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

2019 ANNUAL REPORT

Contents

Corporate Information

THE BOARD

Executive Directors

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

Non-Executive Director

Ms. Chen Chunhua

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Wang Guoqiang
Ms. Mok Ming Wai

COMPANY SECRETARY

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

COMPANY WEBSITE

www.sptenergygroup.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN PRC

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

Note:

1. 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
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

PRINCIPAL BANKERS

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

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

1251

DATE OF LISTING

23 December 2011

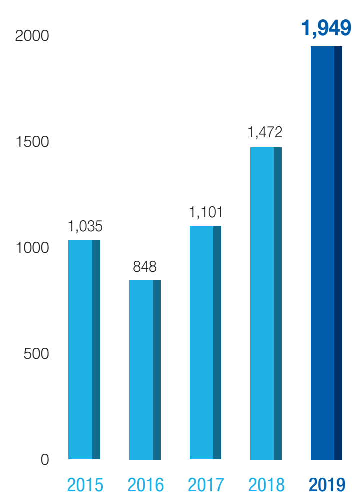
Financial Summary

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:

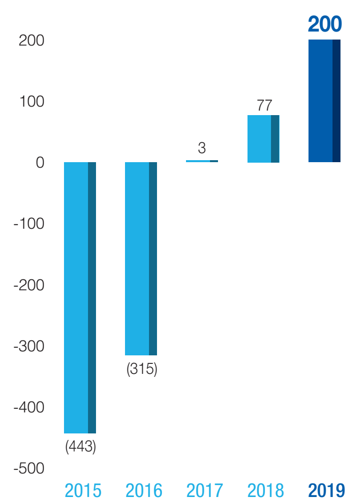
CONDENSED CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
RMB'000	**2019**	2018	2017	2016	2015
Revenue	**1,949,459**	1,471,649	1,100,642	848,131	1,035,007
Other (losses)/gains, net	**(7,693)**	(28,947)	36,618	(30,015)	25,212
Operating costs	**(1,648,674)**	(1,315,791)	(1,090,448)	(1,086,199)	(1,508,358)
Operating profit/(loss)	**293,092**	126,911	46,812	(268,083)	(448,139)
Finance costs, net	**(30,355)**	(30,804)	(29,677)	(30,301)	(37,802)
Profit/(loss) before income tax	**262,737**	96,107	17,135	(303,384)	(485,941)
Profit/(loss) for the year	**200,127**	76,639	3,260	(314,654)	(442,555)
Attributable to:					
Owners of the Company	**198,926**	81,798	5,541	(292,346)	(412,165)
Non-controlling interests	**1,201**	(5,159)	(2,281)	(22,308)	(30,390)
Dividends proposed after balance sheet date	**–**	–	–	–	–

Revenue Trend (RMB million)

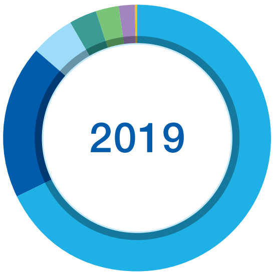


Profit Trend (RMB million)



Financial Summary

Revenue by Region (RMB'000)



- China : 1,326,445
- Kazakhstan : 358,846
- Turkmenistan : 101,942
- Canada : 66,283
- Indonesia : 54,961
- Middle East : 39,684
- Others : 1,298

- China : 922,694
- Kazakhstan : 351,141
- Turkmenistan : 79,195
- Canada : 54,329
- Indonesia : 35,371
- Middle East : 28,184
- Others : 735

Revenue by Business (RMB'000)

- Reservoir : 667,561
- Drilling : 792,939
- Well completion : 488,959

- Reservoir : 621,791
- Drilling : 540,711
- Well completion : 309,147

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2019**	2018	2017	2016	2015
Assets					
Non-current assets	**657,748**	521,081	558,928	612,864	789,360
Current assets	**2,473,726**	1,938,916	1,430,895	1,447,429	1,560,881
Total assets	**3,131,474**	2,459,997	1,989,823	2,060,293	2,350,241
Total equity	**1,499,569**	1,251,412	978,098	1,012,334	1,247,263
Liabilities					
Non-current liabilities	**117,630**	161,632	39,300	125,234	137,856
Current liabilities	**1,514,275**	1,046,953	972,425	922,725	965,122
Total liabilities	**1,631,905**	1,208,585	1,011,725	1,047,959	1,102,978
Total equity and liabilities	**3,131,474**	2,459,997	1,989,823	2,060,293	2,350,241

Chairman's Statement

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

Wang Guoqiang
Chairman of the Board

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 2019 (the "Reporting Year") to the shareholders of the Company.

During the Reporting Year, the Group's revenue amounted to RMB1,949.5 million and the profit attributable to the owners of the Company amounted to RMB198.9 million.

Chairman's Statement

MARKET REVIEW

In 2019, global economic growth slid, the growth in oil demand decelerated, and the international oil price remained highly volatile throughout the year. However, the extent of volatility narrowed comparing to the previous year, with the average crude oil spot price of Brent standing at approximately US$64 per barrel, lower than the average price of last year. Global capital expenditure on drilling and completing new wells in 2019 slightly increased from the previous year, and it grew more significantly in the regions of China, Africa, and the Middle East.

For the PRC market, major oil companies increased investments in upstream exploration, and a good momentum for increasing oil and gas reserves and production was generated. Domestic reliance on foreign oil and gas kept growing, but the growth rate slowed down. According to the report at the 2020 China National Energy Work Conference, it was estimated that the investment in upstream oil and gas exploration and development was RMB332.1 billion in 2019, representing a year-on-year increase of 21.9%. China's three major state-owned oil companies implemented their seven-year action plans aiming at strengthening domestic exploration and development to promote stable oil supply and gas production increase. The huge demand for natural gas led to a continued increase in China's expenditure on the exploration and development of natural gas resources, and the exploration and development of shale gas accelerated.

Under such external environment, in 2019, the Group actively optimised its business layout, and adapted to and catered for the market demand, achieving substantial growth in revenue and profits. As to the market, while actively consolidating the development of overseas markets such as Central Asia, the Group focused on the strategising of the PRC market, especially regional markets such as Xinjiang, Sichuan and Chongqing; while vigorously developing the traditional oil and gas business, it expanded development of the domestic non-conventional oil and gas business segment to secure a leadership position in the high-end oil and gas well business field. As to product and technology, the Group possessed sizable oil reservoirs research capabilities, and mastered high-end drilling technology and advanced well completion solutions. In 2019, the Group established a platform for the introduction, incubation and integration of new technologies. A series of technologies such as high-salt resistant profile control and plugging process technology, compressor drainage gas extraction technology, fine managed pressure drilling technology, and high-temperature resistant and environmentally-friendly water-based system were successfully applied on several projects, further enhancing the Group's core technology competitiveness. As to internal management, the Group further perfected corporate governance, strengthened the building of a talent team, optimised the training system and the information system, reinforced production safety management, further improving internal management efficiency. As to external co-operation, in 2019, the areas for cooperation between the Group and Halliburton (China) Energy Services Co., Ltd. further expanded. The Group and The Fourth Paradigm (Beijing) Technology Co., Ltd. started strategic co-operation on the combination of traditional oilfield service technology with new technologies such as artificial intelligence, jointly penetrating the area of smart oil fields.

Chairman's Statement

PROSPECT

In 2020, it is expected that the global economy will still face relatively great downward pressure. The international oil price may remain volatile within a range. Relative to the volatility of the international market, the PRC market is likely to maintain a growth momentum. China's three major state-owned oil companies are seen to continue to implement their seven-year action plans.

Looking ahead, the main growth drivers of the global oilfield service industry will be the exploration and development of non-conventional oil and gas reserves and the exploration and development of deep-water gas reservoirs. The main growth drivers of China's oilfield services industry will be the exploration and development of domestic non-conventional oil and gas reserves (tight gas, shale gas, tight oil formations) in China. In this market environment, the Group's stimulation and fracturing services, cementing services, well completion equipment and services, and directional drilling services will be the major growth areas of the oilfield services industry.

Based on the foregoing, in 2020, the Group will continue to closely follow the market, strengthen technological innovation, and provide customers with professional solutions to better meet customer needs. As to the domestic market, the Group will fully seize opportunities for growth in the domestic oil and gas industry. Leveraging its advantages established in the non-conventional well business areas such as high temperature high pressure natural gas wells and tight oil, it will continue to consolidate and expand its market share in Tarim Basin, Sichuan Basin and other advantageous blocks. At the same time, the Group will actively expand the domestic offshore oil and gas technology services market to seek new sources for business growth. As to the overseas markets, while consolidating the traditionally advantageous markets such as Central Asia, the Group will further focus on exploring overseas markets including Africa and the Middle East to improve its overseas market layout. As to technological development, in 2020, the Group will put forward a "technology as traction" development strategy. In the future, more efforts will be invested in the introduction and incubation of new technologies, and the research and development of technical equipment to enhance the capability for iterative development so as to promote the development of the Group with technological innovation.

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 international oil price remained volatile. Compared to last year, the general price level was slightly lower, but the overall range of fluctuations was smaller. In 2019, the expenditure on oil and gas exploration and development worldwide slightly increased from last year with large variations in different regions. Among which, the growth in such expenditure in the PRC region was significant. As to the PRC market, with the pushing ahead of the new strategy on energy security, the PRC government stepped up its policy support on domestic oil and gas exploration and development to increase oil and gas reserves so as to curb the overly rapid growth in reliance on oil and gas imports. As a result, the expenditure on upstream oil and gas exploration and development in China grew substantially. Benefiting from the increase in market demand for oil-field services, the oil-field service industry in China was in the prosperity cycle in general.

During the Reporting Year, by fully capitalising on its own strengths, the Group's business in the PRC markets saw significant growth. At the same time, it actively opened up new businesses and new markets while enhancing internal management and strengthening technological capabilities. Revenue and profits grew substantially. Measures taken by the Group are as follows:

First, the Group seized the industry opportunities arising from the PRC government's move to increase reserves and production in China. Leveraging on its technological strengths and experience in the traditional regions, the Group increased the project management efficiency and service quality while closely monitoring the needs of customers. In particular, in the traditional regions such as Tarim oilfield that the Group enjoys comparative strengths, the Group expanded the workload of superior projects including drilling and workover, drilling fluid, stimulation and fracturing, and maintained its industry leading position in the markets of fine managed pressure drilling and high-end well completion.

Second, the Group further cultivated the non-conventional oil and gas market. By accumulating technological strengths and project management experience, the Group optimised the business model and seized the business opportunities arising from the continuous growth of the non-conventional oil and gas market. The Group established its foothold in the shale gas market in Sichuan, Chongqing and Guizhou and performed satisfactorily.

Third, the Group actively expanded into new market regions with focus on the markets in Middle East and Africa. The Group also actively expanded into new businesses with market prospects including green oilfields and offshore oil and gas technical services in the PRC.

Fourth, adhering to the philosophy of "corporate development using technology as traction", the Group reinforced its technological strengths through horizontal cooperation and self-incubation. The Group constantly maintained technological cooperation with its long-term strategic partner Halliburton Energy Services (China) Limited, engaged in the research and development ("R&D") with Southwest Petroleum University and joined hands with The Fourth Paradigm (Beijing) Technology Co., Ltd. to enter the area of smart oilfields.

Fifth, the Group continued to improve the corporate governance system, optimised the information system, improved the staff training system and strengthened employee capability building to increase the Group's operating efficiency.

Based on the foregoing, the Group closely followed the market dynamics, consolidated its market position and enhanced its level of technical services while reducing costs and increasing efficiencies in 2019. The three business segments recorded growth in varying extents.

Management Discussion and Analysis

REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,949.5 million, representing an increase of RMB477.9 million or 32.5% over last year. The analysis of the Group's revenue by business segment is as follows:

	For the year ended 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	*(%)*
Revenue			
Reservoir	**667,561**	621,791	7.4%
Drilling	**792,939**	540,711	46.6%
Well Completion	**488,959**	309,147	58.2%
Total	**1,949,459**	1,471,649	32.5%

Benefitting from the increase in market demand for oil-field service and the increase in the Group's orders, the revenue of the Group realised a relatively large percentage of growth in 2019. Among which, the revenue contribution from reservoir segment accounted for 34.2%, up by RMB45.8 million or 7.4% as compared with that in last year; the revenue contribution from drilling segment accounted for 40.7%, up by RMB252.2 million or 46.6% as compared with that in last year; and the revenue contribution from well completion segment accounted for 25.1%, up by RMB179.8 million or 58.2% as compared with that in last year. In general, the reservoir segment maintained steady growth, whereas the revenue from drilling and well completion segments recorded faster growth.

Oil Reservoir Service Segment

	For the year ended 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from reservoir services			
Overseas	**292,035**	284,084	2.8%
PRC	**375,526**	337,707	11.2%
Total	**667,561**	621,791	7.4%

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.

Management Discussion and Analysis

During the Reporting Year, the business of the Group's reservoir segment grew steadily and recorded revenue of RMB667.6 million, representing an increase of RMB45.8 million or 7.4% as compared with that in last year. In 2019, the revenue from reservoir segment in the PRC market amounted to RMB375.5 million, representing an increase of RMB37.8 million or 11.2% as compared with that in last year, accounting for 56.3% of the total revenue from reservoir segment. The growth of the domestic reservoir business mainly benefitted from the growth in business volume from the station operation and maintenance as well as operation and maintenance of equipment in Xinjiang. In 2019, the revenue from reservoir segment in the overseas markets amounted to RMB292.0 million, representing an increase of RMB8.0 million or 2.8% as compared with that in last year, accounting for 43.7% of the total revenue from reservoir segment.

Drilling Service Segment

	For the year ended 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from drilling services			
Overseas	**225,542**	162,082	39.2%
PRC	**567,397**	378,629	49.9%
Total	**792,939**	540,711	46.6%

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.

During the Reporting Year, the revenue from drilling segment amounted to RMB792.9 million, representing an increase of RMB252.2 million or 46.6% as compared with that in last year. In 2019, the revenue from drilling segment in the PRC market amounted to RMB567.4 million, representing an increase of RMB188.8 million or 49.9% as compared with that in last year, accounting for 71.6% of the total revenue from drilling segment. Revenue from the PRC market grew substantially, mainly benefitting from the growth in business volume from Tarim oilfield's slurry service, underbalance drilling service, fine managed pressure drilling and workover services and Zheng'an's shale gas drilling project. Revenue from the overseas markets amounted to RMB225.5 million, representing a substantial increase of RMB63.5 million or 39.2% as compared with that in last year, accounting for 28.4% of the total revenue from drilling segment. The growth in revenue from the overseas markets was mainly due to the growth in casing head and cementing tool business in Turkmenistan and the workover business in Kazakhstan.

Management Discussion and Analysis

Well Completion Service Segment

	For the year ended 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from well completion services			
Overseas	**105,437**	102,789	2.6%
PRC	**383,522**	206,358	85.9%
Total	**488,959**	309,147	58.2%

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

During the Reporting Year, the revenue from well completion segment amounted to RMB489.0 million, representing an increase of RMB179.8 million or 58.2% as compared with that of last year. Among which, revenue from the PRC market amounted to RMB383.5 million, representing an increase of RMB177.2 million or 85.9% as compared to that in last year, accounting for 78.4% of the total revenue from well completion segment. The growth mainly benefitted from the growth of well completion tool business in the Tarim oilfield and fracturing service in Changning area. Revenue of well completion from the overseas markets amounted to RMB105.4 million, representing an increase of RMB2.6 million or 2.6% as compared with that in last year, accounting for 21.6% of the total revenue from well completion segment.

MARKET ENVIRONMENT

During the Reporting Year, the international oil price remained volatile. Compared to last year, the general price level was slightly lower, and the range of fluctuations was smaller. The prevailing international oil price fluctuations were mainly attributable to the rising shale oil production from the United States, Organization of the Petroleum Exporting Countries ("OPEC") and allies output reduction, uncertainties over global economic prospects and changing international geopolitical conditions. In 2020, it is likely that the international oil price trend will remain weakly balanced but the possibility of fluctuations due to changes in market factors cannot be ruled out.

The global oil-field service companies showed mixed performance and market competition remained fierce. Given the increase in expenditure on oil and gas exploration and development in China, the scale of the domestic oil-field service market expanded in general. Given the lower relevance between the performance of domestic oil-field service providers and the international oil price trend, the overall oil-field service industry in the PRC remained in the prosperity cycle.

Management Discussion and Analysis

Overseas Markets

The Group's overseas markets mainly cover Central Asia such as Kazakhstan and Turkmenistan, Southeast Asia such as Indonesia and Singapore, North America such as Canada and the Middle East. During the Reporting Year, the political and economic environment in the Group's overseas markets was generally stable. The exchange rate of currencies of major overseas markets such as Tenge, Kazakhstan currency and Manat, Turkmenistan currency against the United States dollar remained stable. In 2019, the revenue from Kazakhstan and Turkmenistan amounted to RMB358.8 million and RMB101.9 million, representing 57.6% and 16.4% of the revenue from the overseas markets of the Group and representing an increase of 2.2% and 28.7% from last year, respectively. The business of the Group in Kazakhstan remained stable substantially. The Group's business in Turkmenistan grew quickly. The Group secured the contract regarding the drilling and well completion tool trading project and the natural gas compressor repairs and maintenance project in Turkmenistan. The Group also made positive business progress in other overseas markets. In Indonesia, the Group secure the contract for the large-sum well completion tool order and carried out the oil reservoir, drilling and well completion related technology service businesses. In North America, the Group continued to carry out the pressure gauge and accessory related sales business. In the Middle East, the Group secured the new dynamic monitoring oil reservoir service contract and carried out the workover rig service business. The Group's business expansion in other overseas markets such as Africa was also well underway.

PRC Market

As China pushed ahead the implementation of the new strategy of energy security, coupled with the national policies to step up oil and gas exploration and development efforts and increase oil and gas reserves in China, the three Chinese state-owned oil giants separately formulated the "seven-year action plans" and implemented thoroughly. In 2019, the upstream capital expenditure on exploration and development grew by over 20%. During the Reporting Year, by fully capitalised on its technological strengths and experience, the Group's business in the PRC market grew rapidly.

In 2019, in Xinjiang market, the Group recorded continuous growth in the drilling, workover, drilling fluid and high-end well completion businesses, and maintained its leading position in the high-end well completion market, oil-based drilling fluid market and fine managed pressure drilling market in the region. The Group added a set of workover equipment, won the bid for the integrated support service turnkey business contract worth of approximately RMB80 million with respect to the workover of about 8 wells in the Tarim Oilfield. The Group entered into the fracturing equipment service contract in the sum of approximately RMB50 million. The Group also entered into the large-sum turnkey service contract for station operation and maintenance and the well completion tool service contract for gas storage in Hutubi.

The non-conventional oil and gas and other businesses of the Group also made breakthrough. The sizable development of shale gas has become one of the key business growth points of the Group. In 2019, the Group secured a turnkey project worth of approximately RMB200 million for drilling service in the Changning region with respect to the Sichuan and Chongqing market, won the bid for the turnkey project exceeding RMB70 million for shale gas drilling in the Guizhou region, and won the bid for the large-sum turnkey framework project for well completion tool service. The Group undertook the Qinghai hot dry rock project under the national new energy key project and successfully completed drilling and smoothly carried out the turnkey project for high concentration carbon dioxide capture and geological storage drilling and well completion in Inner Mongolia, the PRC.

Management Discussion and Analysis

Based on the foregoing, in 2019, the Group seized the industry opportunities arising from the government policies to support oil and gas development, intensively explored the traditional markets and non-conventional oil and gas markets domestically and actively consolidated and expanded the overseas markets while enhancing the technological standards and project operational and management capabilities to cope with the opportunities and challenges brought by the external market environment by maintaining and enhancing competitive strengths in the market cycle of prosperity.

R&D AND MANUFACTURING

In 2019, the Group built the incubation and integration platform for the introduction of new technologies to continuously push ahead the large-scale application of new technologies. During the year, the major efforts of the Group mainly centred on the incubation and innovation of technologies including "process technique of enhancing oil and gas reservoir recovery", "drilling efficiency enhancement process technique", "new process technique of reservoir layer reformation of non-conventional oil and gas fields" and "high-end well completion process" while adjusting the Group's technology structure to strengthen its core technological competitiveness.

As to oil reservoir, the matching process technique of brine resistant profile control and water shutoff (抗高鹽調剖堵水工藝技術) was successfully promoted and widely applied in an oilfield in Kazakhstan, accomplishing the workload for more than 20 wells. The stimulation results of such process technique were good and received high recognition from customers, which provided full assurance for its subsequent workload. The compressor dewatering gas recovery technology was successfully applied in the gas field project in Hotan River, Tarim. Currently, the project is running smoothly. The technology has successfully solved the problem of water invading into the well, thus laying a foundation for subsequent mass application. The optic fibre monitoring technology was successfully applied in Tianjin's geothermal project, Jiangsu and Southwest gas fields' gas storage projects as well as Changqing's oilfield. Currently, the technology is at a preliminary development stage in the industry, which is conducive to facilitating the Group's rapid expansion of market share in such business segment. The ultra-high temperature and ultra-high pressure logging technology was successfully applied in Tarim, Xinjiang. Leveraging on such technology, the Group smoothly completed the operations of static temperature and static pressure gradient testing (測靜溫靜壓梯度作業) and set a record high in well depth under cable operations. The technology received customers' trust and recognition, which laid a solid foundation for its subsequent workload.

As to well drilling, the Group's four drilling platforms under Changning's shale gas project successfully commenced operation and completed drilling. This marked the comprehensive enhancement and integration of the technological capabilities of the Group in drilling shale gas complex wells and handling complex drilling incidents. Meanwhile, through the improvement of the fine managed pressure drilling technology, the Group overcame the drilling pain point of "two highs and one low" (two abnormal high-pressure layers and one abnormal low-pressure layer) in the Tarim oilfield. The successful application in well operations has built good credibility for the Group's expansion to the Kuche Shanqian market of the Tarim oilfield. In addition, R&D of the high-temperature resistant environmentally friendly water-based system was a success. The system met the national standards after inspection by a professional institution and was successfully applied in two wells in the Tarim region. This has allowed the Group to build a leading position in the environmentally friendly water-based drilling fluid market in Tarim.

Management Discussion and Analysis

As to well completion, the "multi-stage fracturing and tubing string process technique for high-pressure gas wells, vertical wells and high-angle wells" and the "well completion process technique of chemical injection valve for high wax incrustation gas wells + safety valve for deep wells" (高含蠟結垢氣井化學注入閥+深井安全閥完井工藝技術) were successfully promoted and applied in the "three highs" (high temperature, high pressure and high sulphur volume) gas fields in Tarim, such that the Group continued to dominate the market in Tarim in the area of high-end well completion business. This has laid a foundation for the potent development of the well completion business in the Tarim market.

As to well workover, the "multi-functional integrated well casing preparation supporting process technique" is a workover supporting technique independently developed by the Group which has filed a patent application. The process technique is able to combine the three conventional operations during oil recovery testing namely scrapping of well casing (井筒刮壁), milling of bell mouth (磨銑喇叭口) and milling of drafting process (磨銑通井) so as to achieve well casing preparation in one drilling, which can shorten the cycle, increase efficiency and enhance added value of single-well operations. This can enhance the Group's competitiveness in the workover market in Tarim.

As to fracturing, the "crack control precision cutting volume fracturing technology for horizontal wells" (水平井縫控密切割體積壓裂技術) was successfully applied in Changning. Compared with neighbouring wells, the test production was 1.6-2.5 times higher. The stimulation results were good, thus receiving high recognition from customers. Currently, the Group is entering into a number of platform risk work contracts. The promotion of technology mainly focused on the shale gas market in Sichuan and Chongqing as well as the tight oil and gas market around Mahu-Jimusar.

In addition to the successful application of the aforesaid technologies, the Group carried out integration, R&D and incubation of the rotary geosteering technology, HyperLCasing leakproof plugging process technology, well integration evaluation technology, smart oilfield related technology, process technique of oil and gas recovery enhancement and highly difficult and risky turnkey workover technology, etc. Several exchanges with customers in various regional markets were conducted with sound feedbacks. Some technologies have undergone pilot run onsite and will be implemented in projects soon, thus building a certain level of industry value. In 2020, the Group will focus its resources on promoting these technologies for greater market prospects.

In 2020, by introducing the development strategy of "technology as traction", the Group has formulated the strategic plan for technological development of the coming three years and will allocate more resources to new technology introduction and incubation as well as equipment R&D in an effort to expedite the enhancement of technological capabilities, thus building the Group into an industry leading oil-field service company possessing core technologies.

HUMAN RESOURCES

Based on the Group's strategic plans and business objectives, in the area of human resources, in 2019, the Group improved its corporate culture and human resources systems as well as improved its strategic talent allocation and employee capability development systems. By optimising its performance-oriented incentive mechanism, the Group better capitalised on the employees' initiative to promote team building and enhance management efficiency. In addition, the Group adopted a share option scheme on 1 December 2011. The Group will continue to consider granting share options to eligible persons in accordance with the share option scheme to better achieve long-term talent incentives. From 1 December 2011 to 31 December 2019, the Group granted a total of 328,250,000 share options.

Management Discussion and Analysis

In 2019, the Group completed the development of the training system and carried out various training projects, including new joiner training, management training and technical and safety training, while building an online learning platform. In 2019, attendance in the training reached 9,000 and the training covered all business regions and project departments domestically and abroad with 100,000 training hours cumulatively.

As at 31 December 2019, the Group had a total of 3,712 employees, up by 87 employees from 3,625 employees as at 31 December 2018. In 2019, the actual costs of human resources of the Group were controlled within the budget amount set at the beginning of the year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, revenue of the Group was RMB1,949.5 million, representing a year-on-year increase of RMB477.9 million, or 32.5%, as compared with that of RMB1,471.6 million for the previous year. The increase was mainly due to the continuous growth of the Group's overall business volume.

Other losses, net

For the year ended 31 December 2019, other losses, net of the Group were RMB7.7 million, representing a year-on-year decrease of RMB21.2 million or 73.4% as compared to other losses, net of RMB28.9 million for the previous year. The decrease was mainly due to the decrease in exchange loss as foreign exchange rate remained relatively stable for the year.

Material costs

For the year ended 31 December 2019, material costs of the Group were RMB380.0 million, representing a year-on-year increase of RMB76.5 million, or 25.2%, as compared with that of RMB303.5 million for the previous year. The increase of material costs was mainly due to the continuous growth of the Group's overall business volume.

Employee benefit expenses

For the year ended 31 December 2019, employee benefit expenses of the Group were RMB498.3 million, representing a year-on-year increase of RMB89.2 million, or 21.8%, as compared with that of RMB409.1 million for the previous year. The increase was mainly due to the growth of operating activities of the Group and the increase in labour costs.

Short-term and low-value lease expenses

For the year ended 31 December 2019, the short-term and low-value lease expenses amounted to RMB84.1 million, representing an increase of RMB84.1 million as compared with that in the previous year. The increase was mainly due to the change in accounting policy for leases.

Management Discussion and Analysis

Transportation costs

For the year ended 31 December 2019, transportation costs of the Group were RMB29.9 million, representing a year-on-year increase of RMB2.1 million, or 7.6%, as compared with that of RMB27.8 million for the previous year. The increase was mainly due to the growth and recovery of operating activities of the Group.

Depreciation and amortisation

For the year ended 31 December 2019, depreciation and amortisation of the Group was RMB84.6 million, representing a year-on-year increase of RMB13.2 million, or 18.5%, as compared with that of RMB71.4 million for the previous year. The increase was mainly due to the change in the accounting for leases, resulting in an increase in the depreciation and amortisation of right-of-use assets.

Technical service expenses

For the year ended 31 December 2019, technical service expenses of the Group were RMB383.3 million, representing a year-on-year increase of RMB164.0 million, or 74.8%, as compared with that of RMB219.3 million for the previous year. The increase was mainly due to the increase in operating activities of the Group.

Impairment losses of assets

For the year ended 31 December 2019, impairment losses of assets of the Group were RMB8.8 million, representing a year-on-year decrease of RMB10.8 million or 55.1% as compared to impairment loss of assets of RMB19.6 million in the previous year.

Others

For the year ended 31 December 2019, other operating costs of the Group were RMB179.8 million, representing a year-on-year increase of RMB3.3 million as compared with that of RMB176.5 million for the previous year.

Operating profit

As a result of the aforementioned factors, the Group's operating profit during the Reporting Year was RMB293.1 million, representing a year-on-year increase of RMB166.2 million or 131.0% compared with the operating profit of RMB126.9 million for the previous year. The increase was mainly due to the growth of operating activities of the Group.

Finance costs, net

For the year ended 31 December 2019, the Group's finance costs, net were RMB30.4 million, representing a year-on-year decrease of RMB0.4 million, or 1.3%, as compared with that of RMB30.8 million for the previous year.

Management Discussion and Analysis

Income tax expense

For the year ended 31 December 2019, income tax expense was RMB62.6 million, compared with the income tax expense of RMB19.5 million for the previous year, representing a year-on-year increase of RMB43.1 million or 221.0%. The increase in income tax expense was mainly as a result of the growth of the Group's business volume, which increased the profit for the year.

Profit for the year

As a result of the explanations above, the Group's profit for the Reporting Year was RMB200.1 million, representing a year-on-year increase of RMB123.5 million or 161.2% as compared to profit for the prior year of RMB76.6 million. The increase was mainly due to the growth and recovery of the operating activities of the Group.

Profit attributable to the owners of the Company

For the year ended 31 December 2019, profit attributable to the owners of the Company was RMB198.9 million, representing a year-on-year increase of RMB117.1 million or 143.2% as compared to profit attributable to the owners of the Company of RMB81.8 million for the previous year. The increase was mainly due to the growth and recovery of the operating activities of the Group.

Property, plant and equipment

As at 31 December 2019, property, plant and equipment was RMB403.2 million, representing a year-on-year increase of RMB69.6 million, or 20.9%, from RMB333.6 million as at 31 December 2018. The increase was mainly due to the purchase of new equipment during the period to satisfy business needs.

Right-of-use assets

As at 31 December 2019, the carrying value of right-of-use assets was RMB101.1 million, representing an increase of RMB101.1 million from that as at 31 December 2018. The increase was mainly due to the change in accounting policy for leases.

Land use rights

As at 31 December 2019, the carrying value of land use rights was nil, representing a decrease of RMB20.8 million, or 100.0%, from RMB20.8 million as at 31 December 2018. The decrease was mainly due to the transfer of land-use-rights assets to right-of-use assets as a result of the changes in accounting policy for leases.

Intangible assets

As at 31 December 2019, intangible assets were RMB4.0 million, representing a decrease of RMB9.7 million, or 70.8%, from RMB13.7 million as at 31 December 2018. The decrease was mainly due to the continuing amortisation of the existing intangible assets.

Management Discussion and Analysis

Deferred income tax assets

As at 31 December 2019, deferred income tax assets were RMB101.0 million, representing a decrease of RMB30.4 million, or 23.1%, from RMB131.4 million as at 31 December 2018. The decrease was mainly due to the Group's utilisation of tax losses carried forward.

Prepayments and other receivables

As at 31 December 2019, non-current portion of prepayments and other receivables was RMB38.0 million, representing an increase of RMB21.9 million, or 136.0%, from RMB16.1 million as at 31 December 2018. The increase was mainly due to the increase in prepayments made by the Group for the purchase of new equipment. The current portion of prepayments and other receivables was RMB231.8 million, representing a decrease of RMB57.4 million, or 19.8%, from RMB289.2 million as at 31 December 2018. The decrease was mainly due to the reduced percentage of contract prepayments of the Group.

Inventories

As at 31 December 2019, inventories were RMB464.7 million, representing an increase of RMB91.6 million, or 24.6%, from RMB373.1 million as at 31 December 2018. The increase was mainly due to the growth and recovery of operating activities of the Group.

Trade and note receivables/trade and note payables

As at 31 December 2019, trade and note receivables amounted to RMB1,139.8 million, representing an increase of RMB248.6 million, or 27.9%, from RMB891.2 million as at 31 December 2018. The increase was mainly due to the increase of revenue realised during the Reporting Year. As at 31 December 2019, trade and note payables amounted to RMB910.4 million, representing an increase of RMB207.9 million, or 29.6%, from RMB702.5 million as at 31 December 2018. The increase was mainly due to the growth of operating activities of the Group.

Liquidity and capital resources

As at 31 December 2019, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB605.9 million, representing an increase of RMB245.0 million, or 67.9%, from RMB360.9 million as at 31 December 2018. The increase was mainly due to the growth of operating activities of the Group.

As at 31 December 2019, the Group's short-term borrowings and current portion of long-term borrowings were RMB344.8 million while the long-term borrowings were RMB47.4 million. As at 31 December 2018, the Group's short-term borrowings and current portion of long-term borrowings were RMB154.5 million while the long-term borrowings were RMB143.0 million. As at 31 December 2019, the bank borrowings of the Group were mainly denominated in RMB and such borrowings were generally subject to a fixed interest rate.

As at 31 December 2019, the Group's current lease liabilities were RMB20.8 million while the non-current lease liabilities were RMB48.7 million.

Management Discussion and Analysis

As at 31 December 2019, the Group's gearing ratio was 30.8%, representing an increase of 7.0% as compared with 23.8% as at 31 December 2018. Gearing ratio was calculated as total debt divided by total equity. Total debt included total borrowings and lease liabilities. The increase in gearing ratio was mainly due to the application of new lease standard in 2019.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2019, the total number of ordinary shares of the Company in issue was 1,853,575,999 shares (31 December 2018: 1,849,021,665 shares). As at 31 December 2019, equity attributable to the owners of the Company was RMB1,397.5 million, representing an increase of RMB239.5 million, or 20.7%, as compared with RMB1,158.0 million as at 31 December 2018.

Significant investment held

As at 31 December 2019, 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 2019, the Group pledged parts of its right-of-use assets 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 2019 ***RMB'000***	As at 31 December 2018 *RMB'000*
Right-of-use assets	**5,694**	–
Trade and note receivables	**302,000**	218,516
Long-term prepayments	**–**	6,130

Secured loans from a third party institution

The Group's loans from a third party institution are expiring in 2021 and 2022 and are secured by certain machinery with a carrying amount of RMB66,807,000 (2018: RMB49,905,000), and guarantee of a subsidiary of the Group.

Management Discussion and Analysis

Contingent liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2019, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2019, the Group had capital expenditure commitments of RMB46.4 million, while short-term and low-value operating lease commitments were mainly lease of warehouses and equipment with the amount of RMB3.1 million.

SUBSEQUENT EVENT

After the outbreak of Coronavirus Disease ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and many other countries. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any material adverse effects as a result of the COVID-19 outbreak.

OUR PLANS

Looking ahead to 2020, the oversupply of crude oil is likely to continue in general and the oil price trends will continue to face uncertainties. Compared to the overseas markets, the oil-field service market in the PRC may have more market opportunities.

As to the PRC market, with the ongoing implementation of the seven-year action plan to step up oil and gas exploration and development in the PRC, the number of drilling wells in the PRC is expected to grow in 2020, whereas the expenditure on exploration and development is expected to increase. The PRC oil companies are stepping up the exploration and development in the Middle and Western China and the natural gas exploitation will be the focus of resources exploration in China. This will be conducive for the Group to capitalising the strengths built in non-conventional wells such as high-temperature and high-pressure natural gas wells.

Management Discussion and Analysis

To further closely follow the market demand and capture the development opportunities, the Group will continue to focus its efforts on the following areas in 2020:

1. The Group will make good use of the benefits of the policies in the PRC market and capitalise on the opportunities arising from the increase exploration and development of and investment in oil and gas by "the three oil giants" in PRC for sometime in the future. Leveraging on the Group's strengths in the PRC market, the Group will further expand its scale of operation in the PRC market and expand its market share.

2. Coupled with the key direction of the oil companies' exploration and development in the future, the Group will further expand its services in the area of high-end oil and gas wells by leveraging on its leading advantage in the high-end oilfield and gasfield services market in China.

3. Targeting at Africa and the Middle East, the Group will further expand its overseas business layout to initiate sizable operation in the new overseas markets, thus optimising the overseas business layout.

4. The Group will expand the offshore oil and gas technology service market in China by capitalising on the breakthroughs in oilfield conservation and stimulation technology.

5. Adhering to the technology-oriented philosophy, the Group will strengthen the development of technological capability with focus on enhancing the integrated turnkey service capability as well as the special technological service capability on complex wells and high-end wells.

6. The Group will further enhance its management efficiency, reduce operating costs and strengthen the building of talent teams so as to achieve sustainable development.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 57, 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 35 years of experience in the petroleum industry. Mr. Wang has been a Director of the Company since June 2008. He served as an engineer of North China Oil Field Testing Company (華北油田測試公司), 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 48, 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 28 years of experience in the petroleum industry. Mr. Wu has been a Director of the Company since June 2008. 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.

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. (formerly known as China National Building Material Group Corporation) 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.

Li Qiang (李強), aged 44, is an executive Director, vice president and chief financial officer of the Company. He is primarily responsible for internal control affairs of the Group including planning and operations, capital operation and information disclosure. Mr. Li has more than 22 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.

Directors' and Senior Management's Biographies

NON-EXECUTIVE DIRECTOR

Chen Chunhua (陳春花), aged 56, 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 is concurrently a non-executive 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 served South China University of Technology from July 1986 to January 2019 and held the positions of professor and tutor of doctoral students in the Business Administration School. 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 66, 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 46, 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. (成都市天鑫洋金業有限責任公司) 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 49, 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. 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), the vice chairman of its Hong Kong Branch and the deputy director and chief M&A legal officer of the Overseas United Working Committee of China Association for Promoting International Economic & Technical Cooperation. Mr. Wan has over 25 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) 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. Mr. Wan was an independent non-executive director and a member of the Audit Committee of Lerthai Group Limited (a company listed on the Stock Exchange, stock code: 00112) from December 2018 to December 2019. 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

Gao Wenhai (高文海), aged 52, has been the vice president of the Group since May 2018, currently in charge of the business in the Middle East and Africa. Mr. Gao has over 18 years of experience in the petroleum industry and accumulated extensive working experience in China and overseas regions including South America, Middle East, Southeast Asia and Central Asia. 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. 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.

Directors' and Senior Management's Biographies

Zhao Feng (趙峰), aged 54, 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 31 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.

Xu Anping (徐安平), aged 61, has been the vice president of the Group since April 2019, mainly in charge of the operation management and new market expansion of the companies of the Group in Central Asia. Mr. Xu has over 30 years of experience in the petroleum industry. From September 1980 to September 1997, Mr. Xu worked at the Research Institute of Exploration and Development of Xinjiang Oilfield Company as director of the Oilfield Dynamics Research Office and director of the Development and Planning Research Office. He served as the development and production manager and deputy general manager of CNPC International (Aketobin) Company from October 1997 to January 2009; the deputy chief engineer of CNPC International (Kazakhstan) Company from February 2009 to January 2017; and the deputy chief engineer of CNPC International (Central Asia) Company and the deputy general manager of CNPC International (Aketobin) Company from February 2017 to January 2019.

Luo Hong (羅洪), aged 57, has been the vice president of the Group since November 2019, fully in charge of the technology management of the Group. Mr. Luo has over 30 years of experience in the petroleum industry domestically and abroad. He served as the engineer and deputy chief of the Quality Management Division of Sinopec Anshan Refinery, and successively held the positions of chief engineer, sales manager and country manager of Halliburton Drilling Fluid China (and North Asia) Region. He also worked at Halliburton (International) and was engaged in operational management and project management in Asia Pacific and Russia. Mr. Luo obtained a bachelor of science degree in chemistry from Sun Yat-Sen University in 1984, a master's degree in engineering (organic chemicals) from Sinopec Research Institute of Petroleum Engineering in 1991 and a master's degree in business administration from University of International Business and Economics in 2001.

Chen Jian (陳劍), aged 44, has been the director of investor relations of the Group, mainly in charge of investor relations, capital operation, information disclosure, financing and work related to the Board and general meeting. Ms. Chen joined the Group in 2009 and held the positions of finance manager, deputy financial controller and investment and finance director, during which she was in charge of the financial regulation, financial system building, financial information disclosure and financing in the initial public offering of the Group. She has over 20 years of experience in finance management and finance related work. Prior to joining the Group, she worked at Cummins (Beijing) Co., Ltd. and Cummins (China) Investment Co., Ltd., mainly in charge of finance management and financing related work. Ms. Chen obtained a bachelor's degree in accounting from Tianjin University of Finance and Economics and a master's degree in finance from Renmin University of China. She is granted the qualification of international accountant.

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 2019.

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 and the manufacturing of oilfield services related products. Analysis of the principal activities of the Group during the year ended 31 December 2019 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 22 of this annual report. No important events affecting the Group have occurred since the end of the financial year ended 31 December 2019. 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 protection objective

Adhering to the mission of "Respect for Nature and Care for Environment", no incident of environmental pollution and ecological destruction was identified in 2019.

2. Fulfilling the responsibilities of environmental protection

The Group takes a proactive approach in fulfilling the environmental protection responsibilities. Through entering into the Letter of Responsibilities for Environmental Assessment in 2019 with the subsidiaries within the Group, the Group has explicitly defined the environmental assessment indicators and strengthened the control of the key environmental factors in its production and operating activities.

3. External review of environmental system

The Group actively promotes the development of the environmental management system. Through ongoing refinement of the environmental management system, 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 ISO14000 environmental management system certification as well as the annual supervision and review.

Report of the Directors

4. Training on environmental protection

The Group endeavours to strengthen the education of employees on environmental protection by promoting the study of relevant environmental protection regulations such as Solid Waste Control Procedures to raise the employees' awareness on the significance of environmental protection and further enhance the expertise and skills of environmental protection with a view to actively promoting environmental protection and safeguarding the Group from environmental issues.

5. Green operational requirements of clients and respective regions

Adhering to the sustainability philosophy of "green, clean, low-carbon and circular economy", the Group integrates the green strategy into various segments of production and operation to achieve green production. The Group actively complies with the environmental protection laws and regulations in the jurisdictions where the Group operates and regularly accepts environmental assessment and inspection by the local government onsite in order to meet the green operational requirements.

MARKET RISKS AND UNCERTAINTIES

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 2019, the international oil price remained volatile. It is expected that the international oil price in 2020 will continue to face many uncertainties. Volatility in oil price will bring uncertainties to the business development of the Group.

Fluctuations in exchange rates of Kazakhstan Tenge ("KZT") against the United States dollar ("USD") 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. Compared with last year, exchange rates of KZT against RMB fell slightly on the whole in 2019, but it did not have a significant impact on the Group.

In addition, uncertainties exist in some new business development and new market expansion. The Group actively expands into new businesses and new markets to seek more profit growth points. The future growth prospects of these businesses should be further observed.

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 2018 and 2019, revenue generated from CNPC and its affiliates accounted for 78.9% and 77.2% of total revenue, respectively.

Report of the Directors

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 2019, 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 2019 are set out in the consolidated income statement on page 79 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: 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.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for 44.2% (2018: 41.5%) of the Group's total purchases and purchases from the largest supplier accounted for 22.4% (2018: 28.6%).

For the year ended 31 December 2019, the Group's sales to its five largest customers accounted for 60.9% (2018: 59.8%) of the Group's total sales and sales to the largest customer accounted for 28.8% (2018: 27.1%).

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 2019 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 15 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 share option scheme, 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 2019 or subsisted at the end of the year 2019.

RESERVES

Details of movements in the reserves of the Company during the Reporting Year are set out from pages 81 to 82 in the consolidated statement of changes in equity.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,253.3 million (as at 31 December 2018: RMB1,236.1 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in Note 18 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this report were:

Executive Directors:

Mr. Wang Guoqiang *(Chairman)*
Mr. Ethan Wu *(Chief Executive Officer)*
Mr. Li Qiang
Mr. Wu Jiwei (appointed on 26 March 2019)

Non-executive Director:

Ms. Chen Chunhua

Independent non-executive Directors:

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

In accordance with Article 108 of the articles of association of the Company (the "Articles of Association"), Mr. Wang Guoqiang, Mr. Ethan Wu and Mr. Wu Kwok Keung Andrew 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 23 to 26 of this annual report.

Report of the Directors

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 2019.

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 2019.

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 2019.

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.

Regarding the remuneration system of employees, the Group is optimising the remuneration structure and building an incentive system in line with the performance-based approach.

Particulars of the remuneration of the Group for the year ended 31 December 2019 are set out in note 23 to the consolidated financial statements.

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 23 and Note 34 to the consolidated financial statements.

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

As at 31 December 2019, 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)	34.99%
	Beneficial owner (Note 3)	2,590,000 (L)	0.14%
Mr. Ethan Wu	Beneficiary of trusts (Note 2)	648,484,000 (L)	34.99%
	Beneficial owner (Note 3)	2,590,000 (L)	0.14%
Ms. Chen Chunhua	Beneficial owner (Note 3)	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	Beneficial owner (Note 3)	3,500,000 (L)	0.19%
Mr. Li Qiang	Beneficial owner (Note 3)	11,568,000 (L)	0.62%
Ms. Zhang Yujuan	Beneficial owner (Note 3)	2,500,000 (L)	0.13%
Mr. Wu Jiwei	Beneficial owner (Note 3)	15,000,000 (L)	0.81%

Report of the Directors

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, Ms. Zhang Yujuan and Mr. Wu Jiwei 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 2019, 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 2019 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 2019, 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:

Report of the Directors

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)	7.41%
Elegant Eagle Investments Limited (Notes 1 and 6)	Interest of controlled corporation	158,972,000 (L)	8.58%
Truepath Limited	Beneficial owner	489,512,000 (L)	26.41%
Red Velvet Holdings Limited (Notes 2 and 6)	Interest of controlled corporation	489,512,000 (L)	26.41%
Credit Suisse Trust Limited (Notes 3 and 6)	Trustee	711,642,242 (L)	38.39%
Greenwoods Asset Management Limited (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%
Greenwoods Asset Management Holdings Limited (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%
Jiang Jinzhi (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%
Unique Element Corp. (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%

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.

Report of the Directors

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 2019, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in this report, during the year ended 31 December 2019, 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 2019.

Report of the Directors

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2019, 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 2019, 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 2019 as set out in Note 32 to the consolidated financial statements in this annual report do not fall under the definition of "connected transactions" or "continuing connected transaction" under Chapter 14A of the Listing Rules.

SHARE OPTION SCHEME

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

1. Purpose

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

2. Participants

The Board 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 13 June 2019, representing 10% of the shares in issue on the same date (i.e. a total of 184,988,866 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.

Report of the Directors

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 1 year 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 13 June 2019. 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.

Report of the Directors

Movements of the share options under the Share Option Scheme during the year ended 31 December 2019 are as follows:

Grantee	Number of share options Outstanding as at 1 January 2019	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2019	Date of grant	Date of expiry	Exercise price per share
Directors									
Mr. Wang Guoqiang	1,090,000 (Note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 4)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Ethan Wu	1,090,000 (Note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 4)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Wu Jiwei	9,000,000 (Note 5)	–	–	–	–	9,000,000	26/09/2018	25/09/2028	HK$0.740
	6,000,000 (Note 6)	–	–	–	–	6,000,000	06/12/2018	05/12/2028	HK$0.532
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. 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
Mr. Wan Kah Ming	333,334 (Note 2)	–	–	–	–	333,334	29/03/2012	28/03/2022	HK$1.360

Report of the Directors

Grantee	Outstanding as at 1 January 2019	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2019	Date of grant	Date of expiry	Exercise price per share
		Number of share options							
	1,000,000 (Note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	500,000 (Note 4)	–	–	–	–	500,000	31/08/2016	30/08/2026	HK$0.490
Employees and other grantees* (in aggregate)	7,362,000 (Note 1)	–	–	–	1,498,000	5,864,000	20/02/2012	19/02/2022	HK$1.292
	2,750,000 (Note 2)	–	–	–	–	2,750,000	29/03/2012	28/03/2022	HK$1.360
	34,320,000 (Note 3)	–	–	–	4,110,000	30,210,000	13/06/2013	12/06/2023	HK$4.694
	94,786,000 (Note 4)	–	4,554,334 (Note 7)	–	3,148,000	87,083,666	31/08/2016	30/08/2026	HK$0.490
	51,000,000 (Note 5)	–	–	–	–	51,000,000	26/09/2018	25/09/2028	HK$0.740
	31,000,000 (Note 6)	–	–	–	–	31,000,000	06/12/2018	05/12/2028	HK$0.532
Total	**264,299,334**	**–**	**4,554,334**	**–**	**8,756,000**	**250,989,000**			

* Other grantees include Mr. Liu Ruoyan and Mr. Lin Yang who resigned as an executive director and a non-executive director of the Company respectively on 31 August 2018.

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.

Report of the Directors

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$0.712 per share.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the twelve months ended 31 December 2019 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2019, the Group did not make 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 2019.

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 55 of this annual report.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the 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 2019.

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 2020

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.

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 2019. 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 34 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.

Corporate Governance Report

During the year of 2019, 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:

Directors	Position	Reading regulatory update	Attending courses relevant to the business of the Group or directors' duties
Mr. Wang Guoqiang	Executive Director	√	√
Mr. Ethan Wu	Executive Director	√	√
Mr. Wu Jiwei (Note)	Executive Director	√	√
Mr. Li Qiang	Executive Director	√	√
Ms. Chen Chunhua	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. Wu Jiwei has been appointed as an executive Director of the Company with effect from 26 March 2019.

Corporate Governance Report

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman of the Board and the chief executive officer are currently held by Mr. Wang Guoqiang and Mr. Ethan Wu respectively, with clear distinction in their responsibilities. The chairman of the Board is responsible for providing strategic advice and guidance on the business development of the Group while the chief executive officer is responsible for the day-to-day operations of the Group.

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 2019 annual general meeting on 13 June 2019 (the "2019 AGM"), Mr. Li Qiang, Mr. Wu Jiwei, Ms. Chen Chunhua and Mr. Wan Kah Ming retired by rotation pursuant to Article 108 and Article 112 of the Articles and Association. All of them were re-elected as Directors. Please refer to the Report of the Directors for details of the members of the Board who will retire from office and offer for re-election at the 2020 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.

Corporate Governance Report

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, five Board meetings and one general meeting (2019 AGM) were held and the attendance of the individual Directors at these meetings is set out in the table below:

	Attended/Eligible to attend	
Directors	**Board Meetings**	**Annual General Meeting**
Mr. Wang Guoqiang	5/5	1/1
Mr. Ethan Wu	5/5	1/1
Mr. Li Qiang	5/5	1/1
Mr. Wu Jiwei (Note)	4/4	1/1
Ms. Chen Chunhua	4/5	1/1
Ms. Zhang Yujuan	5/5	1/1
Mr. Wu Kwok Keung Andrew	4/5	1/1
Mr. Wan Kah Ming	5/5	0/1

Note: Mr. Wu Jiwei has been appointed as an executive Director of the Company with effect from 26 March 2019.

During the Reporting Year, the Chairman of the Company held three meetings with 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 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.

Corporate Governance Report

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.

Corporate Governance Report

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, two meetings of the Nomination Committee were held on 26 March 2019 and 6 December 2019 and the attendance record of the Nomination Committee members is set out in the table below:

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

During the Reporting Year, the Nomination Committee assessed the independence of independent non-executive Directors and considered the re-election of the retired Directors and appointment of new director.

Corporate Governance Report

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.

Corporate Governance Report

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 26 March 2019 and 6 December 2019. 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 Director 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, three meetings of the Remuneration Committee were held on 26 March 2019, 26 August 2019 and 6 December 2019 and the attendance record of the Remuneration Committee members is set out in the table below:

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

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

Corporate Governance Report

Details of the remuneration by band of the 6 members of the senior management of the Group, whose biographies are set out on pages 25 to 26 of this annual report, for the Reporting Year are set out below:

Remuneration band (RMB)	Number of individual
0-1,000,000	4
1,500,000-2,000,000	1
2,000,001-2,500,000	1

Audit Committee

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

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

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

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

During the Reporting Year, three meetings of the Audit Committee were held on 26 March 2019, 26 August 2019 and 6 December 2019 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 Group'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

Corporate Governance Report

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 the Group for employees to raise concerns about possible improprieties in financial reporting, internal control and other matters. The Audit Committee reviewed the whistleblowing system for employees and those who deal with the Group (eg. customers and suppliers) to raise concerns in confidence about possible improprieties in any matter related to the Group 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 26 March 2019, 26 August 2019 and 6 December 2019.

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 2019 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 2019, the Company provides all members of the Board with regular updates on the Company's performance, position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group has a risk management department in place responsible for overseeing and assessing the internal control and risk management functions, and reporting to the Audit Committee. 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 reported or suspected frauds during audit, it carried out detailed investigation and handled them properly. At the same time, it improved the exit audit 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. Through strengthening the oversight of and assessment on the effectiveness of the internal control system, the risk management department facilitates 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 to enhance the operating efficiency of the Group.

The risk management department reports to the Audit Committee on the findings of the audit on a bi-annual basis and continues to follow up on the execution of the person-in-charge'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 and supervision.

Corporate Governance Report

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 2019, 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.

Corporate Governance Report

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 2019, audit fees of RMB4.65 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, a director and head of listing corporate services department of Trident Corporate Services (Asia) Limited, 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 2019, 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.

Corporate Governance Report

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 2019 AGM, all resolutions were passed by poll by the Shareholders.

Convening of Extraordinary General Meeting and Putting Forward Proposals

Article 64 of the Company's Articles of Association provides that an extraordinary general meeting may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified therein. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

For proposal of a person for election as Director, pursuant to Article 113 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Company's head office in the People's Republic of China or at the Company's registered office. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

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 2019, there is no significant change in constitutional documents of the Company.

Hong Kong, 26 March 2020

Environmental, Social and Governance Report

The Group undertakes to abide by the environmental laws and regulations of the PRC and other jurisdictions where it operates, internationally recognised labour standards and other applicable industry standards and international conventions to improve the working conditions and employee benefits. The Group also actively promotes waste and greenhouse gas emission reduction, implements energy-saving and emission reduction and strives to reduce 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, while promoting the sustainable use of energy, water, gas, paper and other raw materials, and reducing the impact of its course of business on the species diversity and ecosystem.

During the year ended 31 December 2019, the Group did not experience any penalty in relation to environmental protection.

1.1 Emissions

The Group is likely to incur consumption and emission in the following four areas:

1. Consumption in the course of drilling and workover operations (diesel, electricity and water for production);

2. Emission from various vehicles used in the course of production and operation (emissions include nitrogen dioxide, sulphur dioxide and hydrocarbon related pollutants);

3. Discharge from solid waste and waste liquid (mainly include domestic garbage and domestic wastewater);

4. Consumption at various levels of the enterprise (water, electricity, natural gas and paper).

Environmental, Social and Governance Report

1.1.1 *Major Emissions and Emission Profile*

Indicator	2019	2018	Change
Nitrogen oxide (kg)	**6,724.5**	**6,742.2**	**(17.7)**
Sulphur oxide (kg)	**87.6**	**47.0**	**40.6**
Particulates (kg)	**646.9**	**644.7**	**2.2**

1.1.2 *Gross Emissions of Greenhouse Gases*

Indicator	2019	2018	Change
Carbon dioxide (kg)	**7,856,662.8**	**6,214,299.2**	**1,642,363.6**
Carbon dioxide equivalent in methane (kg)	**1.3**	**1.1**	**0.2**
Carbon dioxide equivalent in nitrous oxide (kg)	**84.9**	**69.5**	**15.4**
Gross greenhouse gas emissions (kg)	**4,648,815.1**	**6,214,369.8**	**(1,565,554.7)**
Greenhouse gas emissions per million yuan of revenue (kg/RMB million)	**4,030.2**	**4,222.7**	**(192.5)**

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	2019	2018	Change
Domestic wastes (tonne)	**1,130.2**	**897.5**	**232.7**
Domestic waste discharge per million yuan of revenue (tonne/RMB million)	**0.58**	**0.61**	**(0.03)**
Domestic wastewater (tonne)	**37,998.4**	**33,587.8**	**4,410.6**
Domestic wastewater discharge per million yuan of revenue (tonne/RMB million)	**19.5**	**22.8**	**(3.3)**

Environmental, Social and Governance Report

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) further strengthening the reform of internal use of vehicles within the Company where the management and employees should use public transport as the major means of transportation on a business trip; 2) implementing quantitative indicators for the use of diesel and gasoline by operation teams to monitor usage.

Through the above measures, the Group has reduced the emission of waste gases and nitrogen oxides.

1.1.6 Waste Treatment Methods and Effectiveness

Regarding waste liquid, drilling fluid, fracturing flowback fluid and sewage discharged from oilfield development operations are centrally treated by a third party directly engaged by the customer. Accordingly, the Group has no discharge of hazardous wastes.

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, which are eventually provided to service providers for collection, treatment and reuse.

In 2019, there was no discharge of toxic and hazardous wastes, 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, natural gas, fuel oil and paper, etc.

Environmental, Social and Governance Report

1.2.1 Gross Energy Consumption

Indicator	2019	2018	Change
Electricity (kwh)	12,433,965.0	9,827,622.0	2,606,343.0
Electricity consumption per million yuan of revenue (kwh/RMB million)	6,378.2	6,678.0	(299.8)
Gas (m^3)	369,595.0	302,291.6	67,303.4
Gas consumption per million yuan of revenue (m^3/RMB million)	189.6	205.4	(15.8)
Oil (m^3)			
Diesel	5,074.0	2,472.3	2,601.7
Gasoline	380.0	466.9	(86.9)
Engine oil	86.0	36.4	49.6
Oil consumption per million yuan of revenue (m^3/RMB million)	2.8	2.0	0.8
Paper (piece)	1,082,427.0	1,069,613.0	12,814.0
Paper consumption per million yuan of revenue (piece/RMB million)	555.2	726.8	(171.6)

1.2.2 Gross Water Consumption

Indicator	2019	2018	Change
Water consumption for production (m^3)	142,963.0	81,298.0	61,665.0
Water consumption for production per million yuan of revenue (m^3/RMB million)	73.3	55.2	18.1
Water consumption for domestic and office use (m^3)	62,222.0	54,502.7	7,719.3
Water consumption for domestic and office use per million yuan of revenue (m^3/RMB million)	31.9	37.0	(5.1)

Environmental, Social and Governance Report

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 (air drilling efficiency enhancement technology used in hot dry rock well in Qinghai), which effectively minimises the operation cycle 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 production operations, the Group promotes recycling of water resources. At the same time, it encourages and educates its employees on water saving. Running gas, water emergency, dripping and leakage of equipment are prohibited. During the year 2019, there was no wastage of water resources.

1.2.5 Total Amount of Packaging Materials Used in Finished Products

Indicator	2019
Cartons (kg)	**3,284**

1.3 Environment and Natural Resources

The Group is committed to ecological and environmental protection by actively promoting the development of the environmental management system. In the summer of 2019, the Group again passed the recertification of the ISO14001: 2015 Environmental Management System Certification.

Letters of Responsibility for Quality, Health, Safety and Environment ("QHSE") Assessment are entered into between the head of the production safety management committee of the Group and the manager of subsidiary and project departments. It is required that the person-in-charge of the unit must inspect QHSE work onsite on a quarterly basis. The production safety management committee of the Group organises major inspections on safety production twice each year during winter and summer. The production safety management committee also requires that the education of employees on production safety and the employees' awareness on environmental protection be strengthened. It is required that the Group takes a proactive approach toward accepting the worksite's environmental and grassland assessment and review by local government. In particular, for the hot dry rock drilling project in Qinghai, it is agreed that the project will be supervised by the local judicial department during the operation and shall restore the landform upon completion of the project.

Environmental, Social and Governance Report

2. SOCIETY

In carrying out its production and operating activities, the Group is in compliance with the relevant laws and regulations in the places where it operates. 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 adopts various measures and explores different ways to safeguard the human rights of its employees. The Group recruits, promotes and trains its employees on merit and quality basis regardless of race, skin colour, nation, religion, gender, age, sexuality, gender identity, marital status, disability, or any other features that are under the protection of applicable laws.

The Group implements three working hours systems according to the characteristics of each position, namely the standard working hours system, comprehensive working hours system and flexible working hours system. Pursuant to relevant state laws and regulations including the Labour Law of the People's Republic of China and the Labour Law of the Republic of Kazakhstan, the Group ensures that the working hours of employees should not exceed the statutory limit. Unless it is an emergency or unusual condition, weekly working hours of the employees must not exceed the cap stipulated by local laws, including overtime hours. Employees must have at least one day's rest time each week. The Regulation on Attendance Management and the Regulation on Leave Management are formulated to state the details of the entitlement, number of days and procedures of various leaves application 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.

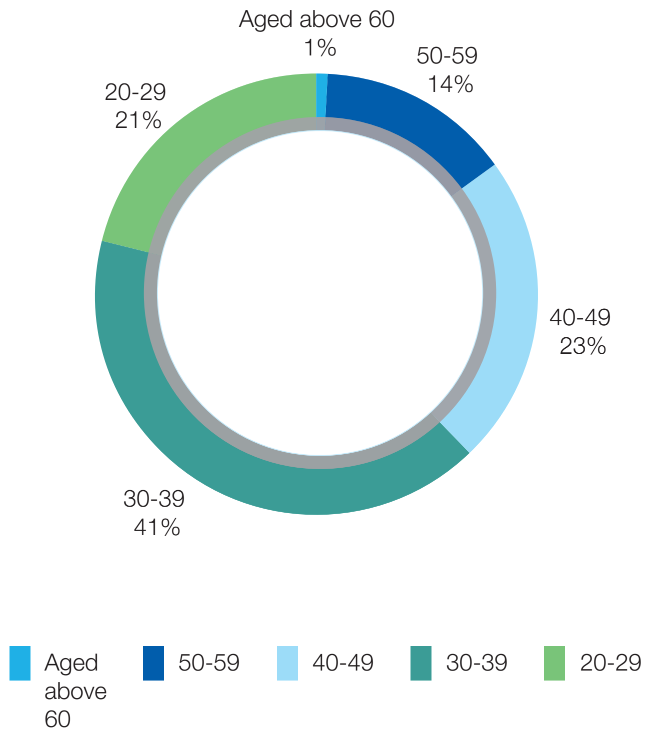
The Group values the privacy and confidentiality of employees' personal particulars and respects employees' right to freely establish association, whether or not to join the labour union, seek representative or join the employees' committee in accordance with the relevant laws and regulations.

Environmental, Social and Governance Report

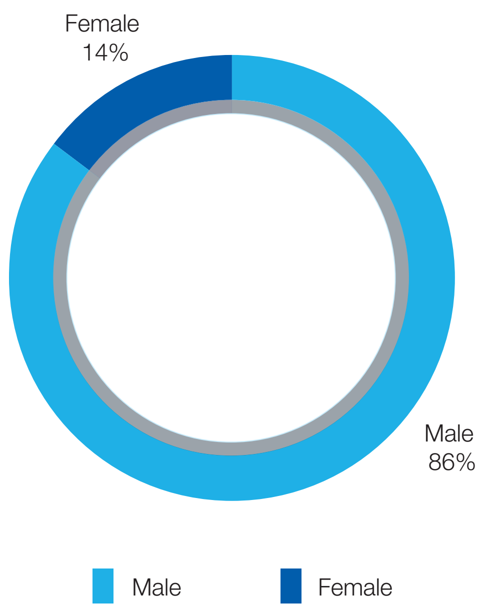
The employee structure of the Group is as follows:

➢ Active employees

Employee distribution (by age)

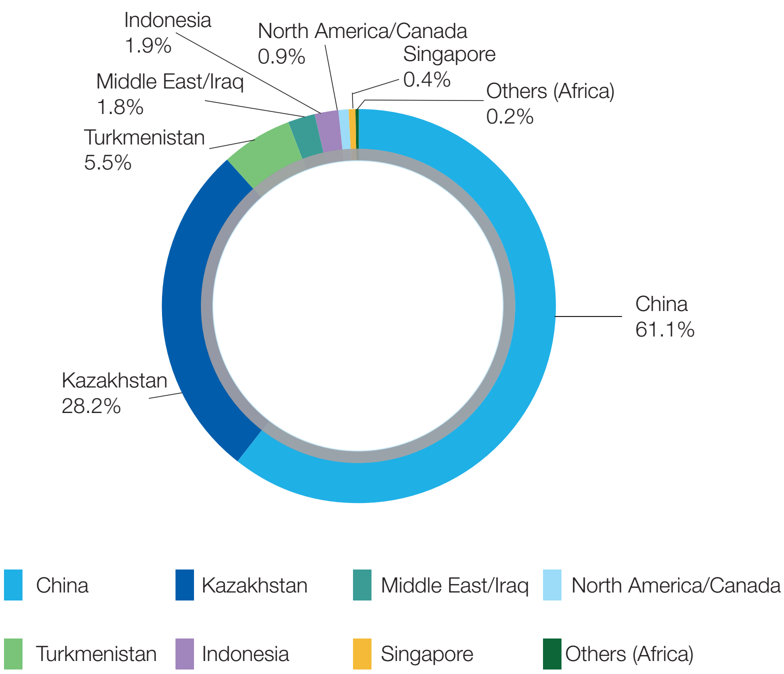


Employee distribution (by gender)



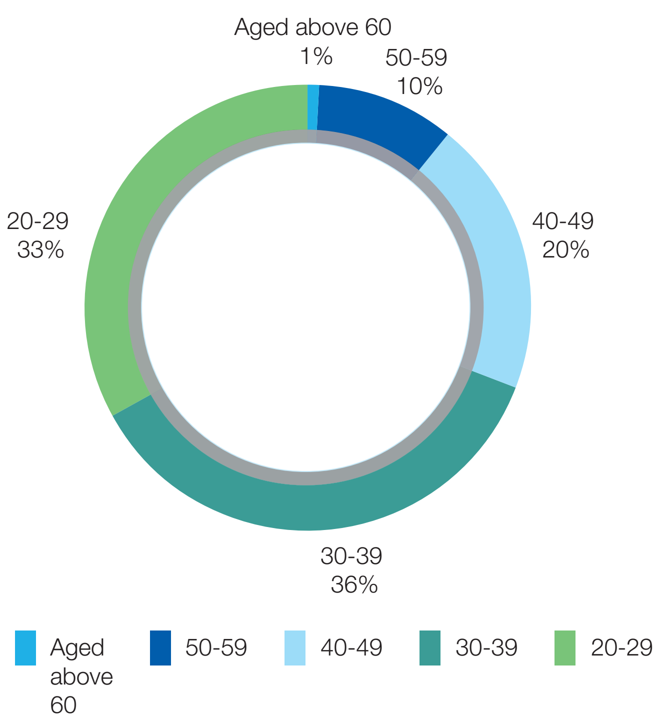
Environmental, Social and Governance Report

Employee distribution (by region)



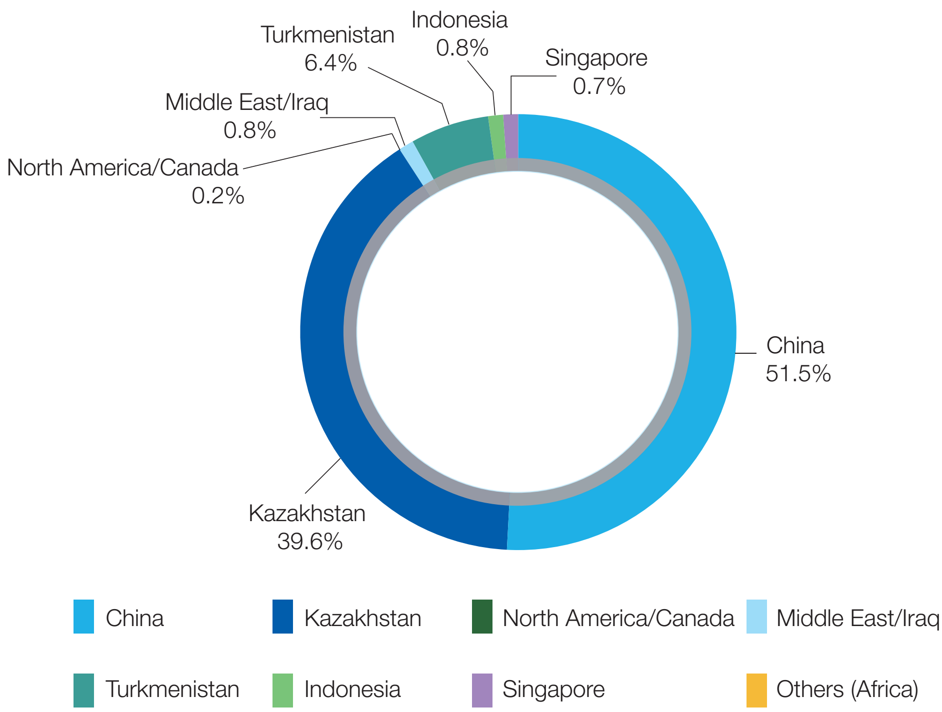
➢ Resignees

Employee turnover distribution (by age)



Environmental, Social and Governance Report

Employee turnover distribution (by region)



2.2 Health and Safety

The Group places high importance on health and safety administration. Its key tasks in 2019 are as follows:

1. In 2019, the Group passed the secondary review of the OHSAS18001: 2007 Occupational Health Safety Administration System.

2. The Group comprehensively and effectively implemented the health and safety administration system. On 1 February 2019, the Group published and implemented the amendments to the Manual on Quality, Health, Safety, Environmental Management System (Proof B) and training activities.

3. The production safety management committee prepared the Code (General Rules) on Production Safety (comprising the code on survival, code on operations and code on the use of colours) (the "Code") to allow the employees to master and learn the regulated operations and regulated construction in the course of operations and the Code is posted at each worksite and in each office building of the unit so as to raise the awareness of employees on safety.

Environmental, Social and Governance Report

4. To strengthen the management of safety risk classification and potential safety hazard identification, the Group formulated the Procedures on Hazard Source Identification, Risk Evaluation and Management Control, Safety Check System and other safety management systems. The Group carried out comprehensive inspection through effective identification of risk factors as well as risk assessment and management.

   The Group carries out a major inspection on production safety on a semi-annual basis. With respect to the regional companies in Xinjiang, Sichuan and Chongqing, a major safety inspection is conducted quarterly. Special inspections (such as special inspection on equipment, special inspection on dangerous chemicals, etc) are carried out. A monthly inspection, daily inspection and shift inspection system is adopted by the drilling team of continuous operations. The purpose of safety inspection is to identify and eliminate potential hazards and protect the safety of employees and properties to ensure the normal production and operation of the Group.

5. In 2019, the Group organised employee trainings more frequently as compared with the past years. In particular, the regional companies in Sichuan and Chongqing organised a training tour on emergency safety knowledge and skills. The trainings took the form of "theoretical explanation, Q&A, presentation and scenario simulation" with focus on five areas namely first aid outline, CPR, trauma rescue, fixation and emergency disaster. Through training, employees mastered the knowledge of emergency rescue and new concepts of first aid in times of emergency during the course of routine operations while enhancing the onsite safety assessment, self-protection awareness and SOS knowledge. The multi-level training further strengthened the education on emergency and safety among the employees of the Group, thus enhancing their emergency response capabilities.

6. At the beginning of 2019, the Group's production safety management committee issued the Notice on Strengthening the Safety Management of Workers' Protective Supplies, covering the Group's various regional companies, subsidiaries and project departments. Through inspection, the Group found that there was a quality issue in the workers' protective supplies provided by some suppliers, and quickly responded to the relevant departments for rectification in a timely manner, requiring them to be equipped with workers' protective supplies that meet national and industry standards to ensure the personal safety of employees during the operation.

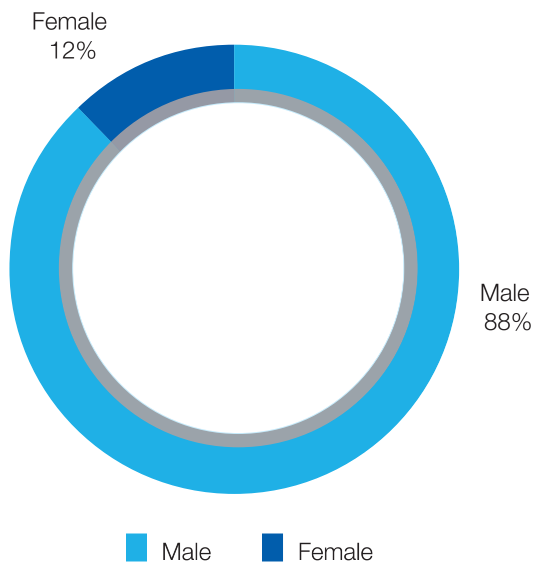
7. In 2019, the Group received accolades and praises from customers. Among which, the Aktobe project department of the Group's regional company in Central Asia was named the "Best Health, Safety and Environment" party of 2018 by CNPC-Aktobe Oilfield Company. Two employees of the Group's Xinjiang regional company were granted with the title "Advanced Individual of QHSE Work" by CNPC-Tarim Oilfield's oil-field service provider in 2018. These have enabled the Group to build a sound health, safety and environment corporate image, thus enhancing the Group's competitiveness.

Environmental, Social and Governance Report

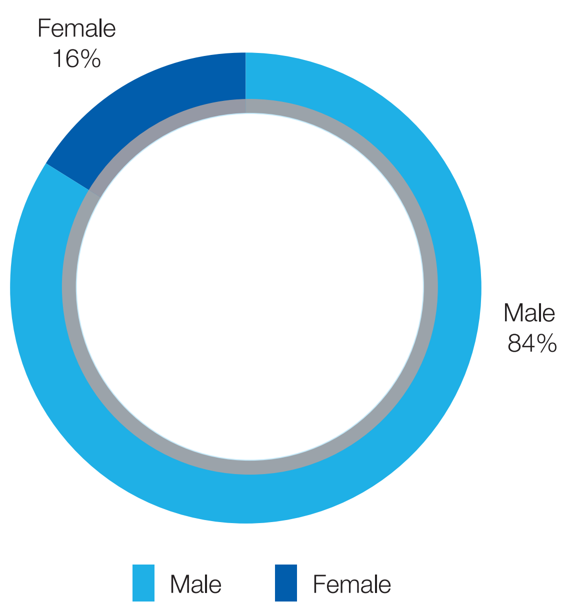
2.3 Development and Training

The Group attaches great importance to diversified training and development of employees. Employees in various regions are given a myriad of on-the-job training and off-the-job training. For the year ended 31 December 2019, attendance of the Group's employees in the training reached 9,000 with over 100,000 training hours cumulatively, covering training subjects including profession, skill, safety, project management and corporate culture.

Attendance of employee training (by gender)



Average number of employee training hours (by gender)



Environmental, Social and Governance Report

2.4 Labour Standards

The Group complies with the laws and local laws in relation to recruitment in the places where it operates. 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 requires applicants to present valid ID documentation upon recruitment and carries out background checks as appropriate based on the information provided.

For the year ended 31 December 2019, the Group did not have any labour disputes and there was no violation against the laws and regulations involving child labour or forced labour.

2.5 Supply Chain Management

In face of globalisation, modern enterprises increasingly rely on the supply chain. Any risks or contingencies in the supply chain may impair the reputation of the Group or result in direct financial loss. As an oil-field technology service company, the Group remains consistently focused on sustainable supply chain management. To this end, the Group has formulated relevant measures to manage suppliers through which to proactively build an integrated supply chain management system, thus reducing the operational risks of the Group while enhancing its competitive strengths among its peers.

With respect to supplier screening and access, the Group assesses the suppliers in areas of credit records, enterprise qualifications, financial position, production and supply capabilities, system certifications, results and honours.

As to supplier selection and management, the Group implements dynamic management with respect to the classification and ranking of suppliers. The Group selects suppliers taking into account overall factors such as qualifications, skilfulness, pricing, relationship and compliance.

Regarding review of suppliers, the Group promotes dynamic quantitative assessment of suppliers with focus on cultivating a pool of strategic suppliers and core suppliers for the Group in an effort to gradually optimise the supplier mix. Factors taken into consideration under the review include size of the enterprise, production qualifications, product quality, time of delivery, pricing, contract performance, after-sales service, financial position, credibility, etc.

Environmental, Social and Governance Report

As to reward and punishment of suppliers, 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 partnerships, long-term agreements and purchase quantity. Those who fail to perform the obligations stated in the contract and have an adverse effect on the normal production and operation of the Company will be disqualified.

To strengthen regional purchase, the Group requires that all regional companies should strictly implement the administrative measures on suppliers. For overseas regional companies, the Group has formulated a set of sound local administrative measures on purchase in accordance with the laws and regulations of the jurisdictions they are located and taking into account the actual business conditions of the overseas regions with reference to the administrative measures on suppliers of the Group.

As to environmental protection management, 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. During the process, the Group provides efficient and safe services to satisfy customers' requirements on quality, health, safety and environment. The Group occasionally carries out customer satisfaction survey and takes customers' feedbacks seriously as part of its efforts to enhance the quality of products and technical services. To this end, customers are truly satisfied, thus enhancing the Group's brand value. For the year ended 31 December 2019, the Group did not violate any laws and regulations in the jurisdictions where the Group operates in relation to quality, health, safety and environment with respect to the products and services provided, nor receive any complaints or charges.

The Group has formulated and strictly implemented the Regulation on Trade Secrets which safeguards privacy and information security and employees have to enter into Employee Confidentiality Agreement upon engagement. The Group values customer privacy in the course of its ordinary business and uses its best endeavours to safeguard the privacy and security of every customer.

The Group takes technological R&D seriously. Over the years, our R&D efforts and successes have gradually become a key driver of sustainable development. Our objective of R&D efforts is well-defined. Starting from the actual demand of customers to enhance operations efficiency and increase oil and gas recovery, we aim to provide customers with high price-to-performance and relevant solutions. Our focus of R&D efforts is also well-defined. In the R&D of products and processes, we are more focused on processes. In the R&D of theories and applications, we are more focused on applications. In the R&D of innovation and optimisation, we are more focused on optimisation. In the R&D of a single product (or process) and integrated solutions, we are more focused on integrated solutions. Our R&D model is diversified. A variety of models including independent R&D, working in association with external parties, campus cooperation and international cooperation are adopted according to the characteristics of the R&D projects to improve quality and efficiency of R&D work. Through consistent R&D efforts, by the end of 2019, the Group obtained 12 new utility patents, 17 invention patents and 1 software copyright.

Environmental, Social and Governance Report

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 practices, special anti-corruption audit system and audit work plans, which are then submitted to the Audit Committee for approval.

The Group has established a top-down working mechanism and procedures for anti-corruption, which stipulate the anti-fraud duties and responsibilities of the persons in charge of the unit and the method of work reporting.

There is a hotline and a mail box published on the official website of the Group where employees, suppliers, customers and other business partners may file complaints of any fraud incidents identified and the evidences on hand under their name or anonymously by phone, email and post, which effectively smoothen the supervision channel.

The risk management department of the Group regularly assesses the anti-fraud risks at various levels of the Group and the high-risk areas of potential fraud behaviours to optimise the risk management system. The Audit Committee of the Company is responsible for the overall direction and supervision of anti-fraud work, and deals with the fraud behaviours in strict compliance with the laws and systems.

The risk management department of the Group continues to reinforce moral integrity education, anti-fraud featured training; publicise the requirements of integrity building across the Group; enhance the employees' integrity awareness and fraud identification ability, requiring employees to complete the anti-fraud work of each position within their terms of reference. During the Reporting Year, there were no material incidents of corruption, bribery, extortion, fraud or money laundering.

2.8 Community Investment

In providing oil-field service, the Group satisfies the requirements regarding environment protection of the relevant parties through effective implementation of environmental protection, mine construction and assisting local residents in road repairs and providing well water service and social investment measures. In addition to undertaking social responsibilities, it has built a friendly, harmonious and win-win environment with local residents.

In 2019, the Group's expenditure on regional construction amounted to RMB255,000 cumulatively.

Independent Auditor's Report

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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 77 to 164, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
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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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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

Independent Auditor's Report

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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 Notes 4 and 6 to the consolidated financial statements. The loss making or low level of profit status of certain subsidiaries of the Group gave rise to possible indication that the Group's machinery and equipment in the PRC region might be impaired. As at 31 December 2019, the carrying amount of machinery and equipment in the PRC region amounted to RMB193 million. During the year ended 31 December 2019, management has identified cash generating units "CGUs" and prepared discounted cash flow models of those CGUs 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 2019, together with the application of significant management judgement and 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 identified by management. • We evaluated the calculation and the 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; and also including consideration of relevant market demand and economic environment, etc. • We checked mathematical accuracy of the relevant discounted cash flow models. • We evaluated management's sensitivity analysis on 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 significantly. Based upon our work, we found the management's judgement used in the assessment of recoverability of the carrying amounts of machinery and equipment in the PRC region were supported by available evidence.

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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 Notes 4 and 11 to the consolidated financial statements. As at 31 December 2019, the carrying amounts of inventories amounted to RMB465 million, which was stated net of a provision of RMB50 million. 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. Because of the significance of the carrying amount of inventories as at 31 December 2019, together with the judgement 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 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 forecast 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 upon our work, we found the management's judgement used in the assessment of provision for inventories prepared by management were supported by available evidence.

Independent Auditor's Report

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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 are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

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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.

Independent Auditor's Report

pwc 羅兵咸永道

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2020

(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 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*6*	**403,227**	333,590
Right-of-use assets	*7*	**101,113**	–
Land use rights	*8*	**–**	20,792
Intangible assets	*9*	**3,950**	13,734
Investments in associates	*10*	**10,480**	5,440
Deferred income tax assets	*21*	**100,996**	131,380
Prepayments and other receivables	*13*	**37,982**	16,145
		657,748	521,081
Current assets			
Inventories	*11*	**464,671**	373,057
Contract assets	*5*	**31,524**	24,581
Trade and note receivables	*12*	**1,139,823**	891,218
Prepayments and other receivables	*13*	**231,787**	289,195
Restricted bank deposits	*14*	**17,556**	7,227
Cash and cash equivalents	*14*	**588,365**	353,638
		2,473,726	1,938,916
Total assets		**3,131,474**	2,459,997
Equity			
Equity attributable to the Company's equity holders			
Share capital	*15*	**1,178**	1,175
Share premium	*16*	**847,899**	845,246
Other reserves	*17*	**324,192**	298,510
Currency translation differences		**(431,486)**	(455,398)
Retained earnings		**655,757**	468,476
		1,397,540	1,158,009
Non-controlling interests		**102,029**	93,403
Total equity		**1,499,569**	1,251,412

Consolidated Balance Sheet

		As at 31 December	
	Note	**2019** **RMB'000**	2018 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*18*	**47,403**	142,990
Non-current lease liabilities	*7*	**48,735**	–
Deferred income tax liabilities	*21*	**21,492**	18,642
		117,630	161,632
Current liabilities			
Borrowings	*18*	**233,000**	123,274
Current portion of long-term borrowings	*18*	**111,842**	31,258
Contract liabilities	*5*	**22,946**	13,956
Trade and note payables	*19*	**910,400**	702,489
Accruals and other payables	*20*	**137,736**	120,475
Current income tax liabilities		**77,541**	55,501
Current lease liabilities	*7*	**20,810**	–
		1,514,275	1,046,953
Total liabilities		**1,631,905**	1,208,585
Total equity and liabilities		**3,131,474**	2,459,997

The accompanying notes on pages 84 to 164 are an integral part of these consolidated financial statements.

The financial statements on pages 77 to 164 were approved by the Board of Directors on 26 March 2020 and were signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Consolidated Income Statement

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	5	**1,949,459**	1,471,649
Other losses, net	22	**(7,693)**	(28,947)
Operating costs			
Material costs		**(379,987)**	(303,544)
Employee benefit expenses	23	**(498,264)**	(409,118)
Operating lease expenses		**–**	(88,400)
Short-term and low-value lease expenses	7	**(84,064)**	–
Transportation costs		**(29,943)**	(27,806)
Depreciation and amortisation		**(84,616)**	(71,439)
Technical service expenses		**(383,252)**	(219,319)
Net impairment losses of financial and contract assets		**(1,751)**	(1,481)
Impairment losses of inventories and prepayments	11,13	**(7,030)**	(18,162)
Others		**(179,767)**	(176,522)
		(1,648,674)	(1,315,791)
Operating profit		**293,092**	126,911
Finance income	25	**3,125**	1,153
Finance expenses	25	**(33,480)**	(31,957)
Finance costs, net		**(30,355)**	(30,804)
Profit before income tax		**262,737**	96,107
Income tax expense	26	**(62,610)**	(19,468)
Profit for the year		**200,127**	76,639
Attributable to:			
Owners of the Company		**198,926**	81,798
Non-controlling interests		**1,201**	(5,159)
		200,127	76,639
Earnings per share for the profit attributable to the owners of the Company (RMB)			
Basic earnings per share	28	**0.107**	0.047
Diluted earnings per share	28	**0.106**	0.046

The accompanying notes on pages 84 to 164 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**200,127**	76,639
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	**10,920**	(34,394)
Items that will not be subsequently reclassified to profit or loss:		
Currency translation differences	**12,618**	36,423
Total comprehensive income for the year	**223,665**	78,668
Total comprehensive income for the year attributable to:		
Owners of the Company	**222,769**	83,381
Non-controlling interests	**896**	(4,713)
	223,665	78,668
Total comprehensive income for the year	**223,665**	78,668

The accompanying notes on pages 84 to 164 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Equity attributable to the owners of the Company							
Balance as 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	*23*	–	–	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

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 the owners of the Company							
Balance as at 31 December 2018		1,175	845,246	298,510	(455,398)	468,476	1,158,009	93,403	1,251,412
Comprehensive income									
Profit for the year		–	–	–	–	198,926	198,926	1,201	200,127
Other comprehensive income		–	–	–	23,843	–	23,843	(305)	23,538
Total comprehensive income		–	–	–	23,843	198,926	222,769	896	223,665
Transactions with owners in their capacity as owners									
Share-based payments	23	–	–	15,222	–	–	15,222	–	15,222
Transfer to statutory reserves		–	–	11,645	–	(11,645)	–	–	–
Share options exercised		3	2,653	(682)	–	–	1,974	–	1,974
Capital injection of subsidiaries		–	–	–	–	–	–	7,743	7,743
Transaction with non-controlling interests		–	–	(503)	–	–	(503)	(13)	(516)
Closure of a subsidiary		–	–	–	69	–	69	–	69
Total transactions with owners in their capacity as owners		3	2,653	25,682	69	(11,645)	16,762	7,730	24,492
Balance as at 31 December 2019		1,178	847,899	324,192	(431,486)	655,757	1,397,540	102,029	1,499,569

The accompanying notes on pages 84 to 164 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	*29*	**308,361**	61,216
Income tax paid		**(6,345)**	(4,040)
Net cash generated from operating activities		**302,016**	57,176
Cash flows from investing activities			
Purchases of property, plant and equipment		**(112,597)**	(24,533)
Proceeds from disposal of property, plant and equipment		**828**	8,937
Purchases of intangible assets		**(18)**	–
Investments in associates		**(5,040)**	(3,870)
Increase in restricted bank deposits		**(10,329)**	(4,675)
Interest received		**3,029**	1,005
Net cash used in investing activities		**(124,127)**	(23,136)
Cash flows from financing activities			
Proceeds from borrowings		**332,000**	326,785
Repayments of borrowings		**(239,490)**	(322,530)
Interest paid		**(27,778)**	(25,666)
Principal elements of lease payments		**(17,812)**	–
Proceeds from share options exercised		**1,974**	2,900
Contributions from minority shareholders		**7,743**	–
Payments of financing fee and deposits		**(4,080)**	–
Acquisition from non-controlling interests		**(516)**	–
Net proceeds from placing of new shares		**–**	188,129
Net cash generated from financing activities		**52,041**	169,618
Net increase in cash and cash equivalents		**229,930**	203,658
Cash and cash equivalents at beginning of the year		**353,638**	147,022
Exchange gains on cash and cash equivalents		**4,797**	2,958
Cash and cash equivalents at end of the year		**588,365**	353,638

The accompanying notes on pages 84 to 164 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

SPT Energy Group Inc. (the "Company") was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is P. O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands. Ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 December 2011.

The Company is principally engaged in investment holding. The Company and its subsidiaries (the "Group") are principally engaged in provision of oil-field services including drilling, well completion, reservoir and the manufacturing of oilfield services related products mainly in the People's Republic of China (the "PRC") and overseas. The ultimate controlling parties of the Group are Mr. Wang Guoqiang (王國強) and Mr. Ethan Wu (吳東方) (collectively referred to as the "Controlling Shareholders").

The consolidated financial statements are presented in thousands of Renminbi Yuan (the "RMB"), unless otherwise stated, and is approved for issue by the Board of Directors on 26 March 2020.

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 the 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.

Notes to the Consolidated Financial Statements

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 2019:

- *IFRS 16 Leases*
- *Prepayment Features with Negative Compensation – Amendments to IFRS 9*
- *Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28*
- *Annual Improvements to IFRS Standards 2015 – 2017 Cycle*
- *Plan Amendment, Curtailment or Settlement – Amendments to IAS 19*
- *Interpretation 23 Uncertainty over Income Tax Treatments.*

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of 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. 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 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Accordingly, the reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.27.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged from 6.26% to 6.40% per annum.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices (continued)

(ii) Measurement of lease liabilities

	2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	97,362
Discounted using the lessee's incremental borrowing rate of at the date of initial application	82,229
Less: short-term leases not recognised as a liability	(16,038)
Less: low-value leases not recognised as a liability	(23)
Less: contracts reassessed as service agreements	(503)
Lease liabilities recognised as at 1 January 2019	65,665
Of which are:	
Current lease liabilities	13,665
Non-current lease liabilities	52,000
	65,665

(iii) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Land use rights – decreased by RMB 20,792,000
- Right-of-use assets – increased by RMB 99,523,000
- Accruals and other payables – decreased by RMB 2,386,000
- Lease liabilities – increased by RMB 65,665,000
- Prepayment – decreased by RMB 15,452,000.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting polices (continued)

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

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.

Notes to the Consolidated Financial Statements

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 IFRS.

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.

Notes to the Consolidated Financial Statements

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.

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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.7 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 presentation 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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Foreign currency translation (continued)

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement 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.

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.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

	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).

2.9 Land use rights

Land use rights as right-of-use asset are 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).

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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:

- 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 and 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.

Notes to the Consolidated Financial Statements

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

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 31 December 2019 and 2018, the Group only has the financial 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.

(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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (continued)

(d) Impairment

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.

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 project-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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.17 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 and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other 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.

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

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).

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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (continued)

(c) Share-based compensation (continued)

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.

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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (continued)

(a) Provision of services (continued)

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 receive payment. 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 been 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 calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 25 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).

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Dividend income

Dividends are recognised as other income in profit or loss when the right to receive payment is established.

2.27 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of owners hip were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- makes adjustments specific to the lease, eg term, country, currency and security

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to 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.

Right-of-use assets, include land use rights, are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

- any initial direct costs, and

- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise some machinery and equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Leases (continued)

Taxation

A lessee normally recognises an asset and a lease liability when it enters into most leases under IFRS 16. The Group considers the lease as a single transaction in which the asset and liability are integrally linked, so there is no net temporary difference at inception. Subsequently, as differences arise on settlement of the liability and the amortisation of the leased asset, there will be a net temporary difference on which deferred tax is recognised.

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 the 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.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, 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 2019, 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	
	2019	2018
	RMB'000	*RMB'000*
RMB against USD		
– Weakened 5%	**(43,402)**	(16,736)
– Strengthened 5%	**43,402**	16,736

Notes to the Consolidated Financial Statements

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 2019		31 December 2018	
	USD *RMB'000*	Others *RMB'000*	USD *RMB'000*	Others *RMB'000*
Cash	64,709	9,652	69,171	7,144
Trade receivables	78,189	625	42,052	–
Other receivables	9,805	782	25,041	4,966
Trade payables	32,080	2,926	28,490	4,411
Other payables	2,083	6,309	4,413	9,528
Borrowings	–	5,694	–	6,130

(ii) Cash flow and fair value interest rate risk

Other than cash and cash equivalents and restricted bank deposits, 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 2019, if interest rates on floating interest borrowings at that date had been higher/lower 100 basis points (31 December 2018: 100 basis points), profit before income tax for the year would have been RMB158,000 (2018: RMB154,000) lower/higher.

Notes to the Consolidated Financial Statements

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 77.2% and 78.9% of the revenue of the Group for the years ended 31 December 2019 and 2018 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 2019 and 2018, 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 2019 and 2018:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC- State owned listed banks	**114,984**	158,399
PRC- Other listed banks	**293,063**	47,516
Kazakhstan government owned banks	**110,084**	72,691
Singapore listed banks	**29,343**	41,847
Canada listed banks	**27,537**	30,304
Other listed banks	**28,325**	6,071
Others	**2,585**	4,037
Total	**605,921**	360,865

Notes to the Consolidated Financial Statements

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

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.

Notes to the Consolidated Financial Statements

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 2019 and 2018 was determined as follows for both trade receivables and contract assets:

31 December 2019	Up to 6 months	6 months -1 year	1-2 years	2-3 years	Over 3 years	Total
Expected loss rate	0.08%	0.73%	6.08%	19.17%	93.22%	
Gross carrying amount	798,849	180,262	42,240	12,919	89,483	1,123,753
Loss allowance	639	1,316	2,568	2,477	83,416	90,416

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

Notes to the Consolidated Financial Statements

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 reconcile to the opening loss allowances as follows:

	Contract assets		Trade receivables	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loss allowance				
Opening balance as at 1 January	**1,701**	1,215	**87,830**	90,781
Provision for impairment	**108**	486	**8,726**	5,821
Reversal	**–**	–	**(8,583)**	(3,839)
Receivables written off during the year as uncollectible	**–**	–	**(224)**	(4,142)
Exchange difference	**–**	–	**858**	(791)
Closing balance as at 31 December	**1,809**	1,701	**88,607**	87,830

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.

Notes to the Consolidated Financial Statements

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

Other receivables include cash advance of the staffs, bidding guarantee and deposits for house rental.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

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

	Other receivables	
	2019	2018
	RMB'000	*RMB'000*
Loss allowance		
Opening balance as at 1 January	**2,348**	3,366
Provision for receivables impairment	**1,682**	–
Receivables written off during the year as uncollectible	**–**	(31)
Reversal	**(182)**	(987)
Exchange difference	**(86)**	–
Closing balance as at 31 December	**3,762**	2,348

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Net impairment losses on financial and contract assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	2019 RMB'000	2018 RMB'000
Impairment losses		
Impairment losses on trade receivables and contract assets	8,834	6,307
Impairment losses on other receivables	1,682	–
Reversal	(8,765)	(4,826)
Net impairment losses on financial and contract assets	1,751	1,481

Notes to the Consolidated Financial Statements

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 2019						
Borrowings	**358,768**	**42,656**	**4,694**	**1,720**	**407,838**	**392,245**
Trade and note payables	**910,400**	**–**	**–**	**–**	**910,400**	**910,400**
Accruals and other payables	**41,930**	**–**	**–**	**–**	**41,930**	**41,930**
Lease liabilities	**23,035**	**17,462**	**23,180**	**16,215**	**79,892**	**69,545**
Total	**1,334,133**	**60,118**	**27,874**	**17,935**	**1,440,060**	**1,414,120**
As at 31 December 2018						
Borrowings	163,614	127,406	15,726	2,394	309,140	297,522
Trade and note 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

Notes to the Consolidated Financial Statements

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 gross debt divided by total equity. Gross debt include "borrowings", "current portion of long-term borrowings", current and non-current lease liabilities as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2019 and 2018 are as follows:

	As at 31 December	
	2019 ***RMB'000***	2018 *RMB'000*
Gross debt	**461,790**	297,522
Total equity	**1,499,569**	1,251,412
Gross debt to equity ratio	**30.8%**	23.8%

3.3 Fair value estimation

The carrying amounts less provision for impairment of trade and notes receivables, other receivables, cash and cash equivalents, restricted bank 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.

Notes to the Consolidated Financial Statements

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) Impairment of property, plant and equipment, right-of-use assets, and other non-current assets

The Group tests whether property, plant and equipment, right-of-use assets and other non-current assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.8, Note 2.27 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 and contract assets

The loss allowances for financial assets and contract 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.

Notes to the Consolidated Financial Statements

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 manufacturing activities.

(a) Revenue

Revenue recognised during the years ended 31 December 2019 and 2018 are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue		
Drilling	**792,939**	540,711
Well completion	**488,959**	309,147
Reservoir	**667,561**	621,791
	1,949,459	1,471,649

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

Revenue amounting to RMB1,505,616,000 (2018: RMB1,161,493,000) are derived from CNPC and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

The segment information for the years ended 31 December 2019 and 2018 are as follows:

	Drilling	**Well completion**	**Reservoir**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
As at / year ended 31 December 2019				
Revenue from external customers	**792,939**	**488,959**	**667,561**	**1,949,459**
Time of revenue recognition				
– At a point in time	**62,393**	**167,449**	**84,076**	**313,918**
– Over time	**730,546**	**321,510**	**583,485**	**1,635,541**
EBITDA	**174,464**	**134,248**	**170,187**	**478,899**
Total assets	**799,572**	**979,055**	**534,114**	**2,312,741**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**27,944**	**64,761**	**42,213**	**134,918**

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

Notes to the Consolidated Financial Statements

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	
	2019	2018
	RMB'000	*RMB'000*
EBITDA for reportable segments	**478,899**	328,662
Unallocated expenses		
– Share-based payments	**(15,222)**	(7,931)
– Other losses, net	**(7,693)**	(28,947)
– Unallocated overhead expenses	**(78,276)**	(93,434)
	(101,191)	(130,312)
	377,708	198,350
Depreciation and amortisation	**(84,616)**	(71,439)
Finance expenses	**(33,480)**	(31,957)
Finance income	**3,125**	1,153
Profit before income tax	**262,737**	96,107

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Segment assets for reportable segments	**2,312,741**	1,833,426
Unallocated assets		
– Deferred income tax assets	**100,996**	131,380
– Unallocated inventories	**13,336**	9,577
– Unallocated prepayment and other receivables	**88,000**	119,309
– Restricted bank deposits	**17,556**	7,227
– Cash and cash equivalents	**588,365**	353,638
– Investments in associates	**10,480**	5,440
	818,733	626,571
Total assets per balance sheet	**3,131,474**	2,459,997

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment

The following table shows revenue by geographical segment which is based on where the customer is located:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC	**1,326,445**	922,694
Kazakhstan	**358,846**	351,141
Turkmenistan	**101,942**	79,195
Canada	**66,283**	54,329
Indonesia	**54,961**	35,371
Middle East	**39,684**	28,184
Others	**1,298**	735
	1,949,459	1,471,649

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	
	2019	2018
	RMB'000	*RMB'000*
PRC	**370,021**	221,402
Kazakhstan	**61,273**	60,151
Middle East	**42,390**	45,675
Turkmenistan	**32,611**	21,068
Singapore	**23,080**	21,529
Canada	**16,232**	9,558
Indonesia	**239**	4,866
Others	**426**	12
	546,272	384,261

Notes to the Consolidated Financial Statements

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:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current contract assets	**33,333**	26,282
Loss allowance	**(1,809)**	(1,701)
Total contract assets	**31,524**	24,581
Current contract liabilities	**22,946**	13,956
Total current contract liabilities	**22,946**	13,956

(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	
	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year		
– Drilling	**3,827**	7,560
– Well completion	**7,805**	818
– Reservoir	**2,324**	221
Total	**13,956**	8,599

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(d) Assets and liabilities related to contracts with customers (continued)

(ii) Unsatisfied long-term service contracts

The following table shows unsatisfied performance obligations resulting from fixed price long-term service contracts:

	RMB'000
Within one year	680,703
More than one year but not more than two years	156,125
More than two years	56,122
Total	892,950

All other service contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15 Revenue from Contracts with Customers, the transaction price allocated to these unsatisfied contracts is not disclosed.

(e) Changes in accounting policy

The adoption of the new leasing standard described in Note 2.2 had the following impact on the segment disclosures in the current year.

		Increase		
	Adjusted EBITDA	**Depreciation**	**Segment assets**	**Segment liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Drilling	15,284	13,304	37,019	38,550
– Well completion	2,488	3,022	47,790	13,512
– Reservoir	4,506	3,819	16,304	17,483
Total	22,278	20,145	101,113	69,545

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year.

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 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
Year ended 31 December 2019						
Opening net book value	**100,045**	**201,789**	**2,168**	**10,243**	**19,345**	**333,590**
Additions	**1,906**	**115,718**	**5,219**	**7,646**	**6,506**	**136,995**
Depreciation charge	**(9,155)**	**(32,651)**	**(3,808)**	**(8,570)**	**–**	**(54,184)**
Disposals	**(5)**	**(1,901)**	**(1,467)**	**(271)**	**(159)**	**(3,803)**
Transfer	**–**	**876**	**–**	**–**	**(876)**	**–**
Others (Note)	**–**	**–**	**–**	**–**	**(14,829)**	**(14,829)**
Exchange differences	**1,052**	**2,615**	**941**	**850**	**–**	**5,458**
Closing net book value	**93,843**	**286,446**	**3,053**	**9,898**	**9,987**	**403,227**
At 31 December 2019						
Cost	**154,937**	**624,467**	**56,854**	**105,730**	**9,987**	**951,975**
Accumulated depreciation and impairment	**(61,094)**	**(338,021)**	**(53,801)**	**(95,832)**	**–**	**(548,748)**
Net book value	**93,843**	**286,446**	**3,053**	**9,898**	**9,987**	**403,227**

Note: During the year ended 31 December 2019, certain machinery and equipment under installation were returned to the supplier as agreed between each others in writing.

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the year ended 31 December 2019, depreciation expenses amounting to RMB54,184,000 (2018: RMB61,602,000) has been charged in operating costs.

Certain property, plant and equipment have been secured for the Group's secured loans from a third party, details of which have been set out in Note 18(b).

As at 31 December 2019, the Group's machinery and equipment in the PRC region amounted to approximately RMB193 million (2018: RMB133 million).

7. LEASES

This note provides information for leases where the Group is a lessee.

	Notes	**As at 31 December 2019 *RMB'000***	As at 31 December 2018 *RMB'000*
Right-of-use assets			
Buildings		**63,839**	55,195
Land use rights*		**23,352**	23,870
Machinery and equipment		**13,922**	20,458
		101,113	99,523
Lease liabilities			
Current lease liabilities		**20,810**	13,665
Non-Current lease liabilities		**48,735**	52,000
		69,545	65,665

* The Group's land use rights mainly represent lease prepayments for the leasehold land in the PRC for a period of 50 years. As at 31 December 2019, land use rights have a remaining period of 43 years.

Additions to the right-of-use assets during the 2019 financial year were RMB21,735,000.

Notes to the Consolidated Financial Statements

7. LEASES (CONTINUED)

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets			
Buildings		11,344	–
Land use rights		618	–
Machinery and equipment		8,183	–
	24	20,145	–
Interest expense (included in finance cost)	*25*	4,466	–
Expense relating to short-term leases		84,021	–
Expense relating to leases of low-value assets that are not shown above as short-term leases		43	–

The total cash outflow for leases in 2019 was RMB106,640,000. The details are as follows:

Cash outflow for payments of principal elements of lease, interest expense of lease and short-term and low-value lease were RMB17,812,000, RMB4,466,000 and RMB84,362,000 respectively.

(a) The Group's leasing activities

The Group leases various buildings, land use rights, machinery and equipment. Rental contracts are typically made for fixed periods as stated below.

Buildings	2 to 20 years
Land use rights	30 to 50 years
Machinery and equipment	3 to 5 years

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the Consolidated Financial Statements

8. LAND USE RIGHTS

	RMB'000
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
Year ended/at 31 December 2019	
Opening net book value	**20,792**
Adjustment for change in accounting policy (Note 2.2)	**(20,792)**
Restated opening amount and closing net book value	**–**

Notes to the Consolidated Financial Statements

9. INTANGIBLE ASSETS

	Technology *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
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
Year ended 31 December 2019			
Opening net book value	**12,735**	**999**	**13,734**
Additions	**200**	**18**	**218**
Amortisation charge	**(9,984)**	**(303)**	**(10,287)**
Exchange differences	**285**	**–**	**285**
Closing net book value	**3,236**	**714**	**3,950**
At 31 December 2019			
Cost	**85,976**	**4,606**	**90,582**
Accumulated amortisation and impairment	**(82,740)**	**(3,892)**	**(86,632)**
Net book value	**3,236**	**714**	**3,950**

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES AND ASSOCIATES

(a) Subsidiaries

The following is a list of the subsidiaries of the Group at 31 December 2019:

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	
				2019	2018	2019	2018
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	RMB353,790,000	98.59%	98.59%	1.41%	1.41%
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	USD36,265,000	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	RMB149,142,404	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	RMB65,000,000	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%

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the subsidiaries of the Group at 31 December 2019 (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	
				2019	2018	2019	2018
M-Tech service Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 87,200	100%	100%	–	–
CNEC Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 150,000	100%	100%	–	–
FD Services Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 110,000	100%	100%	–	–
OS Services (Kazakhstan) Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%	100%	–	–
Dowell LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 500,000	70%	70%	30%	30%
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%	100%	–	–
HY Oil Technology Service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	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	CAD 15	100%	100%	–	–
Enecal Canada Corporation	Canada, Limited liability entity	Trading, Canada	CAD 86	100%	100%	–	–
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%	100%	–	–

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the subsidiaries of the Group at 31 December 2019 (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	
				2019	2018	2019	2018
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	RMB50,000,000	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	RMB50,000,000	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	USD34,000,000	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	USD48,000,000	100%	100%	–	–
SPT Energy PTE. Ltd.	Singapore, Limited liability entity	Oil field services, Singapore	SGD 500,000	100%	100%	–	–

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the subsidiaries of the Group at 31 December 2019 (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	
				2019	2018	2019	2018
Petroleum Services Global DMCC	UAE, Limited liability entity	Oil field services, UAE	AED 100,000	100%	100%	–	–
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	SGD 1,140,000	51%	51%	49%	49%
Enecalmyanmar Oilfield Serices Company Ltd.	Myanmar (Burma), Limited liability entity	Oil field services, Myanmar (Burma)	USD600,000	100%	100%	–	–
成都昌匯能源技術服務有限公司 (Chengdu Changhui Energy Technology Service Co., Ltd.)	PRC, Limited liability entity	Technology promotion and application services (China)	RMB50,000,000	100%	–	–	–
華油投資控股(深圳)有限公司 (Huayou Investment Holdings (Shenzhen) Co., Ltd.)	PRC, Limited liability entity	Trading, PRC	RMB100,000,000	100%	–	–	–
SINOSTONE ALCOHOL MANUFACTURING LIMITED	Ghana,Limited liability entity	Oil field services (Ghana)	GHS 5,000,000	60%	–	40%	–
SINOPETROLEUM TECHNOLOGY (UGANDA)-SMC LIMITED	UGANDA,Limited liability entity	Oil field services (UGANDA)	UGX 10,000,000	100%	–	–	–
CORNERSTONE BUSINESS PTE.LTD.	Singapore,Limited liability entity	Oil field services (Singapore)	SGD 2,000,000	100%	–	–	–
成都廣新石油技術股份有限公司 (Chengdu Guangxin Petroleum Technology Co., Ltd.)	PRC, Limited liability entity	Oil field services (China)	RMB50,000,000	51%	–	49%	–

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

Notes

(i) The issued share capital includes preferred shares amounting to SGD 3,200,000, equivalent to RMB16,302,000 (2018: 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 2019, the total non-controlling interest was RMB102,029,000 (2018: RMB93,403,000) of which RMB83,311,000 (2018: RMB84,151,000) was attributable to Xinjiang HDTD Oilfield Services Co., Ltd. ("HDTD"). The non-controlling interests in respect of other subsidiaries were not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below is the summarised financial information for HDTD.

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current assets	**171,943**	187,320
Current liabilities	**2,423**	17,133
Total current net assets	**169,520**	170,187
Non-current assets	**503**	1,550
Total non-current net assets	**503**	1,550
Net assets	**170,023**	171,737

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

Notes (continued)

(ii) Material non-controlling interests (continued)

Summarised income statement

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**7,742**	–
Loss before income tax	**(1,714)**	(1,792)
Loss for the year	**(1,714)**	(1,792)
Total comprehensive loss	**(1,714)**	(1,792)
Total comprehensive loss allocated to non-controlling interests	**(840)**	(878)

Summarised cash flows statement

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(327)**	831
Net cash used in investing activities	**–**	(40)
Net (decrease)/increase in cash and cash equivalents	**(327)**	791
Cash and cash equivalents at beginning of year	**952**	161
Cash and cash equivalents at end of year	**625**	952

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

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) Associates

The following is a list of the associates of the Group at 31 December 2019:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Ownership interest held by the Group 2019	2018	Measurement method
SPT PETROLEUM LIMITED	Hong Kong, Limited liability entity	Oil field services, PRC	**32%**	32%	Equity Method
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%**	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%**	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
深圳東康前海新能源有限公司	PRC, Limited liability entity	Oil field services, PRC	**6.59%**	–	Equity Method

11. INVENTORIES

	As at 31 December 2019 RMB'000	2018 RMB'000
Project materials and consumables	**470,327**	402,870
Project-in-progress	**44,149**	14,591
	514,476	417,461
Less: provision for inventories	**(49,805)**	(44,404)
	464,671	373,057

The cost of inventories recognised as expense and included in "operating costs" amounted to RMB379,987,000 (2018: RMB303,544,000).

Notes to the Consolidated Financial Statements

11. INVENTORIES (CONTINUED)

Movements of provision for inventories are as follows:

	2019 *RMB'000*	2018 *RMB'000*
As at 1 January	**(44,404)**	(26,618)
Provision	**(5,860)**	(21,216)
Reversal	**–**	2,942
Written off	**860**	–
Exchange difference	**(401)**	488
As at 31 December	**(49,805)**	(44,404)

Note

(a) The written off of inventory amounted to RMB860,000 for the year ended 31 December 2019 was due to the disposal of raw materials.

12. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2019 *RMB'000*	2018 *RMB'000*
Trade receivables (a)	**1,090,420**	882,925
Less: loss allowance	**(88,607)**	(87,830)
Trade receivables – net	**1,001,813**	795,095
Note receivables (a)	**138,010**	96,123
	1,139,823	891,218

Notes to the Consolidated Financial Statements

12. TRADE AND NOTE RECEIVABLES (CONTINUED)

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	
	2019	2018
	RMB'000	*RMB'000*
Up to 6 months	**936,561**	711,376
6 months – 1 year	**159,193**	94,411
1 – 2 years	**30,794**	51,409
2 – 3 years	**12,753**	18,314
Over 3 years	**89,129**	103,538
Trade and note receivables, gross	**1,228,430**	979,048
Less: loss allowance	**(88,607)**	(87,830)
Trade and note receivables, net	**1,139,823**	891,218

(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. 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 receivables have been pledged for the Group’s bank borrowings, details of which have been set out in Note 18(a)(iii).

Notes to the Consolidated Financial Statements

13. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Current		
Advances to suppliers	78,054	95,789
Prepayment for taxes	16,040	26,857
Less: loss allowance	(2,909)	(1,739)
Total non-financial assets	91,185	120,907
Deposits and other receivables	61,224	77,411
Receivable relating to disposal of equipment	83,140	93,225
Less: loss allowance	(3,762)	(2,348)
Total financial assets	140,602	168,288
	231,787	289,195
Non-current		
Advances to suppliers	36,748	419
Deposits and other receivables	1,234	274
Prepayments for operating lease	–	15,452
Total non-financial assets	37,982	16,145
Total	269,769	305,340

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 advances to suppliers representing those that were past due are as follows:

	2019 RMB'000	2018 RMB'000
As at 1 January	(1,739)	(1,851)
Provision	(1,170)	–
Reversal	–	112
As at 31 December	(2,909)	(1,739)

Notes to the Consolidated Financial Statements

14. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Restricted bank deposits (a)	**17,556**	7,227
Cash and cash equivalent		
– Cash on hand	**335**	492
– Deposits in banks	**588,030**	353,146
	588,365	353,638
	605,921	360,865

Note

(a) As at 31 December 2019, the restricted bank deposits comprised of deposits of RMB17,556,000 held as securities for oil service projects (2018: RMB5,057,000 held as securities for oil service projects and RMB2,170,000 held as securities for notes payable).

15. SHARE CAPITAL

	Number of shares ***(Thousands)***	**Share capital** ***RMB'000***
Authorised:		
Ordinary shares of USD0.0001 each as at 31 December 2018 and 2019	5,000,000	3,219

	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	306,958	195
Share options exercised (Note 17 (b))	6,872	5
As at 31 December 2018	1,849,022	1,175
Add:		
Share options exercised (Note 17 (b))	4,554	3
As at 31 December 2019	1,853,576	1,178

Notes to the Consolidated Financial Statements

16. SHARE PREMIUM

	2019 RMB'000	2018 RMB'000
As at 1 January	**845,246**	591,991
Share options exercised (Note 17 (b))	**2,653**	4,171
Issuance of ordinary shares	**–**	187,934
Convertible bonds – equity portion, net of tax	**–**	61,150
As at 31 December	**847,899**	845,246

17. OTHER RESERVES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Merger reserves (a)	**(148,895)**	(148,895)
Share-based payments (b)	**192,522**	177,982
Statutory reserves (c)	**72,146**	60,501
Capital reserves	**208,419**	208,922
	324,192	298,510

Notes

(a) Merger reserves

As at 31 December 2019 and 2018, 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.

Notes to the Consolidated Financial Statements

17. 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:

	2019		2018	
	Average exercise price per share options ***HKD***	**Number of share options** ***(Thousands)***	Average exercise price per share options *HKD*	Number of share options *(Thousands)*
As at 1 January	**1.25**	**264,299**	1.62	192,354
Granted during the year	**–**	**–**	0.66	97,000
Forfeited during the year	**2.54**	**(8,756)**	2.18	(18,183)
Exercised during the year	**0.49**	**(4,554)**	0.49	(6,872)
As at 31 December	**1.22**	**250,989**	1.25	264,299
Vested and exercisable as at 31 December	**1.41**	**186,322**	1.94	127,279

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2019 was HK$0.71 (2018: HK$0.83).

Notes to the Consolidated Financial Statements

17. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

As at 31 December 2019 and 2018, 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 2019 (Thousands)	Share options 31 December 2018 (Thousands)
20 February 2012	19 February 2022	1.29	**6,432**	7,930
29 March 2012	28 March 2022	1.36	**5,083**	5,083
13 June 2013	12 June 2023	4.69	**37,390**	41,500
31 August 2016	30 August 2026	0.49	**105,084**	72,766
26 September 2018	25 September 2028	0.74	**20,000**	–
06 December 2018	05 December 2028	0.53	**12,333**	–
Total		1.41	**186,322**	127,279
Weighted aver age remaining contractual life of options outstanding at end of period			**6.10 years**	6.14 years

(i) Fair value of options granted

The assessed fair value at grant date of options granted on 26 September 2018 and 06 December 2018 ranged from HK$0.21 to HK$0.26 and from HK$0.31 to HK$0.37 respectively. The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model and the Binomial Option Pricing Model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

	As at 26 September 2018	As at 6 September 2018
Exercise price	HK$0.74	HK$0.532
Grant date	26 September 2018	6 December 2018
Expiry date	25 September 2028	5 December 2028
Share price at grant date	HK$0.74	HK$0.52
Expected price volatility of the company's shares	58.65%	58.72%
Expected dividend yield	0.72%	0.70%
Risk-free interest rate	2.486%	2.185%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Notes to the Consolidated Financial Statements

17. OTHER RESERVES (CONTINUED)

Notes (continued)

(c) Statutory reserves

Subsidiaries incorporated in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When balance of such reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of registered capital after such usage. For the years ended 31 December 2019 and 2018, 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 2017	54,120
Appropriation	6,381
As at 31 December 2018	60,501
Appropriation	11,645
As at 31 December 2019	**72,146**

Notes to the Consolidated Financial Statements

18. BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non-current:		
Secured bank borrowings (a)(i)(iii)	**26,890**	115,372
Secured loans from a third party institution (b)	**20,513**	27,618
	47,403	142,990
Current:		
Short-term bank borrowings		
– Secured (a)(ii)(iii)	**233,000**	91,803
– Unsecured	**–**	21,000
Short-term entrusted loan	**–**	10,000
Short-term borrowings from certain individuals	**–**	471
	233,000	123,274
Current portion of long-term borrowings:		
Secured bank borrowings (a)(i)(iii)	**87,804**	17,258
Secured loans from a third party institution (b)	**24,038**	14,000
	111,842	31,258
Total borrowings	**392,245**	297,522

Notes to the Consolidated Financial Statements

18. BORROWINGS (CONTINUED)

Notes

(a) Bank borrowings

(i) As at 31 December 2019, long-term secured bank borrowings amounting to RMB5,694,000 (2018: RMB6,130,000), comprising non-current portion of RMB4,890,000 (2018: RMB5,372,000) and current portion of RMB804,000 (2018: RMB758,000), are repayable by annual installments through 2026 and bear an effective interest rate of 5.38% per annum (2018: 5.14%) and are secured by a right-of-use asset and the guarantee of the Company.

As at 31 December 2019, the current portion of long-term secured bank borrowings amounting to RMB85,000,000 are repayable by 2020 and bear an effective interest rate of 6.08% per annum, and are secured by the collection right of trade receivables of certain service contracts.

As at 31 December 2019, long-term secured bank borrowings amounting to RMB24,000,000, comprising non-current portion of RMB22,000,000 and current portion of RMB2,000,000, are repayable by annual installments through 2021 and bear an effective interest rate of 6.60% per annum, and are secured by the collection right of trade receivables of certain service contracts.

(ii) As at 31 December 2019, short-term secured bank borrowings amounting to RMB193,000,000 (2018: RMB91,803,000) will mature in one year and bear interest rate of 6.00% to 6.20% (2018: 6.36%) and are secured by the collection right of trade receivables of certain service contracts.

As at 31 December 2019, short-term secured bank borrowings amounting to RMB40,000,000 are repayable in one year with interest rates of 5.22% to 5.66% per annum and are guaranteed by a third party guarantee company ("Guarantor"). A counter guarantee to the Guarantor for these bank borrowings is jointly provided by a subsidiary of the Group by pledge of its land use right with carrying amount of RMB20,309,000 and an employee of the Group with personal guarantee.

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Long-term bank borrowings, including current portion		
Secured by:		
– Long-term prepayments	**–**	6,130
– Right-of-use assets (Note 7)	**5,694**	–
– Trade receivables	**109,000**	126,500
	114,694	132,630
Short-term bank borrowings		
Secured by:		
– Trade receivables (Note 12)	**193,000**	92,016
	193,000	92,016

Notes to the Consolidated Financial Statements

18. BORROWINGS (CONTINUED)

Notes (continued)

(b) Secured loans from a third party institution

The Group's loans from a third party institution are expiring in 2021 and 2022 and are secured by certain machinery with a carrying amount of RMB66,807,000 (2018: RMB49,905,000), and guarantee provided by a subsidiary of the Group.

(c) 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.

(d) Risk exposures

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

19. TRADE AND NOTE PAYABLES

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Up to 6 months	**686,623**	452,733
6 months to 1 year	**68,286**	37,750
1 – 2 years	**82,090**	62,170
2 – 3 years	**15,015**	49,834
Over 3 years	**58,386**	100,002
	910,400	702,489

Notes to the Consolidated Financial Statements

20. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Interest payable	**3,230**	2,184
Rental fee payable	**–**	2,686
Other payables	**38,700**	23,843
Total financial liabilities	**41,930**	28,713
Payroll and welfare payable	**55,021**	43,599
Taxes other than income taxes payable	**40,785**	48,163
Total non-financial liabilities	**95,806**	91,762
	137,736	120,475

21. DEFERRED INCOME TAXATION

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Deferred income tax assets:		
– To be recovered after more than 12 months	**88,032**	89,762
– To be recovered within 12 months	**12,964**	41,618
	100,996	131,380
Deferred income tax liabilities:		
– To be settled after 12 months	**(21,492)**	(18,642)
	(21,492)	(18,642)
	79,504	112,738

Notes to the Consolidated Financial Statements

21. DEFERRED INCOME TAXATION (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
As at 1 January	112,738	120,942
Change in accounting policy-IFRS 9	–	1,438
As at 1 January, restated	112,738	122,380
Charged to the income statement (Note 26)	(33,550)	(8,286)
Currency translation difference	316	(1,356)
As at 31 December	79,504	112,738

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 2017	76,091	27,855	27,809	10,144	141,899
Change in accounting policy-IFRS 9	–	1,438	–	–	1,438
As at 1 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
(Charged)/credited to the income statement	(33,358)	323	1,408	927	(30,700)
Currency translation differences	–	65	270	(19)	316
As at 31 December 2019	37,435	30,137	26,576	6,848	100,996

* 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.

Notes to the Consolidated Financial Statements

21. 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 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
Charged to the income statement	–	2,850	–	2,850
As at 31 December 2019	**–**	**21,492**	**–**	**21,492**

* 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 RMB122,877,000 as at 31 December 2019 (2018: RMB113,235,000), in respect of losses amounting to RMB669,430,000 (2018: RMB592,837,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2020 and 2028.

(b) The Board did not propose final dividend for the year ended 31 December 2019. As at 31 December 2019, the Group did not recognise deferred income tax liabilities of RMB36,679,110 (2018: RMB15,374,444) on withholding tax of unremitted earnings of certain subsidiaries as such unremitted earnings amounting to RMB733,582,208 (2018: RMB307,256,357) are expected to be retained in the respective subsidiaries for their future investment and expansion activities.

Notes to the Consolidated Financial Statements

22. OTHER LOSSES, NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net foreign exchange losses	**(9,467)**	(17,380)
Others	**1,774**	(11,567)
	(7,693)	(28,947)

23. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Wages, salaries and allowances	**398,449**	328,020
Housing benefits	**13,096**	14,357
Pension costs	**51,241**	43,461
Share-based payments (Note 17)	**15,222**	7,931
Welfare and other expenses	**20,256**	15,349
	498,264	409,118

Notes

(a) Five highest paid individuals

	Year ended 31 December Number of individuals	
	2019	2018
Director	**2**	2
Non-director individual	**3**	3
	5	5

Notes to the Consolidated Financial Statements

23. 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	
	2019	2018
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**2,296**	2,384
Share-based payments	**3,283**	1,294
Retirement benefits and others	**249**	165
	5,828	3,843

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2019	2018
Emolument band		
HKD1,000,001 to HKD1,500,000	**–**	1
HKD1,500,001 to HKD2,000,000	**1**	2
HKD2,000,001 to HKD2,500,000	**1**	–
HKD2,500,001 to HKD3,000,000	**1**	–
	3	3

Notes to the Consolidated Financial Statements

24. EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Gains on disposal of property, plant and equipment	**(701)**	(977)
Sales tax and surcharges	**4,458**	5,504
Depreciation		
– Right-of-use assets (include land use rights)	**20,145**	–
– Property, plant and equipment	**54,184**	61,602
Amortisation of intangible assets and land use rights	**10,287**	9,837
Auditor's remuneration		
– PricewaterhouseCoopers	**4,650**	4,500
– Other auditors	**1,180**	983

25. FINANCE COSTS, NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Finance income:		
– Interest income on short-term bank deposits	**3,029**	1,004
Net foreign exchange gains on financing activities	**96**	149
Finance income	**3,125**	1,153
Interest expense:		
– Bank borrowings	**(18,276)**	(16,721)
– Interest paid of lease liabilities	**(4,466)**	–
– Bank charges and others	**(5,997)**	(3,780)
– Secured loans from a third party institution	**(4,741)**	(1,221)
– Liability component of convertible bonds	**–**	(10,235)
Finance costs	**(33,480)**	(31,957)
Finance costs, net	**(30,355)**	(30,804)

Notes to the Consolidated Financial Statements

26. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**29,060**	11,182
Deferred income tax	**33,550**	8,286
Income tax expense	**62,610**	19,468

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) The subsidiaries established in Singapore are subject to Singapore profits tax rate of 17%.

(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 2019 and 2018, certain subsidiaries established in the western area of the PRC were subject to a preferential tax rate of 15% while other subsidiaries established in the PRC are subject to income tax rate of 25%.

Notes to the Consolidated Financial Statements

26. INCOME TAX EXPENSE (CONTINUED)

Notes (continued)

(f) The corporate income tax rate for subsidiaries established in Turkmenistan, Kazakhstan, Canada, Indonesia, America and the United Arab Emirates are 20%, 20%, 25%, 25%, 35% and nil 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	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**262,737**	96,107
Tax calculated at domestic tax rates applicable to profits in the respective countries	**43,846**	14,749
Expenses not deductible for taxation purposes	**7,324**	6,171
Utilisation of previously unrecognised tax losses	**(8,434)**	(10,061)
Losses not recognised as deferred income tax assets	**18,076**	8,609
Withholding tax relating to unremitted retained earnings	**2,850**	–
Additional tax deduction of research and development expenses	**(1,052)**	–
Income tax expense	**62,610**	19,468

27. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2019 and 2018.

28. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit attributable to the owners of the Company	**198,926**	81,798
Weighted average number of ordinary shares in issue (thousands)	**1,850,798**	1,738,527
Basic earnings per share (RMB per share)	**0.107**	0.047

Notes to the Consolidated Financial Statements

28. EARNINGS PER SHARE (CONTINUED)

(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 one category of dilutive potential ordinary shares: share options. 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.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to the owners of the Company	**198,926**	81,798
Interest expense on convertible bonds	**–**	Anti-dilutive
	198,926	81,798
Weighted average number of ordinary shares in issue (thousands)	**1,850,798**	1,738,527
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**–**	Anti-dilutive
– Share options (thousands)	**30,270**	36,973
	1,881,068	1,775,500
Diluted earnings per share (RMB per share)	**0.106**	0.046

Notes to the Consolidated Financial Statements

29. CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**262,737**	96,107
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 6&24)	**54,184**	61,602
– net gains on disposals (Note 24)	**(701)**	(977)
Right-of-use assets, including land use rights		
– depreciation charge (Note 7&24)	**20,145**	–
Amortisation (Notes 8&9)	**10,287**	9,837
Impairment losses of inventory and prepayments	**7,030**	18,162
Net impairments losses of financial and contract assets	**1,751**	1,481
Net foreign exchange losses (Notes 22&25)	**9,371**	17,231
Interest income (Note 25)	**(3,029)**	(1,004)
Interest expenses on borrowings (Note 25)	**23,017**	17,942
Interest paid of lease liabilities (Note 25)	**4,466**	–
Interest expenses on convertible bonds (Note 25)	**–**	10,235
Share-based payments (Note 23)	**15,222**	7,931
Changes in working capital:		
Inventories	**(97,017)**	(53,809)
Trade and note receivables	**(295,505)**	(240,584)
Prepayments and other receivables	**53,946**	(7,636)
Trade and note payables	**205,325**	152,583
Accruals and other payables	**37,132**	(27,885)
Net cash generated from operations	**308,361**	61,216

(b) Non-cash investing and financing activities

Non-cash investing and financing activities on acquisition of right-of-use assets for the year ended 31 December 2019 was disclosed in Note 7 (2018: Nil).

Notes to the Consolidated Financial Statements

29. CASH GENERATED FROM OPERATIONS (CONTINUED)

(c) Net debt reconciliation

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

Net debt	As at 31 December 2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**588,365**	353,638
Borrowings – repayable within one year	**(344,842)**	(154,532)
Borrowings – repayable after one year	**(47,403)**	(142,990)
Lease liabilities	**(69,545)**	–
Net debt	**126,575**	56,116
Cash and liquid investments	**588,365**	353,638
Gross debt – fixed interest rates	**(456,096)**	(291,392)
Gross debt – variable interest rates	**(5,694)**	(6,130)
Net debt	**126,575**	56,116

	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	Lease RMB'000	Total RMB'000
Net debt as at 1 January 2018	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
Recognised on adoption of IFRS 16	–	–	–	(65,665)	(65,665)
Net debt as at 1 January 2019	353,638	(154,532)	(142,990)	(65,665)	(9,549)
Cash flows	229,930	(76,277)	(16,233)	17,812	155,232
Foreign exchange adjustments	4,797	(96)	–	43	4,744
Other non-cash movements	–	(113,937)	111,820	(21,735)	(23,852)
Net debt as at 31 December 2019	**588,365**	**(344,842)**	**(47,403)**	**(69,545)**	**126,575**

Notes to the Consolidated Financial Statements

30. CONTINGENCIES

As at 31 December 2019 and 2018, the Group did not have any significant contingent liabilities.

31. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for but not yet incurred is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Property, plant and equipment	**46,410**	–

(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	
	2019	2018
	RMB'000	*RMB'000*
No later than 1 year	**3,111**	26,629
Later than 1 year and no later than 5 years	**–**	42,934
Later than 5 years	**–**	27,799
	3,111	97,362

Notes to the Consolidated Financial Statements

32. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties for the year ended 31 December 2019 and 2018:

(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	
	2019	2018
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**7,499**	5,003
Share-based payments	**6,089**	2,851
Retirement benefits and others	**1,010**	749
	14,598	8,603

Notes to the Consolidated Financial Statements

33. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		**1,190,781**	1,188,905
Current assets			
Prepayments and other receivables		**335**	331
Cash and cash equivalents		**20,927**	5,547
Total assets		**1,212,043**	1,194,783
Equity and liabilities			
Share capital		**1,178**	1,175
Share premium		**847,899**	845,246
Other reserves	*Note (a)*	**405,421**	390,881
Currency translation differences		**75,816**	63,198
Accumulated losses	*Note (a)*	**(138,532)**	(133,649)
Total equity		**1,191,782**	1,166,851
Liabilities			
Non-Current liabilities		**–**	–
Current liabilities			
Accruals and other payables		**20,261**	27,932
Total liabilities		**20,261**	27,932
Total equity and liabilities		**1,212,043**	1,194,783

The balance sheet of the Company was approved by the Board of Directors on 26 March 2020 and was signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Notes to the Consolidated Financial Statements

33. 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 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
At 31 December 2018	**(133,649)**	**845,246**	**390,881**	**63,198**	**1,165,676**
Loss for the year	**(4,883)**	**–**	**–**	**–**	**(4,883)**
Currency translation differences	**–**	**–**	**–**	**12,618**	**12,618**
Share options exercised	**–**	**2,653**	**(682)**	**–**	**1,971**
Share-based payments	**–**	**–**	**15,222**	**–**	**15,222**
At 31 December 2019	**(138,532)**	**847,899**	**405,421**	**75,816**	**1,190,604**

Notes to the Consolidated Financial Statements

34. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives emoluments

The remuneration of each director and the chief executive for the year ended 31 December 2019 is set out below:

	Fee *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Allowances, retirement benefits and benefit in kind money value other benefits *RMB'000*	Total *RMB'000*
Executive Directors						
Mr. 王國強 (Mr. Wang Guoqiang)	–	651	–	48	29	728
Mr. 吳東方 (Mr. Ethan Wu)	–	651	–	63	26	740
Mr. 李強 (Mr. Li Qiang)	–	480	–	38	242	760
Mr. 武吉偉 (Mr. Wu Jiwei) *	–	2,000	–	38	2,171	4,209
Non-executive Directors						
Ms. 陳春花 (Ms. Chen Chunhua)	984	–	–	–	23	1,007
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	264	–	–	–	23	287
Mr. 溫嘉明 (Mr. Wan Kah Ming)	264	–	–	–	23	287
Ms. 張渝涓 (Ms. Zhang Yujuan)	264	–	–	–	23	287
	1,776	3,782	–	187	2,560	8,305

Notes to the Consolidated Financial Statements

34. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

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

The remuneration of each director and the chief executive for the year ended 31 December 2018 is set out below:

	Fee *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Allowances, retirement benefits 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. Ethan Wu)	–	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. 林暘(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
	1,653	1,744	–	208	1,148	4,753

* Mr. 武吉偉 (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.

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

Notes to the Consolidated Financial Statements

34. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year ended 31 December 2019, 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 (2018: nil).

(c) Directors' termination benefits

During the year ended 31 December 2019, 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 (2018: nil).

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

During the year ended 31 December 2019, no consideration was provided to or receivable by third parties for making available director's services (2018: 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 (2018: 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 (2018: nil).

35. SUBSEQUENT EVENT

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and many other countries. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects as a result of the COVID-19 outbreak.

SPT Energy Group Inc.
華油能源集團有限公司*

* For identification purpose only