan, Indonesia, Singapore, the Middle East and Canada. During the Reporting Year, the Group took proactive measures and further consolidated and expanded the operations in the overseas markets. Among which, the revenue from Kazakhstan amounted to RMB351.1 million, representing 64% of the revenue from the overseas markets of the Group. Accordingly, Kazakhstan remains the largest overseas market in terms of revenue contribution to the Group. The Group successively won the tender for the scientific research project, risk fracturing service project and workover project in Kazakhstan; won the tender for the well completion tool project and coiled tubing project in Turkmenistan; and won a two-year service project for the workover machine in Iraq, which has commenced operation. At the same time, the Group also concentrated on expanding into overseas markets including Africa and other countries in the Middle East and Central Asia.

PRC Market

During the Reporting Year, China's degree of dependence on foreign trade of oil and gas continued to increase. Among which, its dependence on foreign trade of petroleum was around 70% and its dependence on foreign trade of natural gas exceeded 40%. To enhance energy safety, the central government successively promulgated policies to strongly support the development and utilisation of clean energy including natural gas , and the oil and gas reform in China continued to deepen. Oil companies in China gradually stepped up the efforts in oil and gas exploration and development while pushing ahead both conventional oil and gas and non-conventional oil and gas development.

The petroleum exploration segment of PetroChina Company Limited ("PetroChina") identified a batch of quality reserves in the Junggar basin and Ordos basin. Its natural gas exploration made new progress in Tarim, whereas its exploration of deep shale gas in Sichuan basin made new breakthrough. China Petroleum & Chemical Corporation ("Sinopec") made new discoveries in the oil and gas exploration in the Sichuan basin and Tarim basin.

In 2018, business volume of privately-owned oil-field service companies increased in general amid intensifying competition. In 2019, the expansion of quality reserves will be the top priority of the three PRC oil giants and the workload of oil-field service companies in China will continue to grow, thus generating many opportunities for oil-field service companies in China. During the Reporting Year, the Group closely followed the market direction and participated actively in the existing markets and performed well in the development of service segments with traditional strengths, one-stop turnkey business and new energy business.

1. One-stop turnkey service gradually progressed: The one-stop turnkey oil-field service project of the shale gas platform in Sichuan smoothly operated with increasingly established big project management system. The Group's subsidiary and Xinjiang Energy (Group) Oil and Gas Co., Ltd. established a joint venture, which is intended to be positioned to engage in the provision of engineering technology service and oil-field operation and maintenance service covering coal-bed gas and oil and gas fields, to drive the rapid development of the one-stop turnkey engineering technology service in the PRC market of the Group through complementary strengths and resource integration. Currently, the joint venture has obtained relevant market qualifications and is expanding the business.

2. Accelerating the introduction of new products and new technologies and securing new profit points in traditional markets: It won a tender for a high-performance water-based drilling fluid technical services project in Xinjiang which filled the gap in the application of environmentally-friendly water-based drilling fluid in high-temperature and high-pressure wells in China. It entered into a three-year framework agreement for well completion tools in Xinjiang to steadily push forward the sales of high-end well completion tools. It won a tender worth of approximately US$10 million for coiled tubing service project in Turkmenistan.

3. Greatly expanding the new green businesses including coal-bed gas and oily sludge treatment to initially shape the industry value of the new green business: It won a tender for the coal-bed gas fracturing project and the oily sludge biotreatment project in Xinjiang.

R&D AND MANUFACTURING

During the Reporting Year, the R&D and manufacturing key works identified by the Group were as follows: On the one hand, it endeavoured to strengthen the development of oil reservoir services and oil extraction process technique capabilities by enhancing the process technique of oil and gas reservoir recovery. On the other hand, it centred around the non-conventional drilling efficiency enhancement process technique to increase the technological competitiveness of oil and gas reservoir drilling efficiency enhancement. Through new technology introduction, incubation and innovation, the Group's technological structure was adjusted with an increasing percentage of low-cost and high-efficiency new technologies.

The technology of ultrasound production increase and injection increase completed the trial run successfully at an oilfield in Kazakhstan and an oilfield in South China Sea. The stimulation results were good and received high recognition from customers. In 2019, the Group will further expand the business volume of such technology.

The matching technology of profile control and water shutoff technique commenced operation in Kazakhstan and achieved a significant breakthrough. The R&D centre of the Group carried out a comprehensive range of analysis on such technology in areas of well selection, plugging agent selection, construction design and construction results. The results of the analysis showed that the effect of operations was significant. The technology created an industry value of over RMB10 million. In 2019, the Group will continue to enter into a number of service contracts to further promote such technology.

The negative pressure pump drainage and gas production technology was successfully applied for the first time in Xinjiang. This marks a significant milestone of the Group with respect to the application of such service in the region and will become a major breakthrough as one of the Group's profit generating production units.

The Group stepped up its efforts on the R&D of equipment. The innovative application of the integrated tool for casing damage has reduced more than 30 days of the overall contract period and allowed the Group to secure several fishing service contracts.

The dragging sectional sand blasting perforation and sand fracturing as well as new technology of double sealing and single staged sand fracturing were successfully applied in the horizontal wells in Kazakhstan and received high recognition from customers, creating an industry value of close to RMB10 million. In 2019, the Group expects to enter into a number of service contracts with respect to such technology.

The R&D centre of the Group carried out technological integration and resource allocation of the optic fibre monitoring technology, drilling efficiency enhancement technology, thick oil recovery enhancement technology, Internet of things and artificial intelligence, and had multiple technological exchanges with customers. In 2019, the Group will devote more resources to the R&D and application in the above areas for greater market prospects.

HUMAN RESOURCES

To cope with the changes in the external market and to satisfy the needs of its strategic development, the Group has adopted the following key measures on human resources:

During the Reporting Year, the Group continued to optimise the organisational structure to further define the reporting line functions and rationalise the management hierarchies. At the same time, it strengthened the integration of quality resources of various business entities to facilitate the effective concentration of various regional markets, operations and management resources. The Group refined the performance assessment indicators of various operating entities in a targeted manner so that the assessment not only covers the operating efficiencies and results but also takes into account the process of growth and development. In addition, the Group pushed ahead the incentive system across all employees with positive incentive effects, thus laying a solid foundation for the development for 2019.

In 2019, the Group will further develop and improve the authorisation and incentive system, and will attach great importance to the introduction of quality talents while strengthening the team building to better satisfy the development needs of the Group.

As at 31 December 2018, the Group had a total of 3,625 employees, up by 214 employees from 3,411 employees as at 31 December 2017. In 2018, the actual costs of human resources of the Group were controlled within the budget amount set at the beginning of the year.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, revenue of the Group was RMB1,471.6 million, representing an increase of RMB371.0 million, or 33.7%, as compared with that of RMB1,100.6 million for the previous year. The increase was mainly due to the growth of the Group's overall business.

Other (losses)/gains, net

For the year ended 31 December 2018, other losses, net of the Group were RMB28.9 million, while other gains, net for the previous year were RMB36.6 million. The net losses were mainly due to exchange loss in USD denominated liabilities held by a PRC subsidiary as a result of weakening of RMB against USD.

Material costs

For the year ended 31 December 2018, material costs of the Group were RMB303.5 million, representing an increase of RMB68.5 million, or 29.1%, as compared with that of RMB235.0 million for the previous year. The increase of material costs was mainly due to the growth of operating activities of the Group.

Employee benefit expenses

For the year ended 31 December 2018, employee benefit expenses of the Group were RMB409.1 million, representing an increase of RMB42.1 million, or 11.5%, as compared with that of RMB367.0 million for the previous year. The increase was mainly due to the headcount growth due to the growth of operating activities of the Group.

Operating lease expenses

For the year ended 31 December 2018, operating lease expenses of the Group were RMB88.4 million, representing an increase of RMB19.0 million, or 27.4%, as compared with that of RMB69.4 million for the previous year. It was mainly due to the growth of operating activities of the Group.

Transportation costs

For the year ended 31 December 2018, transportation costs of the Group were RMB27.8 million, representing an increase of RMB8.8 million, or 46.3%, as compared with that of RMB19.0 million for the previous year. The increase was mainly due to the growth of operating activities of the Group.

Depreciation and amortisation

For the year ended 31 December 2018, depreciation and amortisation of the Group was RMB71.4 million, representing a decrease of RMB20.8 million, or 22.6%, as compared with that of RMB92.2 million for the previous year. The decrease was mainly because some of the fixed assets were fully depreciated.

Technical service expenses

For the year ended 31 December 2018, technical service expenses of the Group were RMB219.3 million, representing an increase of RMB31.0 million, or 16.5%, as compared with that of RMB188.3 million for the previous year. The increase was mainly due to the increase in operating activities of the Group.

(Impairment losses)/reversal of impairment losses of assets

For the year ended 31 December 2018, impairment losses of assets of the Group were RMB18.2 million while reversal of impairment loss of assets was RMB22.9 million in the previous year. The impairment losses of assets were mainly due to inventory impairment.

Others

For the year ended 31 December 2018, other operating costs of the Group were RMB176.5 million, representing an increase of RMB34.0 million, or 23.9%, as compared with that of RMB142.5 million for the previous year. The increase was mainly due to the growth of operating activities of the Group.

Operating profit

As a result of the aforementioned changes, the Group's operating profit during the Reporting Year was RMB126.9 million, compared with the operating profit of RMB46.8 million for the previous year.

Finance costs, net

For the year ended 31 December 2018, the Group's finance costs, net were RMB30.8 million, representing an increase of RMB1.1 million, or 3.7%, as compared with that of RMB29.7 million for the previous year. The increase was mainly due to the increase in financing of the Group.

Income tax expense

For the year ended 31 December 2018, income tax expense was RMB19.5 million, compared with the income tax expense of RMB13.9 million for the previous year. The increase in income tax expense was as a result of the growth of the operating activities of the Group.

Profit for the year

As a result of the explanations above, the Group's profit for the Reporting Year was RMB76.6 million, while profit for the prior year amounted to RMB3.3 million.

Profit attributable to equity owners of the Company

For the year ended 31 December 2018, profit attributable to equity owners of the Company was RMB81.8 million, while profit attributable to equity owners of the Company amounted to RMB5.5 million for the previous year.

Property, plant and equipment

As at 31 December 2018, property, plant and equipment was RMB333.6 million, representing a decrease of RMB15.0 million, or 4.3%, from RMB348.6 million as at 31 December 2017. The change was mainly due to the disposal of certain equipment and continuing depreciation of existing equipment.

Land use rights

As at 31 December 2018, the carrying value of land use rights was RMB20.8 million, representing a decrease of RMB0.5 million, or 2.3%, from RMB21.3 million as at 31 December 2017. This was mainly due to the continuing amortisation of existing land use rights.

Intangible assets

As at 31 December 2018, intangible assets were RMB13.7 million, representing a decrease of RMB9.5 million, or 40.9%, from RMB23.2 million as at 31 December 2017. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2018, deferred income tax assets were RMB131.4 million, representing a decrease of RMB10.5 million, or 7.4%, from RMB141.9 million as at 31 December 2017. The decrease was mainly due to the utilisation of deferred income tax assets related to tax loss carried forward.

Prepayments and other receivables

As at 31 December 2018, non-current portion of prepayments and other receivables was RMB16.1 million, representing a decrease of RMB6.2 million, or 27.8%, from RMB22.3 million as at 31 December 2017, while current portion of prepayments and other receivables was RMB289.2 million, representing an increase of RMB27.6 million, or 10.6%, from RMB261.6 million as at 31 December 2017. The increase was mainly due to growth of operating activities of the Group.

Inventories

As at 31 December 2018, inventories were RMB373.1 million, representing an increase of RMB36.1 million, or 10.7%, from RMB337.0 million as at 31 December 2017. The increase was mainly due to the growth of operating activities of the Group.

Trade and note receivables/trade and note payables

As at 31 December 2018, trade and note receivables amounted to RMB891.2 million, representing an increase of RMB208.6 million, or 30.6%, from RMB682.6 million as at 31 December 2017. The increase was mainly due to the increase of revenue realised during the Reporting Year. As at 31 December 2018, trade and note payables amounted to RMB702.5 million, representing an increase of RMB185.5 million, or 35.9%, from RMB517.0 million as at 31 December 2017. The increase was mainly due to the growth of operating activities of the Group.

Liquidity and capital resources

As at 31 December 2018, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB360.9 million, representing an increase of RMB211.3 million, or 141.2%, from RMB149.6 million as at 31 December 2017. The increase was mainly due to the growth of operating activities of the Group.

As at 31 December 2018, the Group's short-term borrowings and current portion of long-term borrowings were RMB154.6 million while the long-term borrowings were RMB143.0 million. 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 2018, the Group's gearing ratio was 23.8%, representing a decrease of 5.0% as compared with 28.8% as at 31 December 2017. 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 2018, the total number of ordinary shares of the Company in issue was 1,849,021,665 shares (31 December 2017: 1,535,192,332 shares). As at 31 December 2018, equity attributable to the equity owners of the Company was RMB1,158.0 million, representing an increase of RMB278.0 million, or 31.6%, as compared with RMB880.0 million as at 31 December 2017.

Significant investment held

As at 31 December 2018, 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 to secure the Group's bank borrowings

As at 31 December 2018, the Group pledged parts of its long-term prepayments and trade and note receivables to secure the Group's bank borrowings. The carrying values of the assets pledged are as follows:

	As at 31 December 2018 ***RMB'000***	As at 31 December 2017 *RMB'000*
Long-term prepayments	**6,130**	6,565
Trade and note receivables	**218,516**	73,200

Convertible bonds

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

	2018 *RMB'000*
Liability component as at 31 December 2017	**89,786**
Add: Interest expense in 2018	**10,235**
Less: Interest paid and payable	**(1,973)**
Less: Repaid	**(102,948)**
Add: Exchange difference	**4,900**
Liability component as at 31 December 2018	**–**

Contingent liabilities

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2018, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2018, the Group had no capital expenditure commitments, while operating lease commitments were mainly lease of offices, warehouses and equipment with the amount of RMB97.4 million.

OUR PLANS

As the pressure of global economic downturn increases in 2019, it is expected that the growth of petroleum demand will slow down with many uncertainties in the oil and gas market. The size of oil-field technology service market worldwide is expected to further expand but the pace of growth may slow down. In the PRC market, due to the very high level of dependence on oil and gas imports over a long period of time, the oil and gas field enterprises in China will significantly increase the investment in exploration and development in 2019 to vigorously push ahead the development of the oil-field service market in China. Accordingly, compared with the overseas markets, the PRC market presents more opportunities and room for development in 2019. The Group will closely follow the market demand and continue to focus its efforts on the following areas in 2019:

1. The Group will take a market-oriented approach with focus on satisfying customers' needs while endeavouring to expand the existing businesses. In addition to expediting the extension to the high-end market, the Group will accelerate the high-end and integrated business transformation, and gradually shape the development of turnkey business.

2. The Group will strengthen the development of technological power by introducing and developing new technologies that meet customers' pressing needs, seek new profit growth points and expand into new areas and new businesses in a planned manner while exploring a new business model.

3. Following the state's strategic planning for overseas business, the Group endeavours to promote customer diversification and internationalisation to actively expand the overseas markets including the Middle East and Africa. At the same time, the Group focuses on the development of business in regions with fast-growing investments in the PRC market including Xinjiang, Sichuan and the Bohai region.

4. The Group will further establish and improve the three major systems of authorisation, risk management and incentives to build a sustainable and efficient management platform.

5. The Group will strengthen team building and attach great importance to introducing high-end talents while nurturing a management team with market experience, management capabilities, innovation and creativity.

6. The Group will accelerate the turnover of existing assets to further reduce the operating costs and enhance the operating efficiency.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 56, 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 1 September 2017 to 10 May 2018. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Wang has over 34 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), (with former name Wu Dongfang), aged 47, is an executive Director of the Company. He has been appointed as the chief executive officer since 11 May 2018, responsible for the overall operation and management of the Group. Mr. Wu has over 27 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 in July 1991 and an executive master's degree in business administration from Tsinghua University of China in February 2006.

Li Qiang (李強), aged 44, is an executive Director, senior 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 21 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 Huaer Company Limited (北京化二股份有限公司) as sales and marketing manager and assistant to plant general manager, etc. 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 in 2005.

Wu Jiwei (武吉偉), aged 48, has been an executive Director of the Company since 26 March 2019. He joined the Group on 25 September 2018. He served as the senior vice president to assist the chief executive officer of the Company to expand the strategic blueprint and explore new markets and new businesses. Prior to joining the Group, Mr. Wu was the chairman of Dongxu Optoelectronic Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock codes: 000413 and 200413) from April 2018 to August 2018. He was the chairman of the supervisory committee of China National Building Material Company Limited (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 03323), from May 2016 to December 2017. He was the chief accountant of China National Building Material Group Co., Ltd. from March 2011 to May 2017, and the standing committee member of the party committee of such company from August 2016 to May 2017. He was the director of financial management centre of China Chengtong Holdings Group Limited from October 2008 to March 2011. Mr. Wu served the positions of general manager assistant and financial manager of China Petroleum International Engineering Ltd., chief accountant of China National Logging Corporation and deputy chief accountant of Engineering Technology Branch Company of China National Petroleum Corporation, etc. Mr. Wu obtained a bachelor's degree in foreign enterprise accounting from Xi'an Shiyou University and received a master's degree in management from Central University of Finance and Economics. He is a senior accountant.

NON-EXECUTIVE DIRECTOR

Chen Chunhua (陳春花), aged 55, 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. Since September 2016, she has been a professor of the National School of Development at Peking University. She has served South China University of Technology 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. (威創集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002308). She once served as the joint chairman and chief executive officer of New Hope Liuhe Co., Ltd. (新希望六和股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000876) from May 2013 to May 2016 responsible for overall operation and development. Ms. Chen obtained a bachelor's degree of engineering in radio technology from South China Institute of Technology in June 1986 and became a post-doctoral candidate in the Business Administration School of Nanjing University in December 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wu Kwok Keung Andrew (胡國強), aged 65, 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 45, 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. (北京智元微庫文化發展有限公司) 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. (成都市天鑫洋企業有限責任公司) and the director of Hong Kong Tianxinyang Co., Ltd. (香港天鑫洋股份有限公司). From 1999 to 2010, she served as the deputy general manager of Beijing Information Co., Ltd. (北京圖文資訊有限公司) and the general manager of the Economic Management Publishing Division. From 1997 to 1999, she worked in the Chinese Cereals and Oils Association. 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.

Directors' and Senior Management's Biographies

Wan Kah Ming (溫嘉明), aged 48, 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 served as the independent non-executive director and member of the audit committee of Lerthai Group Limited (a company listed on the Stock Exchange, stock code: 00112) since December 2018. He is currently the vice chairman of China Council for the Promotion of Nationalities Trade, Hong Kong Branch (中國民族貿易促進會香港分會), a standing director and an honorary legal advisor of Hong Kong Association of China Council for the Promotion of Peaceful National Reunification (中國和平統一促進會香港總會), 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 Mergers & Acquisitions Association (中國併購公會) and the vice chairman of its Hong Kong Branch. Mr. Wan has over 24 years of experience in legal practice focusing on China inbound and outbound investment, finance, mergers, acquisitions and restructuring. Since 1 February 2017, he has been a member of the Torture Claims Appeal Board. He has been the executive chairman of Boen Capital Ltd. (邦溫資本有限公司), Boen Resources Ltd. (邦溫資源有限公司) and Boen land Ltd. (邦溫建地有限公司) since May 2006, December 2007 and June 2008, respectively. He has been the principal solicitor of Leung & Wan Solicitors (梁溫律師事務所) since October 2001. 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 England and Wales in 2001. He is also currently a member of the Law Society of Hong Kong and the Chartered Institute of Arbitrators (英國特許仲裁會) and a appointed attesting officer by the Ministry of Justice, PRC.

SENIOR MANAGEMENT

Li Zhiguo (李志國), aged 45, has been the senior vice president of the Group since May 2018, mainly responsible for the operations and management of various companies in Xinjiang, China. Mr. Li has over 24 years of experience in the petroleum industry. He served as the chief operating officer of the Group from January 2017 to May 2018. 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.

Gao Wenhai (高文海), aged 52, has been the senior vice president of the Group since May 2018, mainly in charge of the projects in Indonesia and the businesses in Africa and part of the business in the Middle East. Mr. Gao has over 17 years of experience in the petroleum industry and accumulated extensive working experience in China and overseas regions including South America, Central Asia, Southeast Asia and the Middle East. Mr. Gao joined the Group in September 2006 and successively held the positions of director of well completion business line, regional manager of Southeast Asia, general manager of manufacturing centre, etc. Mr. Gao obtained a bachelor's degree in materials science and engineering and a master's degree in business administration from Beihang University.

Ma Qianli (馬千里), aged 39, has been the vice president of the Group since June 2018, in charge of the Group's human resources, brand management, system workflow, information system platform and the president office work. Ms. Ma joined the Group in 2004 and participated in building the Group's global human resources system throughout the entire process and held the positions of human resources manager of the headquarters, human resources manager of the Russian-speaking region, human resources manager of the English-speaking region, global human resources senior manager, etc. Ms. Ma has taken charge of the Group's international strategic cooperation, branding and strategic investment since 2011 and served as strategic market manager, corporate development manager, etc. From November 2015 to May 2018, Ms. Ma successively served as marketing director of the School of English of Country Garden Education Group, jointly founded Reneighbor Education, and served as human resources director of Hanergy Group. Ms. Ma obtained a master's degree in international business administration from National School of Development at Peking University, a master's degree in business administration from the international school of business from Vlerick in Belgium and a bachelor's degree in engineering from Beijing Information Science and Technology University.

Li Xiaopeng (李曉鵬), aged 45, has been vice president of the Group since December 2017, mainly responsible for the operational management of the Group's businesses in South Caspian Sea and other new market expansion. Mr. Li has over 19 years of working experience in the petroleum industry. He joined the Group in February 1999 and served as head of the Group's Urumqi office, deputy general manager of Turkmenistan branch company and the headquarters' market expansion director and general manager in charge of business in South Caspian Sea Region. Mr. Li obtained a degree in business administration from China University of Petroleum, Beijing.

Zhao Feng (趙峰), aged 53, 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 1999. He served as a reservoir engineer in Shell Canada Ltd. from May to August 1998. He served as a reservoir research engineer in the Langfang Branch of Research Institute of Petroleum Exploration and Development of 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.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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 2018 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 21 of this annual report. No important events affecting the Group have occurred since the end of the financial year ended 31 December 2018. 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*

The Group actively pushes ahead its environmental protection efforts. In 2018, it revised and continued to fully implement the Management Procedures on Quality, Safety, Health and Environment (《質量安全健康環境管理程序文件》) containing the environmental protection systems such as the Solid Waste Management Procedures (《固體廢物控制程序》) and the Energy Management Procedures (《能源管理程序》). Through entering into the Letter of Responsibilities for Health, Safety and Environment in 2018 (《二零一八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 its 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 2018 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., Petrotech (Xinjiang) Engineering Co., Ltd., Chongqing Huayou Energy Technology Services Co. Ltd. and Shaanxi Huayou Energy Technology Services Co. Ltd. (all being subsidiaries) have passed the ISO14001 environmental management system certification as well as the annual supervision and review.

4. Training on environmental protection

The Group endeavours to strengthen the education and training of employees on environmental protection by fully utilising pre-shift and after-shift meetings, group studies and exams to educate the employees on environmental protection in an effort to raising their awareness on environmental protection.

5. Environmental protection operational requirements of 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.

MARKET RISKS AND UNCERTAINTIES

As an integrated oilfield services provider, the uncertainties associated with the fluctuations of international 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. In 2018, the international oil price saw an initial increase followed by a downward trend. Based on market forecasts, the oil price in 2019 will remain volatile. Accordingly, this brings significant uncertainties to the Group’s operation and management.

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 2018, exchange rates of KZT against USD fell slightly in general and had an adverse impact on the profitability of the Group.

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

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

In the domestic market, due to the characteristic of oil and gas market in PRC, the Group mainly provides services to CNPC and its affiliates. 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 2017 and 2018, revenue generated from CNPC and its affiliates accounted for 69.1% and 78.9% 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 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 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 2018, the Group is not aware of any non-compliance under 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 2018 are set out in the consolidated income statement on page 80 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 2018, purchases from the Group's five largest suppliers accounted for 41.5% (2017: 19.1%) of the Group's total purchases and purchases from the largest supplier accounted for 28.6% (2017: 8.1%).

For the year ended 31 December 2018, the Group's sales to its five largest customers accounted for 59.8% (2017: 54%) of the Group's total sales and sales to the largest customer accounted for 27.1% (2017: 31.5%).

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 2018 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 37 to 41 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 2018 or subsisted at the end of the year 2018.

RESERVES

Details of movements in the reserves of the Company during the Reporting Year are set out from pages 82 to 83 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,236.1 million (as at 31 December 2017: RMB1,037.4 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 17 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors:
Mr. Wang Guoqiang *(Chairman)*
Mr. Ethan Wu *(Chief Executive Officer)*
Mr. Liu Ruoyan (resigned on 31 August 2018)
Mr. Li Qiang
Mr. Wu Jiwei (appointed on 26 March 2019)

Non-executive Directors:
Mr. Lin Yang (resigned on 31 August 2018)
Ms. Chen Chunhua

Independent non-executive Directors:
Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

In accordance with article 108 and article 112 of the articles of association of the Company (the "Articles of Association"), Mr. Li Qiang, Ms. Chen Chunhua, Mr. Wan Kah Ming and Mr. Wu Jiwei will retire, 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 22 to 25 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 2018.

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 2018.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or existed during the year ended 31 December 2018.

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, 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 2018, 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)	35.07%
	Beneficial owner (note 3)	2,590,000 (L)	0.14%
Mr. Ethan Wu	Beneficiary of trusts (note 2)	648,484,000 (L)	35.07%
	Beneficial owner (note 3)	2,590,000 (L)	0.14%
Ms. Chen Chunhua (note 3)	Beneficial owner	3,500,000 (L)	0.19%
Mr. Wan Kah Ming	Beneficial owner	33,333 (L)	0.002%
	Beneficial owner (note 3)	1,833,334 (L)	0.10%
Mr. Wu Kwok Keung Andrew (note 3)	Beneficial owner	3,500,000 (L)	0.19%
Mr. Li Qiang (note 3)	Beneficial owner	11,568,000 (L)	0.63%
Ms. Zhang Yujuan (note 3)	Beneficial owner	2,500,000 (L)	0.14%

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. Wan Kah Ming, Mr. Wu Kwok Keung Andrew, Mr. Li Qiang and Ms. Zhang Yujuan hold share options in respect of these shares. Details of the share options are set out below in the section headed "Share Option Scheme".

4. "L" denotes long position.

Save as disclosed above, as at 31 December 2018, 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, at no time during the year ended 31 December 2018 were 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 2018, 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 (note 6)	Beneficial owner	137,372,000 (L)	7.43%
Elegant Eagle Investments Limited (notes 1 and 6)	Interest of controlled corporation	158,972,000 (L)	8.60%
Truepath Limited	Beneficial owner	489,512,000 (L)	26.47%
Red Velvet Holdings Limited (notes 2 and 6)	Interest of controlled corporation	489,512,000 (L)	26.47%
Credit Suisse Trust Limited (notes 3 and 6)	Trustee	711,642,242 (L)	38.49%
Greenwoods Asset Management Limited (notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.44%
Greenwoods Asset Management Holdings Limited (notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.44%
Jiang Jinzhi (notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.44%
Unique Element Corp. (notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.44%

Notes:

1. Widescope Holdings Limited and Best Harvest Far East Limited are wholly owned by Elegant Eagle Investments Limited and therefore Elegant Eagle Investments Limited is deemed to be interested in 137,372,000 and 21,600,000 shares of the Company held by these two companies respectively.

2. Truepath Limited beneficially owned 489,512,000 shares of the Company. 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 and the Jumbo Wind Trust which are discretionary trusts holding the shares in the Company on trust for Elegant Eagle Investments Limited, Red Velvet Holdings Limited and 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 119,000,000 shares represent the same parcel of shares.

5. "L" denotes long position.

6. 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 2018, 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.

ISSUE OF SHARES

On 26 April 2018, the Company entered into a placing agreement with Shenwan Hongyuan Securities (H.K.) Limited (the "Placing Agent") whereby the Company agreed to place, through the Placing Agent, on a best effort basis, a maximum of 306,958,000 ordinary shares of nominal value of US$0.0001 each as placing shares to not less than six placees at a price of HK$0.78 per placing share (the "Placing"). The aggregate nominal value of the placing shares under the Placing is US$30,695.80. On 26 April 2018, being the date of the placing agreement entered into between the Company and the Placing Agent, the closing price of the shares of the Company was HK$0.82 per share as quoted on the Stock Exchange. Placees are institutional, professional and/or individual investors and whose ultimate beneficial owners are independent and not connected with any directors, chief executive or substantial shareholder (if any) of the Company or its subsidiaries and their respective associates. The completion of the Placing took place on 7 May 2018.

Please refer to the announcements of the Company dated 26 April 2018 and 7 May 2018 for details of the Placing.

The net proceeds, after deducting the placing commission, professional fees and all related expenses which were borne by the Company, from the Placing were approximately HK$232,226,000, which were used to repay the convertible bonds due and as general working capital. The net placing price was approximately HK$0.76 per share. Details of the use of net proceeds from the Placing during the Period are as follows:

Use of the net proceeds	**Amount** ***(HK$'000)***
Repayment of convertible bonds due	120,207
General working capital	112,019
Total	232,226

During the Reporting Period, the net proceeds raised by the Company from the issue of shares were used according to the intentions previously disclosed by the Company, and there was no material change or delay in the use of net proceeds.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in this report, during the year ended 31 December 2018, 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 or 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's business, including but not limited to, solicitation of any of the customers, suppliers or employees of the Company or any member of the Group.

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 2018.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2018, 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 2018, 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 2018 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 Company has refreshed the Share Option Scheme mandate limit at the annual general meeting held on 12 June 2018, representing 10% of the shares in issue on the same date (i.e. a total of 184,414,766 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 to the Company on acceptance of the offer for the grant of options 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 2 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 12 June 2018. 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 2018 are as follows:

	Number of share options								
Grantee	Outstanding as at 1 January 2018	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2018	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

Grantee	Outstanding as at 1 January 2018	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2018	Date of grant	Date of expiry	Exercise price per share
	Number of share options								
Mr. Liu Ruoyan (note 8)	1,300,000 (note 2)	–	–	–	–	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
Ms. Chen Chunhua	1,000,000 (note 2)	–	–	–	–	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 (note 8)	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 2)	–	–	–	–	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 1)	–	–	–	–	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

Grantee	Outstanding as at 1 January 2018	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2018	Date of grant	Date of expiry	Exercise price per share
	Number of share options								
Mr. Wan Kah Ming	333,334 (note 2)	–	–	–	–	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)	–	1,000,000	–	–	500,000	31/08/2016	30/08/2026	HK$0.490
Employees (in aggregate)	8,952,667 (note 1)	–	–	–	1,590,667	7,362,000	20/02/2012	19/02/2022	HK$1.292
	1,450,000 (note 2)	–	–	–	–	1,450,000	29/03/2012	28/03/2022	HK$1.360
	40,450,000 (note 3)	–	–	–	7,220,000	33,230,000	13/06/2013	12/06/2023	HK$4.694
	107,030,000 (note 4)	–	5,871,333 (note 7)	–	9,372,667	91,786,000	31/08/2016	30/08/2026	HK$0.490
	– (note 5)	60,000,000	–	–	–	60,000,000	26/09/2018	25/09/2028	HK$0.740
	– (note 6)	37,000,000	–	–	–	37,000,000	06/12/2018	05/12/2028	HK$0.532
Total	**192,354,001**	**97,000,000**	**6,871,333**	**–**	**18,183,334**	**264,299,334**			

Notes:

1. The closing price of the shares immediately before 20 February 2012 on which the share options were granted was HK$1.27 per share. 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 the remaining 1/3 are exercisable from 20/02/2015 to 19/02/2022.

2. The closing price of the shares immediately before 29 March 2012 on which the share options were granted was HK$1.33 per share. 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 the remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.

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

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

5. The closing price of shares immediately before 26 September 2018 on which the share options were granted was HK$0.73 per share. 1/3 of which are exercisable from 26/09/2019 to 25/09/2028; 1/3 of which are exercisable from 26/09/2020 to 25/09/2028; and the remaining 1/3 are exercisable from 26/09/2021 to 25/09/2028.

6. The closing price of shares immediately before 6 December 2018 on which the share options were granted was HK$0.54 per share. 1/3 of which are exercisable from 06/12/2019 to 05/12/2028; 1/3 of which are exercisable from 06/12/2020 to 05/12/2028; and the remaining 1/3 are exercisable from 06/12/2021 to 05/12/2028.

7. The weighted average closing price of the shares issued during the Reporting Year from exercise of options immediately before the dates on which the options were exercised was approximately HK$0.786 per share.

8. Mr. Liu Ruoyan and Mr. Lin Yang resigned as an executive director and a non-executive director of the Company respectively with effect from 31 August 2018.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the twelve months ended 31 December 2018 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2018, the Group made no charitable and other donations.

AUDIT COMMITTEE

The Audit Committee of the Company had reviewed together with the 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 2018.

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 43 to 56 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 up to 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 2018.

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

On behalf of the Board
Mr. Wang Guoqiang
Chairman

Hong Kong, 26 March 2019

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the Reporting Year.

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 separate and should not be performed by the same individual. During the period from 1 January 2018 to 10 May 2018, Mr. Wang Guoqiang was the chairman of the Board and chief executive officer of the Company. The Board believed that Mr. Wang Guoqiang's extensive experience in the oil industry would be beneficial to the business prospects and management of the Group. The Board and the senior management, which comprises experienced and high calibre individuals, could ensure the balance of power and authority.

To be in line with the development of the Company and for the enhancement of corporate governance of the Company, the Board has approved the appointment of Mr. Ethan Wu, the executive Director of the Company, as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 11 May 2018. Upon such appointment, the Company has re-complied with the code provision A.2.1 of the CG Code.

Save as disclosed in this annual report, the Company was in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2018. 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. Li Qiang and Mr. Wu Jiwei, one non-executive Director, namely 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 33 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 2018, 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, 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. Ethan Wu	Executive Director	√	√
Mr. Liu Ruoyan (Note)	Executive Director	√	√
Mr. Li Qiang	Executive Director	√	√
Ms. Chen Chunhua	Non-executive Director	√	√
Mr. Lin Yang (Note)	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. Liu Ruoyan and Mr. Lin Yang resigned as the Directors of the Company with effect from 31 August 2018.

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period from 1 January 2018 to 10 May 2018, Mr. Wang Guoqiang was the chairman of the Board and chief executive officer of the Company. The Board believed that Mr. Wang Guoqiang's extensive experience in the oil industry would be beneficial to the business prospects and management of the Group. The Board and the senior management, which comprises experienced and high calibre individuals, could ensure the balance of power and authority.

To be in line with the development of the Company and for the enhancement of corporate governance of the Company, the Board has approved the appointment of Mr. Ethan Wu, the executive Director of the Company, as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 11 May 2018. Upon such appointment, the Company has re-complied with the code provision A.2.1 of the CG Code.

Appointment and Re-election of Directors

Each of the 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 2018 annual general meeting on 12 June 2018 (the "2018 AGM"), Mr. Lin Yang (resigned on 31 August 2018), Ms. Zhang Yujuan and Mr. Wu Kwok Keung Andrew retired by rotation pursuant to article 108 of the Articles and Association. All of them were re-elected as Directors. Please refer to the Report of the Directors for details of the members of the Board who will retire from office and offer for re-election at the 2019 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 Reporting Year, eight Board meetings and one general meeting (2018 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	7/8	1/1
Mr. Ethan Wu	7/8	1/1
Mr. Liu Ruoyan (Note 1)	6/8	1/1
Mr. Li Qiang	8/8	1/1
Mr. Lin Yang (Note 1)	6/8	1/1
Ms. Chen Chunhua	6/8	1/1
Ms. Zhang Yujuan	8/8	1/1
Mr. Wu Kwok Keung Andrew	8/8	1/1
Mr. Wan Kah Ming	8/8	1/1

Note 1: Mr. Liu Ruoyan and Mr. Lin Yang resigned as Directors of the Company with effect from 31 August 2018.

During the Reporting 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 Reporting Year.

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 have the right 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 Reporting 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 Reporting Year, three meetings of the Nomination Committee were held on 20 March 2018, 11 May 2018 and 6 December 2018 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 Reporting Year, the Nomination Committee assessed the independence of independent non-executive Directors and considered the re-election of the retired Directors.

Nomination Policy

The key nomination criteria and principles of the Company for the nomination of directors constitute the nomination policy of the Company ("Nomination Policy"). The provisions are set out below in detail:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) identify individuals suitably qualified to become members of the Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) assess the independence of independent non-executive directors;

(d) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the chief executive.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board Diversity Policy aims to set out the measures taken by the Board to achieve diversity of its members.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company endeavours to select the best candidates as members of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the execution of the policy annually. The Nomination Committee will review the policy from time to time as appropriate to ensure that the policy is effectively executed. The Nomination Committee will discuss any or necessary amendments and submit to the Board regarding the proposed amendments for their approval.

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 2018. All members of Directors have made contribution to their respective areas. All of the 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 non-executive Directors and independent non-executive Directors are experts in the areas of corporate operation, investment, 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. 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 Reporting Year ended 31 December 2018, four meetings of the Remuneration Committee were held on 20 March 2018, 11 May 2018, 26 September 2018 and 6 December 2018 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Zhang Yujuan	4/4
Mr. Wang Guoqiang	4/4
Mr. Wu Kwok Keung Andrew	4/4

During the Reporting 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 the Company [Note], whose biographies are set out on pages 24 to 25 of this annual report, for the Reporting Year are set out below:

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

Note: Mr. Wu Jiwei has been appointed by the Board as an executive Director of the Company with effect from 26 March 2019. Mr. Wu Jiwei joined the Group in September 2018 and the remuneration of Mr. Wu as senior management officer from September to December 2018 is presented.

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 Reporting Year, three meetings of the Audit Committee were held on 20 March 2018, 29 August 2018 and 6 December 2018 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	2/3
Mr. Wan Kah Ming	3/3

During the Reporting 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 and discussed matters relating to audit and internal control on 20 March 2018, 29 August 2018 and 6 December 2018.

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 2018 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 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 2018, the Company provides all members of the Board with regular updates on the Company's performance, position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROL

While maintaining its independence, the Group's risk management department is responsible for the review and oversight of internal control and risk management functions. During the Reporting Year, the risk management department formulated the review plan and carried out 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. With respect to alleged frauds or audit irregularities reported, it carried out detailed investigation and handled them properly. At the same time, it improved the exit audit system to minimise the impacts of change in personnel on the long-term and sustainable development of the enterprise.

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 up the Group's internal control system, the internal audit function combines pre-event expectation 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. It implements an effective and long-term tracking and monitoring system focusing on the Group's key projects and key matters to facilitate effective implementation of the system and procedures in the course of operation and management, and continues to optimise the internal control system on a risk-oriented basis until the targets of the project are met.

The risk management department reports to the Audit Committee on the findings of the audit on a bi-annual basis and follows up on the execution of the management's rectification plans. The person-in-charge 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.

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 2018, which covers the areas including strategies, operations, legal and compliance as well as finance. 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 2018, audit fees of RMB4.5 million were paid or payable to the Company's auditor, PricewaterhouseCoopers, for their audit services rendered.

COMPANY SECRETARY

The Company has appointed Ms. Mok Ming Wai as its company secretary. Ms. Mok worked and communicated closely with Mr. Li Qiang, an executive Director and the chief financial officer of the Company.

During the year ended 31 December 2018, 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 2018 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.

DIVIDEND POLICY

The Board adopted a dividend policy ("Dividend Policy") on 6 December 2018. According to the Dividend Policy, under the conditions that it is in compliance with the Cayman Islands Companies Law, the Company's articles of association, the consolidated financial statements of the Company is profitable in the relevant financial year and its accumulated undistributed profit is positive, and its cash flow meets the normal operation and long-term development, and subject to the decision of and other factors as considered appropriate by the Board, dividend distribution can be carried out. The Board will review the Dividend Policy from time to time.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, there is no significant change in constitutional documents of the Company.

Hong Kong, 26 March 2019

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. The Group is a responsible company and fulfils its environmental, social and governance responsibilities by providing customers with good engineering and technology services.

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. The Group strictly abides by the Environmental Protection Law of People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and other relevant laws and regulations in the places where it operates and the industry environmental standards in providing oil-field technology services, promoting the sustainable use of energy, water, gas, paper and other raw materials; reduce the impact of its course of business on the species diversity and ecosystem.

During the year ended 31 December 2018, the Group did not experience any penalty in relation to environmental protection.

1.1 Emissions

As an oil-field service company, the Group may produce relevant emissions in the course of business. For instance,1) Waste gas: it mainly relates 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. 2) Solid waste and waste liquid: it mainly relates to domestic garbage and domestic wastewater.

1.1.1 Major Emissions and Emission Profile

Indicator	2018
Nitrogen oxide (kg)	**6,742.2**
Sulphur oxide (kg)	**47.0**
Particulates (kg)	**644.7**

1.1.2 Gross Emissions of Greenhouse Gases

Indicator	2018
Carbon dioxide (kg)	**6,214,299.2**
Carbon dioxide equivalent in methane (kg)	**1.1**
Carbon dioxide equivalent in nitrous oxide (kg)	**69.5**
Gross greenhouse gas emissions (kg)	**6,214,369.8**
Greenhouse gas emissions per million yuan of revenue (kg/RMB million)	**4,222.7**

1.1.3 Gross Hazardous Wastes

Hazardous wastes arising in the course of production and operation are centrally managed by the customers. Accordingly, the Group has no emission of hazardous wastes.

1.1.4 Gross Non-Hazardous Wastes

Indicator	2018
Domestic wastes (tonne)	**897.5**
Domestic waste discharge per million yuan of revenue (tonne/RMB million)	**0.61**
Domestic wastewater (tonne)	**33,587.8**
Domestic wastewater discharge per million yuan of revenue (tonne/RMB million)	**22.8**

1.1.5 Emission Reduction Measures and Achievements

In the course of providing technology service and engaging in construction, major measures taken by the Group are as follows: 1) The Group carried out a public transport reform and greatly reduced the number of owned vehicles for office use; 2) the Group evaluated and controlled the use of fuel oil; 3) the Group installed the “Volatile Organic Compounds (VOC) Emission Reduction Device” at Tanggu factory.

Through the above measures, the Group has successfully reduced the emission of waste gases as well as the generation of nitrogen oxides, sulphur oxides and particulates in waste gas emission.

1.1.6 Waste Treatment Methods and Effectiveness

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. During the year 2018, there was no emission of toxic and hazardous waste, thus effectively safeguarding the environment of operation.

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, etc.

1.2.1 Gross Energy Consumption

Indicator	2018
Electricity (kwh)	9,827,622.0
Electricity consumption per million yuan of revenue (kwh/RMB million)	6,678.0
Gas (m^3)	302,291.6
Gas consumption per million yuan of revenue (m^3/RMB million)	205.4
Oil (m^3)	
Diesel	2,472.3
Gasoline	466.9
Engine oil	36.4
Oil consumption per million yuan of revenue (m^3/RMB million)	2.0
Paper (piece)	1,069,613.0
Paper consumption per million yuan of revenue (piece/RMB million)	726.8

1.2.2 Gross Water Consumption

Indicator	2018
Water consumption for production (m^3)	81,298.0
Water consumption for production per million yuan of revenue (m^3/RMB million)	55.2
Water consumption for domestic and office use (m^3)	54,502.7
Water consumption for domestic and office use per million yuan of revenue (m^3/RMB million)	37.0

1.2.3 *Energy Use Plans and Achievements*

The Group has remodelled the equipment to replace oil with electricity (for drilling) and utilised state-of-the-art technology and process to enhance operation efficiency, which effectively minimises the operation cycle so as to achieve the target of energy consumption reduction. The Group promotes green purchasing, green workplace, green energy consumption and green travel.

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 emergency, dripping and leakage of equipment are prohibited. During the year 2018, there was no wastage of water resources.

1.2.5 *Total Amount of Packaging Materials Used in Finished Products*

Indicator	**2018**
Cartons (m^3)	**31.55**

1.3 Environment and Natural Resources

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 is committed to ecological and environmental protection by actively promoting the development of the environmental management system. The Group has obtained the ISO14001: 2015 Environmental Management System Certification. In the decision-making of production activities, certificates of safety and product liability are entered into between the head of the Group's production safety management committee (the "Safety Committee") and the general manager of respective companies comprising the Group with a view to achieving green production. The Group reinforces the environmental training and education on employees and strengthen the employees' awareness on environmental protection. The Group accepts the worksite's environmental assessment and review by local government.

2. SOCIETY

In carrying out its production and operating activities, the Group is in compliance with the laws and regulations of the relevant jurisdictions. 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 to the society, the Group maintains continuous communication with government departments, non-government organisations and suppliers.

2.1 Employment

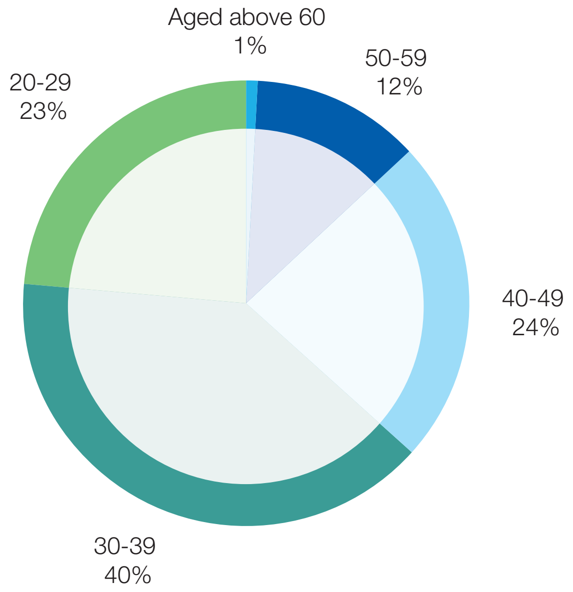
The Group is committed to building a working atmosphere of equality, and mutual trust and respect among the employees. The Group respects and supports the employees' human rights and adopts various measures and explores different ways to safeguard the human rights of its employees. The Group upholds the principle of equality among its people where recruitment, promotion and training of employees are processed on merit and quality 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 is formulated by the Group to ensure that the working hours of employees do not exceed the statutory limit. The Regulation on Leave Management is also formulated to state the details of the entitlement, number of days and procedures of application of various leaves entitled by the employees. Employees are entitled to the PRC statutory holidays, marriage leave, prenatal check-up leave, maternity leave, paternity leave, breast-feeding leave, compassionate leave, etc. At the same time, employees are entitled to the PRC statutory paid annual leaves.

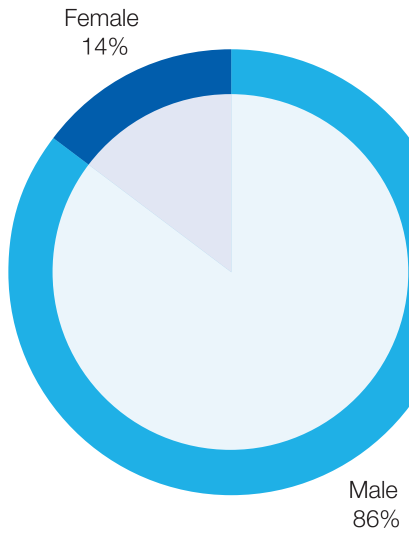
The Group values the privacy and confidentiality of employees' personal particulars and respects employees' right to freely establish association, whether or not to join the labour union, seek representative or join the employees' committee in accordance with the relevant laws and regulations.

The employee structure of the Group is as follows:

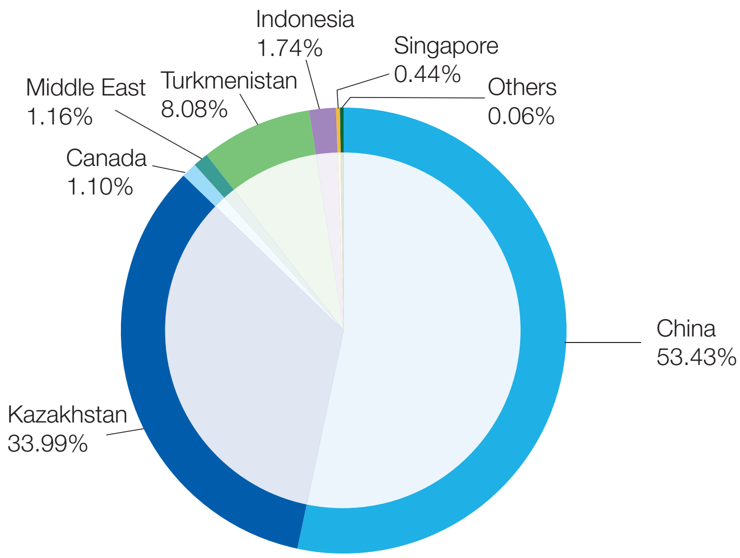
Number of employee distribution (by age)



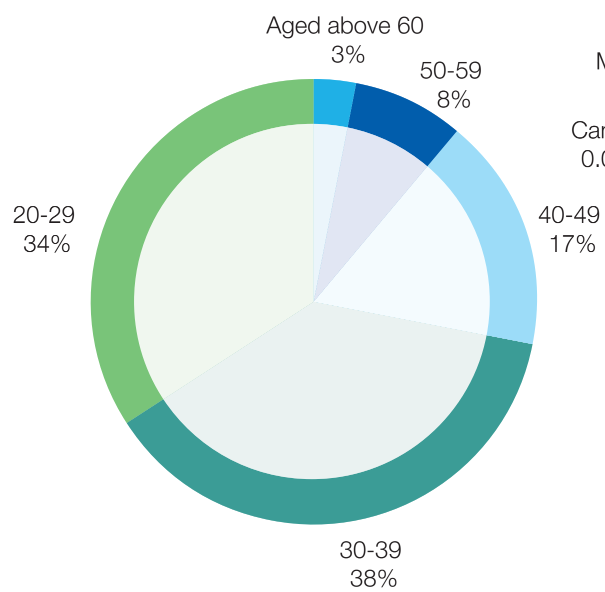
Number of employee distribution (by gender)



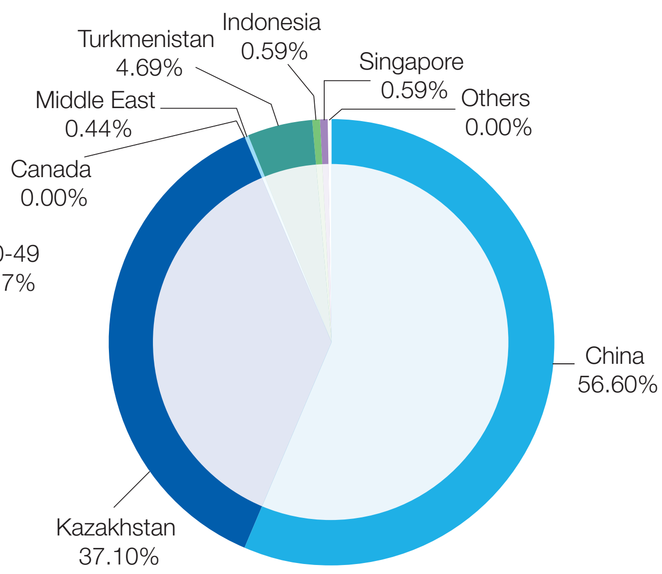
Number of employee distribution (by region)



Number of employee turnover (by age)

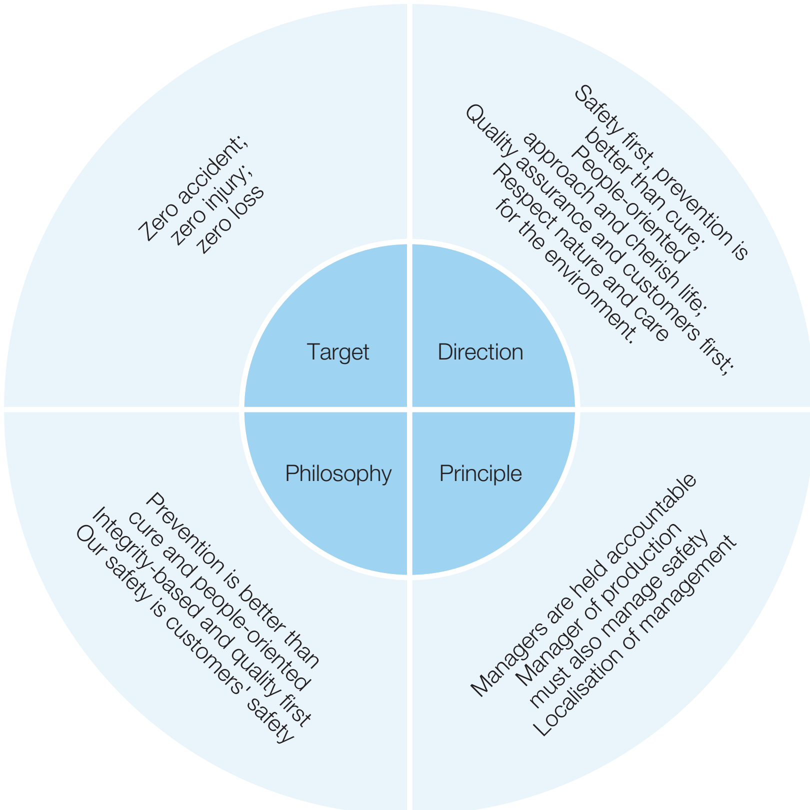


Number of employee turnover (by region)



2.2 Health and Safety

The Group places high importance on health management and comprehensively and effectively implements the health, safety management system pursuant to the occupational, health and safety management system standards and regulations OHSAS18001:2007. During the Reporting Year, the Safety Committee revised the Manual on Quality, Health, Safety, Environmental Management System, among which new safety regulatory systems and operational procedures including the "Regulation on Safety Management of High Pressure Fittings in Well Operation (Guan Hui)", "Logging Related Operational Procedures" and "Airtight Inspection Operational Procedures" were introduced to ensure that operational safety is executed in accordance with the rules and regulations. During the Reporting Year, the Safety Committee issued a total of 14 administrative documents and notices regarding production safety which set out the production safety work as to major check on production safety and equipment, adjustment to members of the Safety Committee, management of qualifications of production safety, management of training certificate collection and compilation of cases of project quality. To effectively implement health and safety, the head of Safety Committee enters into certificates of health, safety and environmental management responsibility with various subsidiaries to offer protection from the organisation's perspective.



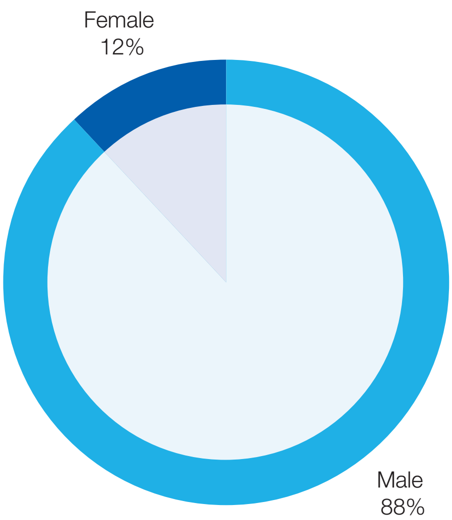
2.3 Development and Training

The Group uses various training methods to train the employees from a multi-angle perspective so that employees receive all-round development. As to career development management model, the Group implements a dynamic management model to enhance standard of employees' comprehensive services.

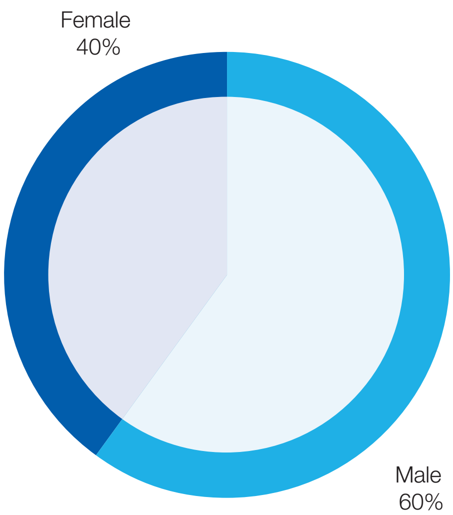
An education and training system suitable for the Group is established. The Group provides comprehensive and in-depth training to management officers, professional technicians and occupational support officers of different professions and levels. By analysing the two-way needs of the enterprise and its 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.

During the Reporting Year, the Group committed more than 10,000 hours to employee training and development, covering a number of areas including sector and skill training, project management and safety training. In 2018, the average number of hours of employees who have training increased benefitting from the Group's growing concern over the employees and increasing emphasis on employee training.

Number of employee training (by gender)



Average number of employee training hours (by gender)



2.4 Labour Standards

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, the Provisions on Special Protection of Minors and the Labour Law of the Republic of Kazakhstan, etc. The Group undertakes not to use forced labour, pledged labour (including bonded labour), indentured labour or non-voluntary prison labour and not to be involved in slavery nor labour trafficking. All work must be performed voluntarily and employees have the right to leave or terminate its employment contract immediately. No employment condition should require any employees to hand in any personal identification, passport or VISA issued by the government. No expenses other than those required to be charged under relevant laws and regulations should be charged to the employees and the charges (if any) must be disclosed publicly. Child labour is strictly prohibited at any stage of production or 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. The human resources department of the Group requires applicants to present valid ID documentation upon recruitment and carries out background checks as appropriate based on the information provided.

During the Reporting Year, there was no violation against the laws and regulations involving child labour or forced labour.

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 strictly carried out the environmental management standard for suppliers.

Based on the supplier management policy, 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.

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

The Group carries out performance review 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. The Group 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.

As to regional purchase management, the Group requires 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.

As to environmental protection management of suppliers, the Group 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 product and technology 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 product and technology service quality is within control, and has obtained the quality management system certification ISO9001:2015. 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. The Group places great emphasis on technology research and development and customer satisfaction survey work, 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. The Group endeavours to enhance the quality of technical services. To this end, customers are truly satisfied, thus enhancing the Group's brand value.

During the Reporting Year, 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.

2.7 Anti-Corruption

The Group and its employees are in strict compliance with relevant laws and regulations in the places where it operates, 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. During the Reporting Year, the Group carried out in-depth investigation and properly dealt with all the alleged fraud cases filed.

The Group has formulated routine and special audit systems and audit work plans on anti-corruption, which are executed upon approval from the Audit Committee.

The Group has established and enhanced the anti-fraud work system and the top-down working mechanism and procedures. It also stipulated the anti-fraud duties and responsibilities of the persons in charge of the unit on anti-corruption 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, suppliers and customers may file complaints of any fraud incidents identified and the evidences on hand under their name or anonymously by phone, mail and post, which effectively smoothen the employee supervision channel.

The audit department of the Group 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 deals 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. The Group strictly handles the alleged fraudulent behaviours in accordance with the systems and laws. During the Reporting Year, there were no material incidents of corruption, bribery, extortion, fraud or money laundering.

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 to build a friendly, harmonious and win-win environment with local residents.

During the Reporting Year, the Group's expenditure on social investment totalled more than RMB227,000.

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 78 to 168, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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

- Provision for inventories

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the carrying amounts of machinery and equipment in the PRC region Refer to Note 4 and 6 to the consolidated financial statements. The loss making or low level of profit 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 2018, the carrying amount of machinery and equipment in the PRC region amounted to RMB113 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 2018, 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 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; and (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 will affect the outcome of the impairment assessment of the machinery and equipment in the PRC region. Based on our work, there was no significant exception 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 4 and 10 to the consolidated financial statements. The loss making or low level of profit status of certain subsidiaries of the Group gave rise to possible impact on the inventories which may not be ultimately utilised or consumed in its operations within normal operating cycle of the Group's business. As at 31 December 2018, the carrying amounts of inventories amounted to RMB373 million, which was stated net of a provision of RMB44 million. Because of the significance of the carrying amount of inventories as at 31 December 2018, together with the judgements of the future usage of the inventories in estimating the net realisable value, we had identified this as a key audit matter.	In addressing this matter, we had performed the following procedures: • We understood the Group's internal controls on identifying indicators of slow-moving inventories and the process of inventory provisions. • We observed and tested the result of the physical count of inventories performed by the Group at the year end. • We evaluated the level of inventory provision made, including (i) enquiry of management to understand the future usage plans of the slow-moving inventories; (ii) review of the forecasted usage of the slow-moving inventories prepared by management, (iii) analysis of the profit margin of the related sales contracts; and (iv) review of the basis of the provisions made. Based on our work, there was no significant exception found in the assessment of provision for inventories prepared by management.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
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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.

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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)

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, 26 March 2019

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

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*6*	**333,590**	348,626
Land use rights	*7*	**20,792**	21,275
Intangible assets	*8*	**13,734**	23,219
Investments in associates	*9*	**5,440**	1,570
Deferred income tax assets	*20*	**131,380**	141,899
Prepayments and other receivables	*12*	**16,145**	22,339
		521,081	558,928
Current assets			
Inventories	*10*	**373,057**	337,033
Contract assets	*5*	**24,581**	–
Trade and note receivables	*11*	**891,218**	682,644
Prepayments and other receivables	*12*	**289,195**	261,644
Restricted bank deposits	*13*	**7,227**	2,552
Cash and cash equivalents	*13*	**353,638**	147,022
		1,938,916	1,430,895
Total assets		**2,459,997**	1,989,823
Equity			
Equity attributable to the Company's equity owners			
Share capital	*14*	**1,175**	975
Share premium	*15*	**845,246**	591,991
Other reserves	*16*	**298,510**	346,624
Currency translation differences		**(455,398)**	(456,981)
Retained earnings		**468,476**	397,373
		1,158,009	879,982
Non-controlling interests		**93,403**	98,116
Total equity		**1,251,412**	978,098

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*17*	**142,990**	18,343
Deferred income tax liabilities	*20*	**18,642**	20,957
		161,632	39,300
Current liabilities			
Borrowings	*17*	**123,274**	159,021
Current portion of long-term borrowings	*17*	**31,258**	104,194
Contract liabilities	*5*	**13,956**	–
Trade and note payables	*18*	**702,489**	516,973
Accruals and other payables	*19*	**120,475**	143,878
Current income tax liabilities		**55,501**	48,359
		1,046,953	972,425
Total liabilities		**1,208,585**	1,011,725
Total equity and liabilities		**2,459,997**	1,989,823

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 78 to 168 were approved by the Board of Directors on 26 March 2019 and were signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Consolidated Income Statement

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	*5*	**1,471,649**	1,100,642
Other (losses)/gains, net	*21*	**(28,947)**	36,618
Operating costs			
Material costs		**(303,544)**	(234,966)
Employee benefit expenses	*22*	**(409,118)**	(366,974)
Operating lease expenses		**(88,400)**	(69,413)
Transportation costs		**(27,806)**	(18,955)
Depreciation and amortisation		**(71,439)**	(92,176)
Technical service expenses		**(219,319)**	(188,299)
(Impairment losses)/reversal of impairment losses of assets		**(18,162)**	22,880
Net impairment losses of financial and contract assets		**(1,481)**	–
Others		**(176,522)**	(142,545)
		(1,315,791)	(1,090,448)
Operating profit		**126,911**	46,812
Finance income	*24*	**1,153**	643
Finance expenses	*24*	**(31,957)**	(30,320)
Finance costs, net		**(30,804)**	(29,677)
Profit before income tax		**96,107**	17,135
Income tax expense	*25*	**(19,468)**	(13,875)
Profit from continuing operations		**76,639**	3,260
Profit for the year		**76,639**	3,260
Attributable to:			
Equity owners of the Company		**81,798**	5,541
Non-controlling interests		**(5,159)**	(2,281)
		76,639	3,260
Earnings per share for the profit from continuing operations attributable to the equity owners of the Company			
Basic earnings per share	*27*	**0.047**	0.004
Diluted earnings per share	*27*	**0.046**	0.004
Earnings per share for the profit attributable to the equity owners of the Company			
Basic earnings per share	*27*	**0.047**	0.004
Diluted earnings per share	*27*	**0.046**	0.004

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December **2018** ***RMB'000***	 2017 *RMB'000*
Profit for the year		**76,639**	3,260
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**(34,394)**	(17,284)
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**36,423**	(35,880)
Total comprehensive income for the year		**78,668**	(49,904)
Total comprehensive income for the year attributable to:			
Equity owners of the Company		**83,381**	(48,058)
Non-controlling interests		**(4,713)**	(1,846)
		78,668	(49,904)
Total comprehensive income for the year arising from:			
Continuing operations		**78,668**	(49,904)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Equity attributable to owners of the Company							
Balance as at 1 January 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		–	–	–	(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

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Equity attributable to owners of the Company							
Balance as at 1 January 2018		975	591,991	346,624	(456,981)	397,373	879,982	98,116	978,098
Change in accounting policy	*2.2(b)*	–	–	–	–	(4,314)	(4,314)	–	(4,314)
Restated total equity at 1 January 2018		975	591,991	346,624	(456,981)	393,059	875,668	98,116	973,784
Comprehensive income/(loss)									
Profit/(loss) for the year		–	–	–	–	81,798	81,798	(5,159)	76,639
Other comprehensive income		–	–	–	1,583	–	1,583	446	2,029
Total comprehensive income/(loss)		–	–	–	1,583	81,798	83,381	(4,713)	78,668
Transactions with owners in their capacity as owners									
Issue of ordinary shares		195	187,934	–	–	–	188,129	–	188,129
Share-based payments	*22*	–	–	7,931	–	–	7,931	–	7,931
Transfer to statutory reserves		–	–	6,381	–	(6,381)	–	–	–
Convertible bond – equity portion, net of tax		–	61,150	(61,150)	–	–	–	–	–
Share options exercised		5	4,171	(1,276)	–	–	2,900	–	2,900
Total transactions with owners in their capacity as owners		200	253,255	(48,114)	–	(6,381)	198,960	–	198,960
Balance as at 31 December 2018		1,175	845,246	298,510	(455,398)	468,476	1,158,009	93,403	1,251,412

The above consolidated statement of change in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000 Re-presented Note 28
Cash flows from operating activities			
Cash generated from operations	*28*	**61,216**	69,264
Income tax paid		**(4,040)**	(11,780)
Net cash generated from operating activities		**57,176**	57,484
Cash flows from investing activities			
Purchases of property, plant and equipment		**(24,533)**	(52,203)
Proceeds from disposal of property, plant and equipment		**8,937**	4,281
Purchases of intangible assets		**–**	(200)
Investment in associates		**(3,870)**	(1,570)
Proceeds from disposal of investment in an associate		**–**	5,000
Restricted bank deposits		**(4,675)**	15,067
Interest received		**1,005**	643
Net cash used in investing activities		**(23,136)**	(28,982)
Cash flows from financing activities			
Proceeds from borrowings		**326,785**	226,094
Repayments of borrowings		**(322,530)**	(326,820)
Proceeds from share options exercised		**2,900**	167
Net proceeds from placing of new shares		**188,129**	–
Contributions from non-controlling interests		**–**	2,929
Interest paid		**(25,666)**	(25,563)
Net cash generated from/(used in) financing activities		**169,618**	(123,193)
Net increase/(decrease) in cash and cash equivalents		**203,658**	(94,691)
Cash and cash equivalents at beginning of the year		**147,022**	245,903
Exchange gains/(losses) on cash and cash equivalents		**2,958**	(4,190)
Cash and cash equivalents at end of the year		**353,638**	147,022

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

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 had its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 December 2011 through a global offering ("Global Offering").

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"), Turkmenistan, 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 prepared for 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.

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 2018:

- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts with Customers*
- *Annual Improvements 2014-2016 cycle*
- *Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The adoption of IFRS 9 and IFRS 15 resulted in changes in accounting policies of the Group, which are disclosed in Note 2.2.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1.4 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2018 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 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 by lessees, 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.

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 16 Leases (continued)

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB97 million. Of these commitments, approximately RMB7 million relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB88 million on 1 January 2019, and lease liabilities of RMB72 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). The Group expects that net profit after tax will decrease by approximately RMB2 million for 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

For IFRS 9, as explained in Note 2.2(b) below, the new standard was generally adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

For IFRS 15, as explained in Note 2.2(c) below, the Group elected to adopt the new standard by using the modified retrospective application approach. Therefore, the cumulative effect of initially applying the revenue standard was recognised as an adjustment to the opening balance on 1 January 2018. Comparative prior periods are not restated.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices (continued)

(a) Impact on the financial statements (continued)

Balance sheet (extract)	31 December 2017 As originally presented *RMB'000*	IFRS 9 *RMB'000*	IFRS 15 *RMB'000*	1 January 2018 Restated *RMB'000*
Non-current assets				
Deferred income tax assets	141,899	1,438	–	**143,337**
Current assets				
Trade and note receivables	682,644	(4,537)	(7,032)	**671,075**
Contract assets	–	(1,215)	7,032	**5,817**
Total assets	1,989,823	(4,314)	–	**1,985,509**
Current liabilities				
Accruals and other payables	143,878	–	(20,166)	**123,712**
Contract liabilities	–	–	20,166	**20,166**
Total liabilities	1,011,725	–	–	**1,011,725**
Net assets	978,098	(4,314)	–	**973,784**
Other reserves	346,624	–	–	**346,624**
Retained earnings	397,373	(4,314)	–	**393,059**
Total equity	978,098	(4,314)	–	**973,784**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices (continued)

(b) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.12 below. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The adoption of IFRS 9 does not have any impact on the Group's recognition, classification and measurement of financial instruments, except for the revision of impairment methodology for certain financial assets as described below. For this year, the Group has not been involved in hedge transactions which may be affected by IFRS 9.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Notes	2018 *RMB'000*
Closing retained earnings 31 December 2017 – IAS 39/IAS 18		**397,373**
Increase in provision for trade receivables and contract assets	Note 3.1b(ii)	**(5,752)**
Increase in deferred tax assets relating to impairment provisions		**1,438**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018		**(4,314)**
Opening retained earnings 1 January 2018 – IFRS 9 (before restatement for IFRS 15)		**393,059**

Impairment of financial assets

The Group has five types of financial assets that are subject to IFRS 9's new expected credit loss model:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices (continued)

(b) IFRS 9 Financial Instruments – Impact of adoption (continued)

- trade and notes receivables for sales of inventory and from the provision of services
- contract assets relating to service contracts
- other receivables
- cash and cash equivalents
- restricted bank deposits

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 2.2(b) above.

While cash and cash equivalents and restricted bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB4,537,000 for trade receivables and RMB1,215,000 for contract assets. Note 3.1(b) provides for details about the calculation of the allowance.

The loss allowance decreased by RMB2,951,000 to 87,830,000 for trade receivables and increased by 486,000 to 1,701,000 for contract assets during the current reporting period.

Note receivables and other receivables

Based on management's assessment by taking into account default history and forward looking factors, the expected credit loss for notes receivable is immaterial, and therefore no provisions for impairment are recognised for note receivables under IFRS 9. The expected credit loss for other receivables are not significantly different with the impairment provision that had been made under IAS 39, therefore no additional provision is considered necessary under IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices (continued)

(c) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules by using the modified retrospective application approach and therefore the comparatives of previous periods are not restated. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	IAS 18 carrying amount* 31 December 2017 *RMB'000*	Reclassification *RMB'000*	**IFRS 15 carrying amount 1 January 2018** ***RMB'000***
Trade and note receivables	682,644	(7,032)	**675,612**
Current contract assets	–	7,032	**7,032**
Contract liabilities	–	20,166	**20,166**
Accruals and other payables	143,878	(20,166)	**123,712**

* The amounts in this column are before the adjustments from the adoption of IFRS 9, including increases in the impairment loss allowance for trade receivables and contract assets, see Note 2.2(b) above.

Based on management's assessment, there is no material impact on recognition and measurement of revenue for the adoption of IFRS 15.

The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15:

- Contract assets recognised in relation to provision of services were previously presented as part of trade receivables (RMB5,817,000 as at 1 January 2018, net of impairment allowance).

- Contract liabilities in relation to provision of services and sales of goods were previously included in accrual and other payables (RMB20,166,000 as at 1 January 2018).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting

2.3.1 Subsidiaries

Subsidiaries are all 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2.3.2 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 2.3.3 below), after initially being recognised at cost.

2.3.3 Equity method

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 are recognised as a reduction in the carrying amount of the investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting (continued)

2.3.3 Equity method (continued)

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.

Unrealised gains on transactions between the Group and its associates 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 2.11.

2.3.4 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)

2.4 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.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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.

2.5 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.

2.6 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)

2.7 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 income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement 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 and statement of comprehensive income 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)

2.7 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, 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.

2.8 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)

2.8 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost or 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 2.11).

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.

2.9 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 2.11).

2.10 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets (continued)

(b) Technology

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of non-financial assets

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.

2.12 Investments and other financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. As at 1 January 2018 and 31 December 2018, the Group only has the finance assets of the category to be measured at amortised cost.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (continued)

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

(d) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(e) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Classification, recognition and measurement

The Group's financial assets include loans and receivables. The classification determined on the purpose for which the financial assets were acquired. Management determined 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

(ii) Impairment

The Group assesses at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets was 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 could be reliably estimated.

- Assets carried at amortised cost

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

For loans and receivables category, the amount of the loss was 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 was reduced and the amount of the loss is recognised in the consolidated income statement. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was 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 was recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 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.

2.14 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 receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. They are generally due for settlement within one year and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.12 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.18 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.21 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

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.

(i) Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.23 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(b) Post-employment obligations

The Group operates various post-employment schemes, including defined contribution pension plans.

(i) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (continued)

(b) Post-employment obligations (continued)

(ii) 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.

(iii) 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.

(c) 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) or hold shares for a specific period of time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (continued)

(c) Share-based compensation (continued)

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

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

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to 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.

2.24 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.

(a) Provision of services

The Group provides well drilling services, well completion services and reservoir services to its customers. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the workload confirmed by customers relative to total expected workload.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (continued)

(a) Provision of services (continued)

Some service contracts include delivery of goods by the Group to the customer during the provision of service. It is accounted for as a separate performance obligation and the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. If contracts include the delivery of goods, revenue for the goods is recognised at a point in time when the goods is delivered and the customer has accepted the goods. If the payments exceed the goods transferred, a contract liability is recognised.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

(b) Sales of goods

Revenue associated with sales of pressure gauges, packers and other goods is recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the use or sale of the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Customer deposit received in relation to sales of goods are recognised as contract liabilities.

2.25 Interest income

Interest income on financial assets at amortised cost (2017 – loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Interest income (continued)

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 24 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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.

2.27 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss 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 asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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.

Lease income from operating leases 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.29 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, Turkmenistan, 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 2018, 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	
	2018	2017
	RMB'000	*RMB'000*
RMB against USD		
– Weakened 5%	**(16,736)**	(19,152)
– Strengthened 5%	**16,736**	19,152

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 2018			31 December 2017		
	USD	**SGD**	**Others**	USD	SGD	Others
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Cash	**69,171**	**2,174**	**4,970**	51,654	1,080	1,723
Trade receivables	**42,052**	**–**	**–**	40,724	–	621
Other receivables	**25,041**	**–**	**4,966**	17,740	196	9
Trade payables	**28,490**	**109**	**4,302**	10,865	59	238
Other payables	**4,413**	**3,170**	**6,358**	323	2,312	8,873
Borrowings	**–**	**6,130**	**–**	–	6,565	–

(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 long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk.

As at 31 December 2018, if interest rates on floating interest borrowings at that date had been higher/lower 100 basis points (31 December 2017: 100 basis points), profit before income tax for the year would have been RMB154,000 (2017: RMB172,000) lower/higher.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

(i) Risk Management

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 78.9% and 69.1% of the revenue of the Group for the years ended 31 December 2018 and 2017 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 2018 and 2017, cash and cash equivalents and restricted bank deposits were primarily deposited in major banks in the PRC, Kazakhstan, Canada 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 2018 and 2017:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
PRC		
– State owned listed banks	**158,399**	49,449
– Other listed banks	**47,516**	28,174
	205,915	77,623
Kazakhstan government owned banks	**72,691**	24,932
Singapore listed banks	**41,847**	2,216
Canada listed banks	**30,304**	33,840
Other listed banks	**6,071**	6,485
Others	**4,037**	4,478
Total	**360,865**	149,574

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets

The Group has five types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade and notes receivables for sales of inventory and from the provision of services
- contract assets relating to service contracts
- other receivables
- cash and cash equivalents
- restricted bank deposits

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 2.2(b) above.

While cash and cash equivalents and restricted bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and notes receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets:

31 December 2018	**Up to 6 months**	**6 months -1 year**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Expected loss rate	**0.70%**	**1.00%**	**1.50%**	**47.68%**	**70.58%**	
Gross carrying amount	**630,789**	**95,909**	**58,351**	**18,990**	**105,168**	**909,207**
Loss allowance	**4,416**	**959**	**875**	**9,054**	**74,227**	**89,531**

1 January 2018	**Up to 6 months**	**6 months -1 year**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Expected loss rate	**0.70%**	**0.90%**	**1.40%**	**45.00%**	**70.00%**	
Gross carrying amount	**539,550**	**36,817**	**59,930**	**23,058**	**109,533**	**768,888**
Loss allowance	**3,777**	**331**	**839**	**10,376**	**76,673**	**91,996**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

The closing loss allowances for trade receivables and contract assets as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Contract assets		Trade receivables	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
31 December – calculated under IAS 39	**–**	–	**(86,244)**	(84,198)
Amounts restated through opening retained earnings	**(1,215)**	–	**(4,537)**	–
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	**(1,215)**	–	**(90,781)**	(84,198)
Increase in loan loss allowance recognised in profit or loss during the year	**(486)**	–	**(5,821)**	(11,695)
Receivables written off during the year as uncollectible	**–**	–	**4,142**	3,840
Unused amount reversed	**–**	–	**3,839**	5,165
Exchange difference	**–**	–	**791**	644
At 31 December	**(1,701)**	–	**(87,830)**	(86,244)

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Note receivables

Based on management's assessment by taking into account default history and forward looking factors, the expected credit loss for notes receivable is immaterial, and therefore no provisions for impairment are recognised for note receivables under IFRS 9.

Other receivables

The expected credit loss for other receivables are not significantly different with the impairment provision that had been made under IAS 39, therefore no additional provision is considered necessary under IFRS 9.

The closing loss allowances for other receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Other receivables	
	2018 ***RMB'000***	2017 *RMB'000*
31 December – calculated under IAS 39	**(3,366)**	(5,712)
Receivables written off during the year as uncollectible	**31**	1,974
Unused amount reversed	**987**	372
At 31 December	**(2,348)**	(3,366)

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018						
Borrowings	**163,614**	**127,406**	**15,726**	**2,394**	**309,140**	**297,522**
Trade payables	**702,489**	**–**	**–**	**–**	**702,489**	**702,489**
Accruals and other payables	**28,713**	**–**	**–**	**–**	**28,713**	**28,713**
Total	**894,816**	**127,406**	**15,726**	**2,394**	**1,040,342**	**1,028,724**
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

Certain 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 2018 and 2017 are as follows:

	As at 31 December	
	2018 ***RMB'000***	2017 *RMB'000*
Total borrowings	**297,522**	281,558
Total equity	**1,251,412**	978,098
Gearing ratio	**23.8%**	28.8%

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 borrowings 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 2.8, Note 2.10 and Note 2.11 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 financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details are disclosed in Note 3.

5. SEGMENT INFORMATION

The 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 2018 and 2017 are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue		
Drilling	**540,711**	320,489
Well completion	**309,147**	165,463
Reservoir	**621,791**	614,690
	1,471,649	1,100,642

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 EBITDA.

Revenue amounting to RMB1,161,493,000 (2017: RMB760,092,000) 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 2018 and 2017 are as follows:

	Drilling *RMB'000*	**Well completion** *RMB'000*	**Reservoir** *RMB'000*	**Total** *RMB'000*
As at/year ended 31 December 2018				
Revenue from external customers	**540,711**	**309,147**	**621,791**	**1,471,649**
Time of revenue recognition				
– At a point in time	**11,108**	**223,136**	**86,831**	**321,075**
– Over time	**529,603**	**86,011**	**534,960**	**1,150,574**
EBITDA	**82,628**	**96,652**	**149,382**	**328,662**
Total assets	**627,214**	**785,458**	**420,754**	**1,833,426**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**26,632**	**36,945**	**2,559**	**66,136**

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *RMB'000*
As at/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

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
EBITDA for reportable segments	**328,662**	223,782
Unallocated expenses		
– Share-based payments	**(7,931)**	(12,572)
– Other (losses)/gains, net	**(28,947)**	36,618
– Unallocated overhead expenses	**(93,434)**	(108,840)
	(130,312)	(84,794)
	198,350	138,988
Depreciation and amortisation	**(71,439)**	(92,176)
Finance expenses	**(31,957)**	(30,320)
Finance income	**1,153**	643
Profit before income tax	**96,107**	17,135

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,833,426**	1,590,636
Unallocated assets		
– Deferred income tax assets	**131,380**	141,899
– Unallocated inventories	**9,577**	8,803
– Unallocated prepayment and other receivables	**119,309**	97,341
– Restricted bank deposits	**7,227**	2,552
– Cash and cash equivalents	**353,638**	147,022
– Investments in associates	**5,440**	1,570
	626,571	399,187
Total assets per balance sheet	**2,459,997**	1,989,823

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	
	2018	2017
	RMB'000	*RMB'000*
PRC	**922,694**	634,517
Kazakhstan	**351,141**	298,831
Turkmenistan	**79,195**	43,966
Canada	**54,329**	58,533
Indonesia	**35,371**	33,401
Middle East	**28,184**	30,200
Others	**735**	1,194
	1,471,649	1,100,642

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	
	2018	2017
	RMB'000	*RMB'000*
PRC	**221,402**	270,651
Kazakhstan	**60,151**	73,558
Middle East	**45,675**	69
Turkmenistan	**21,068**	25,602
Canada	**9,558**	13,065
Indonesia	**4,866**	8,912
Others	**21,541**	25,172
	384,261	417,029

5. SEGMENT INFORMATION (CONTINUED)

(d) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Current contract assets	**26,282**	7,032
Loss allowance	**(1,701)**	(1,215)
Total contract assets	**24,581**	5,817
Current contract liabilities	**13,956**	20,166
Total current contract liabilities	**13,956**	20,166

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract.

	Year ended 31 December 2018 ***RMB'000***
Revenue recognised that was included in the contract liability balance at the beginning of the year	
– Drilling	**7,560**
– Well completion	**818**
– Reservoir	**221**
Total	**8,599**

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 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
Year ended 31 December 2018						
Opening net book value	**108,557**	**191,296**	**7,758**	**19,068**	**21,947**	**348,626**
Additions	**359**	**54,891**	**2,386**	**1,097**	**2,309**	**61,042**
Depreciation charge	**(8,549)**	**(36,171)**	**(8,432)**	**(8,450)**	**–**	**(61,602)**
Disposals	**(36)**	**(2,686)**	**(960)**	**(2,051)**	**(2,227)**	**(7,960)**
Transfer	**–**	**1,011**	**1,200**	**483**	**(2,694)**	**–**
Exchange differences	**(286)**	**(6,552)**	**216**	**96**	**10**	**(6,516)**
Closing net book value	**100,045**	**201,789**	**2,168**	**10,243**	**19,345**	**333,590**
At 31 December 2018						
Cost	**151,654**	**511,334**	**64,605**	**98,368**	**19,345**	**845,306**
Accumulated depreciation and impairment	**(51,609)**	**(309,545)**	**(62,437)**	**(88,125)**	**–**	**(511,716)**
Net book value	**100,045**	**201,789**	**2,168**	**10,243**	**19,345**	**333,590**

For the year ended 31 December 2018, depreciation expenses amounting to RMB61,602,000 (2017: RMB78,874,000) has been charged in operating costs.

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain property, plant and equipment have been leased for the Group's secured loans from a third party, details of which have been set out in Note 17(e).

Based on the Group's assessment on the machinery and equipment in the PRC region with carrying amount of approximate RMB113 million, which had an impairment indication, there was no further provisions for impairment needed at 31 December 2018 as the fair value less cost of disposal of these asset was higher than their carrying value.

7. LAND USE RIGHTS

	RMB'000
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
Year ended 31 December 2018	
Opening net book value	**21,275**
Amortisation charge	**(483)**
Closing net book value	**20,792**
At 31 December 2018	
Cost	**24,131**
Accumulated amortisation	**(3,339)**
Net book value	**20,792**

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 2018, land use rights have a remaining period of 44 years.

8. INTANGIBLE ASSETS

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

	Technology *RMB'000*	Compute software *RMB'000*	Total *RMB'000*
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
Year ended 31 December 2018			
Opening net book value	**21,923**	**1,296**	**23,219**
Amortisation charge	**(9,058)**	**(296)**	**(9,354)**
Exchange differences	**(130)**	**(1)**	**(131)**
Closing net book value	**12,735**	**999**	**13,734**
At 31 December 2018			
Cost	**84,479**	**4,464**	**88,943**
Accumulated amortisation and impairment	**(71,744)**	**(3,465)**	**(75,209)**
Net book value	**12,735**	**999**	**13,734**

9. SUBSIDIARIES AND ASSOCIATES

(a) Subsidiaries

The following is a list of the subsidiaries of the Group at 31 December 2018:

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	
				2018	2017	2018	2017
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	98.59%	95%	1.41%	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%
北京華油環保工程科技有限公司 (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%

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the subsidiaries of the Group at 31 December 2018: (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	
				2018	2017	2018	2017
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%	–	–
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	Manats142,500	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%	–	–

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the subsidiaries of the Group at 31 December 2018: (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	
				2018	2017	**2018**	2017
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 (i)	Manufacturing, Singapore	Manufacturing, Singapore	SGD 3,550,000*	**63.2%**	63.2%	**36.8%**	36.8%
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 (Shanxi 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%	**-**	–

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the subsidiaries of the Group at 31 December 2018: (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	
				2018	2017	2018	2017
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	100%	85%	–	15%
SPT Trading (SG) Pte. Ltd.	Singapore, Limited liability entity	Oil field services, Singapore	SGD510,000	51%	51%	49%	49%
Enecal Myanmar Oilfield Services Company Ltd.	Myanmar (Burma) , Limited liability entity	Oil field services, Myanmar (Burma)	USD600,000	100%	–	–	–

Notes

(i) The issued share capital includes preferred shares amounting to SGD 3,200,000 (equivalent to RMB16,302,000) (2017: 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".

(ii) Material non-controlling interests

As at 31 December 2018, the total non-controlling interest was RMB93,403,000 (2017: RMB98,116,000) of which RMB83,850,000 (2017: RMB85,025,000) was attributable to Xinjiang HDTD Oilfield Services Co., Ltd. ("HDTD"). The non-controlling interests in respect of other subsidiaries were not material.

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

Notes (continued)

(ii) Material non-controlling interests (continued)

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	
	2018 *RMB'000*	2017 *RMB'000*
Current		
Assets	**187,320**	177,353
Liabilities	**17,133**	17,192
Total current net assets	**170,187**	160,161
Non-current		
Assets	**1,550**	13,368
Liabilities	**–**	–
Total non-current net assets	**1,550**	13,368
Net assets	**171,737**	173,529

Summarised income statement

	Year ended 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Revenue	**–**	407
(Loss)/Profit before income tax	**(1,792)**	1,646
Income tax expense	**–**	–
Post-tax (loss)/profit	**(1,792)**	1,646
Total comprehensive (loss)/income	**(1,792)**	1,646
Total comprehensive (loss)/income allocated to non-controlling interests	**(878)**	806

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

Notes (continued)

(ii) Material non-controlling interests (continued)

Summarised cash flows statement

	Year ended 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Net cash used in operating activities	**831**	(2,027)
Net cash generated from investing activities	**(40)**	–
Net increase/(decrease) in cash and cash equivalents	**791**	(2,027)
Cash and cash equivalents at beginning of year	**161**	2,188
Cash and cash equivalents at end of year	**952**	161

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

(b) Associates

The following is a list of the associates of the Group at 31 December 2018:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Ownership interest held by the Group		Measurement method
			2018	2017	
新疆能源（集團）華油技術服務有限公司	PRC, Limited liability entity	Oil field services, PRC	**49%**	–	Equity Method
新疆博塔油田技術服務有限公司	PRC, Limited liability entity	Oil field services, PRC	**24%**	–	Equity Method
大連施普瑞克能源新材料有限公司	PRC, Limited liability entity	Oil field services, PRC	**5%**	5%	Equity Method

10. INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Project materials and consumables	**402,870**	343,198
Project-in-progress	**14,591**	20,453
	417,461	363,651
Less: provision for inventories	**(44,404)**	(26,618)
	373,057	337,033

The cost of inventories recognised as expense and included in "operating costs" amounted to RMB303,544,000 (2017: RMB234,966,000).

Movements of provision for inventories are as follows:

	2018	2017
	RMB'000	*RMB'000*
As at 1 January	**(26,618)**	(69,479)
Provision	**(21,216)**	(1,745)
Reversal	**–**	30,783
Written off	**2,942**	13,614
Exchange difference	**488**	209
As at 31 December	**(44,404)**	(26,618)

Note

(a) The written off of provisions of inventory amounted to RMB2,942,000 for the year ended 31 December 2018 was due to sales of the goods that had been written down to third party customers.

11. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables (a)	**882,925**	756,385
Less: loss allowance	**(87,830)**	(86,244)
Trade receivables – net	**795,095**	670,141
Note receivables (a)	**96,123**	12,503
	891,218	682,644

Notes

(a) Fair values of trade and note receivables

Trade and note receivables are financial assets classified as "financial assets at amortised cost". The fair value of trade and note receivables approximated their carrying values.

(b) The ageing analysis of the trade and note receivables based on invoice date were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 6 months	**711,376**	539,550
6 months – 1 year	**94,411**	36,817
1 – 2 years	**51,409**	59,930
2 – 3 years	**18,314**	23,058
Over 3 years	**103,538**	109,533
Trade and note receivables, gross	**979,048**	768,888
Less: loss allowance	**(87,830)**	(86,244)
Trade and note receivables, net	**891,218**	682,644

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

(c) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB4,537,000 for trade receivables. Note 3.1(b)(ii) provides for details about the calculation of the allowance.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

(d) Certain trade and note 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	
	2018	2017
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**95,789**	92,739
Prepayment for taxes	**26,857**	23,238
Less: loss allowance	**(1,739)**	(1,851)
Total non-financial assets	**120,907**	114,126
Deposits and other receivables	**77,411**	63,908
Receivable relating to disposal of equipment	**93,225**	86,976
Less: loss allowance	**(2,348)**	(3,366)
Total financial assets	**168,288**	147,518
	289,195	261,644
Non-current		
Advances to suppliers (Non-financial assets)	**419**	6,708
Prepayment for operating lease (Non-financial assets)	**15,726**	15,631
	16,145	22,339
Total	**305,340**	283,983

12. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Notes

(a) Deposits and other receivables are financial assets classified under "other financial assets at amortised cost". The fair values of other receivables approximated their carrying values.

(b) Movements in impairment of prepayments representing those that were part due are as follows:

	2018 RMB'000	2017 RMB'000
As at 1 January	**(1,851)**	(1,881)
Reversal	**112**	–
Written off	**–**	30
As at 31 December	**(1,739)**	(1,851)

(c) 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	
	2018 RMB'000	2017 RMB'000
Restricted bank deposits (a)	**7,227**	2,552
Cash and cash equivalent		
– Cash on hand	**492**	516
– Deposits in banks	**353,146**	146,506
	353,638	147,022
	360,865	149,574

Note

(a) As at 31 December 2018, the restricted bank deposits comprised of deposits of RMB5,057,000 held as securities for oil service projects and RMB2,170,000 held as securities for notes payable (2017: RMB2,552,000 held as securities for issuance of bank letter of credit).

14. SHARE CAPITAL

	Number of shares *(Thousands)*	Share capital *RMB'000*
Authorised:		
Ordinary shares of USD0.0001 each as at 31 December 2017	2,000,000	1,295
Add: new authorised share capital approved during the year (a)	3,000,000	1,924
Ordinary shares of USD0.0001 each as at 31 December 2018	**5,000,000**	**3,219**

(a) On 12 June 2018, the shareholders of the Company approved the resolution to increase the authorised share capital of the Company from USD200,000 divided into 2,000,000,000 shares of par value USD0.0001 each to USD500,000 divided into 5,000,000,000 shares of par value USD0.0001 each, which rank in pari passu in all respects with existing shares.

	Number of shares *(Thousands)*	Share capital *RMB'000*
Issued and fully paid:		
Ordinary shares of USD0.0001 each		
As at 31 December 2017	1,535,192	975
Add:		
Issuance of ordinary shares (b)	306,958	195
Share options exercised (Note 16 (b))	6,872	5
As at 31 December 2018	**1,849,022**	**1,175**

(b) On 7 May 2018, 306,958,000 placing shares were allotted and issued at HKD0.78 per share, resulting in approximately RMB195,000 and RMB187,934,000 being recognised as share capital and share premium (Note 15) respectively.

15. SHARE PREMIUM

	2018 RMB'000	2017 RMB'000
As at 1 January	**591,991**	591,651
Issuance of ordinary shares (Note 14 (b))	**187,934**	–
Share options exercised (Note 16 (b))	**4,171**	340
Convertible bonds – equity portion, net of tax	**61,150**	–
As at 31 December	**845,246**	591,991

16. OTHER RESERVES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Merger reserves (a)	**(148,895)**	(148,895)
Equity component of convertible bonds	**–**	61,150
Share-based payments (b)	**177,982**	171,327
Statutory reserves (c)	**60,501**	54,120
Capital reserves	**208,922**	208,922
	298,510	346,624

Notes

(a) Merger reserves

As at 31 December 2018 and 2017, 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.

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(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, 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, 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. On 26 September 2018, 60,000,000 share options were granted by the Company to certain employees to subscribe for 60,000,000 ordinary shares of USD0.0001 each at an exercise price of HKD0.74. On 6 December 2018, 37,000,000 share options were granted by the Company to certain employees to subscribe for 37,000,000 ordinary shares of USD0.0001 each at an exercise price of HKD0.532.

These share options will be evenly vested over 3 years from the first anniversary of the grant date and exercisable within 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2018		2017	
	Average exercise price per share options	**Number of share options**	Average exercise price per share options	Number of share options
	HKD	***(Thousands)***	*HKD*	*(Thousands)*
As at 1 January	**1.62**	**192,354**	1.64	195,413
Granted during the year (i)	**0.66**	**97,000**	–	–
Forfeited during the year	**2.18**	**(18,183)**	3.28	(2,657)
Exercised during the year	**0.49**	**(6,872)**	0.49	(402)
As at 31 December	**1.25**	**264,299**	1.62	192,354
Vested and exercisable as at 31 December	**1.94**	**127,279**	2.53	106,066

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

As at 31 December 2018 and 2017, 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 2018 *(Thousands)*	Share options 31 December 2017 *(Thousands)*
20 February 2012	19 February 2022	1.29	**7,930**	9,521
29 March 2012	28 March 2022	1.36	**5,083**	5,083
13 June 2013	12 June 2023	4.69	**41,500**	48,720
31 August 2016	30 August 2026	0.49	**72,766**	42,742
Total		1.94	**127,279**	106,066
Weighted average remaining contractual life of options outstanding at end of period			**6.14 years**	6.57 years

(i) Fair value of options granted

The total fair value at grant date for the share options granted during the year ended 31 December 2018 was RMB25,584,000, which was calculated by using the Binomial Option Pricing Model.

(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 2018 and 2017, 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 2016	53,768
Appropriation	352
As at 31 December 2017	54,120
Appropriation	6,381
As at 31 December 2018	**60,501**

17. BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current:		
Secured bank borrowings (a)(i)(iii)	**115,372**	18,343
Secured loans from a third party institution (e)	**27,618**	–
	142,990	18,343
Current:		
Short-term bank borrowings		
– Secured (a)(ii)(iii)	**91,803**	58,700
– Unsecured (a)(ii)	**21,000**	70,000
Short-term entrusted loan (b)	**10,000**	20,000
Short-term borrowings from certain individuals (c)	**471**	10,321
	123,274	159,021
Current portion of long-term borrowings:		
Secured bank borrowings (a)(i)(iii)	**17,258**	2,722
Secured loans from a third party institution (e)	**14,000**	11,686
Unsecured liability component of convertible bonds (d)	**–**	89,786
	31,258	104,194
Total borrowings	**297,522**	281,558

17. BORROWINGS (CONTINUED)

Notes

(a) Bank borrowings

(i) As at 31 December 2018, long-term secured bank borrowings amounting to RMB6,130,000 (2017: RMB6,565,000), comprising long-term bank borrowings amounting to RMB5,372,000 (2017: RMB5,843,000) and its current portion amounting to RMB758,000 (2017: RMB722,000), 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 2018 is 5.14% per annum (2017: 4.79%).

As at 31 December 2018, long-term secured bank borrowings amounting to RMB126,500,000 (2017: RMB14,500,000), comprising long-term bank borrowings amounting to RMB110,000,000 (2017: RMB12,500,000) and its current portion amounting to RMB16,500,000 (2017: RMB2,000,000), will be repaid by installment annually through 2020 and bear effective interest rate of 6.18% per annum (2017: 7.13%).

(ii) As at 31 December 2018, short-term secured bank borrowings amounting to RMB91,803,000 (2017: RMB58,700,000) will mature in 1 year (2017: 1 year) and bear annual interest rate of 6.36% (2017: 6.52%).

As at 31 December 2018, short-term unsecured bank borrowings amounting to RMB21,000,000 (2017: RMB70,000,000) will mature in 1 year (2017: 1 year) and bear annual interest rate ranging from 5.66% to 7.40% (2017: 5.00% to 5.66%).

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Long-term bank borrowings including its current portion		
Secured by:		
– Long-term prepayments	**6,130**	6,565
– Trade and note receivables	**126,500**	14,500
	132,630	21,065
Short-term bank borrowings		
Secured by:		
– Trade and note receivables (Note 11)	**92,016**	58,700
	92,016	58,700

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

17. BORROWINGS (CONTINUED)

Notes (continued)

(b) Short-term entrusted loans

As at 31 December 2018, short-term entrusted loans amounting to RMB10,000,000 (2017: RMB20,000,000) will mature in 1 year and bear annual interest rate of 8.00% (2017: 8.00%).

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 2018, short-term borrowings from certain individuals amounting to RMB471,000 (2017: RMB10,321,000) will mature in 1 year and bear annual interest rate of 10% (2017:10%).

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

(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 in 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.

17. BORROWINGS (CONTINUED)

Notes (continued)

(d) Convertible bonds (continued)

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

	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

	2018 ***RMB'000***
Liability component as at 31 December 2017	**89,786**
Interest expense in 2018 (Note 24)	**10,235**
Interest paid and payable	**(1,973)**
Repaid	**(102,948)**
Exchange difference	**4,900**
Liability component as at 31 December 2018	**–**

(e) Secured loans from a third party institution

The Group's loans from a third party institution are secured by certain machinery with a carrying amount of RMB49,905,000 (2017: RMB12,253,000), and are expiring in 2021.

(f) 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.

(g) 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 AND NOTE PAYABLES

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 6 months	**452,733**	253,763
6 months to 1 year	**37,750**	43,535
1 – 2 years	**62,170**	59,227
2 – 3 years	**49,834**	64,560
Over 3 years	**100,002**	95,888
	702,489	516,973

19. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest payable	**2,184**	4,529
Rental fee payable	**2,686**	3,381
Other payables	**23,843**	38,027
Total financial liabilities	**28,713**	45,937
Customer deposits and receipts in advance	**–**	20,166
Payroll and welfare payable	**43,599**	37,775
Taxes other than income taxes payable	**48,163**	40,000
Total non-financial liabilities	**91,762**	97,941
	120,475	143,878

20. DEFERRED INCOME TAXATION

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Deferred income tax assets:		
– To be recovered after more than 12 months	**89,762**	102,516
– To be recovered within 12 months	**41,618**	39,383
	131,380	141,899
Deferred income tax liabilities:		
– To be settled after 12 months	**(18,642)**	(20,957)
	(18,642)	(20,957)
	112,738	120,942

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

	2018	2017
	RMB'000	*RMB'000*
As at 1 January	**120,942**	116,701
Change in accounting policy (Note 2.2(b))	**1,438**	–
As at 1 January (restated)	**122,380**	116,701
(Charged)/credited to the income statement (Note 25)	**(8,286)**	5,742
Currency translation difference	**(1,356)**	(1,501)
As at 31 December	**112,738**	120,942

20. DEFERRED INCOME TAXATION (CONTINUED)

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

Deferred income tax assets

	Tax losses *RMB'000*	Impairment of assets *RMB'000*	Unrealised profit* *RMB'000*	Accrual expense *RMB'000*	Total *RMB'000*
As at 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
Change in accounting policy	–	1,438	–	–	1,438
As at 01 January 2018 (restated)	76,091	29,293	27,809	10,144	143,337
(Charged)/credited to the income statement	(5,557)	442	(2,580)	(2,906)	(10,601)
Currency translation differences	259	14	(331)	(1,298)	(1,356)
As at 31 December 2018	**70,793**	**29,749**	**24,898**	**5,940**	**131,380**

* 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*	Others *RMB'000*	Total *RMB'000*
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
Credited to the income statement	(2,263)	–	(52)	(2,315)
As at 31 December 2018	**–**	**18,642**	**–**	**18,642**

* 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 RMB113,235,000 as at 31 December 2018 (2017: RMB114,687,000), in respect of losses amounting to RMB592,837,000 (2017: RMB601,062,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2019 and 2023.

(b) The Board did not propose final dividend for the year ended 31 December 2018. As at 31 December 2018, the Group did not recognise deferred income tax liabilities of RMB15,374,444 (2017: RMB14,251,000) on withholding tax of unremitted earnings of certain subsidiaries earned prior to 1 July 2011 and during 2013, 2014, 2015, 2016, 2017 and 2018, as such unremitted earnings amounting to RMB307,256,357 (2017: RMB278,596,000) are expected to be retained in the respective subsidiaries for their future investment and expansion activities.

21. OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange (losses)/gains	**(17,380)**	31,448
Gain on disposal of an associate	**–**	5,000
Others	**(11,567)**	170
	(28,947)	36,618

22. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wages, salaries and allowances	**328,020**	293,238
Housing benefits	**14,357**	8,853
Pension costs	**43,461**	39,894
Share-based payments (Note 16)	**7,931**	12,572
Welfare and other expenses	**15,349**	12,417
	409,118	366,974

Notes

(a) Five highest paid individuals

	Year ended 31 December Number of individuals	
	2018	2017
Director	**2**	3
Non-director individual	**3**	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	
	2018	2017
	RMB'000	*RMB'000*
Salary	**2,384**	2,161
Housing benefits	**44**	32
Estimated money value of other benefits	**1,415**	1,245
	3,843	3,438

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2018	2017
Emolument band		
HKD1,000,001 to HKD1,500,000	**1**	–
HKD1,500,001 to HKD2,000,000	**2**	1
HKD2,000,001 to HKD2,500,000	**–**	1
	3	2

23. EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gains on disposal of property, plant and equipment	**(977)**	(22)
Sales tax and surcharges	**5,504**	5,697
Depreciation	**61,602**	78,874
Amortisation of land use rights and intangible assets	**9,837**	13,302
Auditor's remuneration		
– PwC	**4,500**	4,500
– Others	**983**	730

24. FINANCE COSTS, NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange gains on financing activities	**149**	–
Interest income on short-term bank deposits	**1,004**	643
Total finance income	**1,153**	643
Net foreign exchange losses on financing activities	**–**	(1,018)
Interest expense:		
– Bank borrowings	**(16,721)**	(10,527)
– Liability component of convertible bonds	**(10,235)**	(14,576)
– Bank charges and others	**(3,780)**	(3,952)
– Secured loans from a third party institution	**(1,221)**	(247)
Total finance costs	**(31,957)**	(30,320)
Net finance costs	**(30,804)**	(29,677)

25. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**11,182**	19,617
Deferred income tax	**8,286**	(5,742)
Income tax expense	**19,468**	13,875

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 Luxembourg are subject to Netherlands and Luxembourg 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) Subsidiaries established in Singapore are subject to Singapore profits tax at a rate of 17% (2017:10%).

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 2018 and 2017, 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 at a 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 income 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	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**96,107**	17,135
Tax calculated at domestic tax rates applicable to profits in the respective countries	**14,749**	(4,539)
Expenses not deductible for taxation purposes	**6,171**	6,202
Utilisation of previously unrecognised tax losses	**(10,061)**	(12,944)
Losses not recognised as deferred income tax assets	**8,609**	25,156
Income tax expense	**19,468**	13,875

26. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2018 and 2017.

27. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to equity owners of the Company	**81,798**	5,541
Weighted average number of ordinary shares in issue (thousands)	**1,738,527**	1,534,838
Basic earnings per share (RMB per share)	**0.047**	0.004

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. However, when calculating the dilutive earnings per share for the year ended 31 December 2018, the convertible bonds factor was excluded as it has an anti-dilutive effect for the year. As such only share options were considered by comparing the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options with those that would have been issued assuming the exercise of the share potions.

27. EARNINGS PER SHARE (CONTINUED)

(b) Diluted (continued)

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to equity owners of the Company	**81,798**	5,541
Interest expense on convertible bonds	**Anti-dilutive**	Anti-dilutive
	81,798	5,541
Weighted average number of ordinary shares in issue (thousands)	**1,738,527**	1,534,838
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**36,973**	3,823
	1,775,500	1,538,661
Diluted earnings per share	**0.046**	0.004

28. CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
		Re-presented
Profit before income tax	**96,107**	17,135
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 23)	**61,602**	78,874
– net gains on disposals (Note 23)	**(977)**	(22)
Land use rights and intangible assets		
– amortisation (Notes 7&8)	**9,837**	13,302
Impairment losses/(reversal) of impairment losses of assets	**18,162**	(22,880)
Net impairments losses of financial and contract assets	**1,481**	–
Gain on disposal of an associate	**–**	(5,000)
Net foreign exchange losses/(gains) (Notes 21&24)	**17,231**	(30,430)
Interest income (Note 24)	**(1,004)**	(643)
Interest expenses on borrowings (Note 24)	**17,942**	10,774
Interest expenses on convertible bonds (Note 24)	**10,235**	14,576
Share-based payments (Note 22)	**7,931**	12,572
Changes in working capital:		
Inventories	**(53,809)**	63,845
Trade and note receivables	**(240,584)**	(124,786)
Prepayments and other receivables	**(7,636)**	(10,976)
Trade and note payables	**152,583**	26,333
Accruals and other payables	**(27,885)**	26,590
Net cash generated from operations	**61,216**	69,264

(b) Non-cash investing and financing activities

There was no principal non-cash investing and financing activities for the year ended 31 December 2018 and 2017.

(c) In order to enhance the comparability of the cashflow statement of the Group to the comparable companies within the industry, the Group reclassified interest paid and interest received from operating activities to financing activities and investing activities respectively in the current year. Prior year figures were also reclassified accordingly.

28. CASH GENERATED FROM OPERATIONS (CONTINUED)

(d) Net debt reconciliation

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

Net debt	**2018** *RMB'000*	2017 *RMB'000*
Cash and cash equivalents	**353,638**	147,022
Borrowings – repayable within one year	**(154,532)**	(263,215)
Borrowings – repayable after one year	**(142,990)**	(18,343)
Net debt	**56,116**	(134,536)
Cash and liquid investments	**353,638**	147,022
Gross debt – fixed interest rates	**(291,392)**	(274,993)
Gross debt – variable interest rates	**(6,130)**	(6,565)
Net debt	**56,116**	(134,536)

	Other assets	**Liabilities from financing activities**		
	Cash and cash equivalents *RMB'000*	**Borrowing due within 1 year** *RMB'000*	**Borrowing due after 1 year** *RMB'000*	**Total** *RMB'000*
Net debt as at 1 January 2017	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)
Cash flows	203,658	159,356	(155,101)	207,913
Foreign exchange adjustments	2,958	–	–	2,958
Other non-cash movements	–	(50,673)	30,454	(20,219)
Net debt as at 31 December 2018	**353,638**	**(154,532)**	**(142,990)**	**56,116**

29. CONTINGENCIES

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

30. COMMITMENTS

(a) Capital commitments

There are no capital expenditures contracted for but not recognised as liabilities at the end of 2018 and 2017.

(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	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**26,629**	7,730
Later than 1 year and no later than 5 years	**42,934**	22,277
Later than 5 years	**27,799**	27,578
	97,362	57,585

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 2018 and 2017:

(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	
	2018	2017
	RMB'000	*RMB'000*
Salary	**5,003**	5,197
Housing allowance	**279**	340
Estimated money value of other benefits	**3,321**	3,081
	8,603	8,618

32. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		**1,188,905**	1,057,764
Current assets			
Prepayments and other receivables		**331**	315
Cash and cash equivalents		**5,547**	12,196
Total assets		**1,194,783**	1,070,275
Equity and liabilities			
Share capital		**1,175**	975
Share premium		**845,246**	591,991
Other reserves	*Note (a)*	**390,881**	445,376
Currency translation differences		**63,198**	20,805
Accumulated losses	*Note (a)*	**(133,649)**	(106,465)
Total equity		**1,166,851**	952,682
Liabilities			
Non-Current liabilities			
Current liabilities			
Accruals and other payables		**27,932**	27,807
Current portion of long-term borrowings		**–**	89,786
Total liabilities		**27,932**	117,593
Total equity and liabilities		**1,194,783**	1,070,275

The balance sheet of the Company was approved by the Board of Directors on 26 March 2019 and was signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

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

Balance sheet 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 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
At 1 January 2018	**(106,465)**	**591,991**	**445,376**	**20,805**	**951,707**
Loss for the year	**(27,184)**	**–**	**–**	**–**	**(27,184)**
Currency translation differences	**–**	**–**	**–**	**42,393**	**42,393**
Share options exercised	**–**	**4,171**	**(1,276)**	**–**	**2,895**
Issue of ordinary shares	**–**	**187,934**	**–**	**–**	**187,934**
Share-based payments	**–**	**–**	**7,931**	**–**	**7,931**
Convertible bond-equity portion, net of tax	**–**	**61,150**	**(61,150)**	**–**	**–**
At 31 December 2018	**(133,649)**	**845,246**	**390,881**	**63,198**	**1,165,676**

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 2018 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)*	532	–	50	95	677
Mr. 吳東方 (Mr. Wu Ethan) *	532	–	64	95	691
Mr. 劉若岩 Mr. Liu Ruoyan) **	200	–	–	64	264
Mr. 李強 (Mr. Li Qiang)	480	–	35	519	1,034
Non-executive Directors					
Mr. 林煬 (Mr. Lin Yang) ***	–	–	–	64	64
Ms. 陳春花 (Ms. Chen Chunhua)	864	–	59	80	1,003
Independent Non-Executive Directors					
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	263	–	–	77	340
Mr. 溫嘉明 (Mr. Wan Kah Ming)	263	–	–	77	340
Ms. 張渝涓 (Ms.Zhang Yujuan)	263	–	–	77	340
	3,397	–	208	1,148	4,753

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 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	743	1,186
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	3,169	7,114

33. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

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

* On 11 May 2018, the board of directors of the Company has approved the appointment of Mr. 吳東方 (Mr. Wu Ethan) as the chief executive officer of the Company, replacing Mr. 王國強(Mr. Wang Guoqiang) with effect from 11 May 2018.

** Mr. 劉若岩(Mr. Liu Ruoyan) resigned as an executive director of the Company with effect from 31 August 2018.

*** Mr. 林煬(Mr. Lin Yang) resigned as a non-executive director of the Company with effect from 31 August 2018.

**** 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 2018, 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 (2017: nil).

(c) Directors' termination benefits

During the year ended 31 December 2018, 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 (2017: nil).

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

During the year ended 31 December 2018, no consideration was provided to or receivable by third parties for making available director's services (2017: 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 (2017: 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 (2017: nil).

SPT Energy Group Inc.
華油能源集團有限公司*