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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

ANNUAL RESULTS HIGHLIGHTS

The Group's revenue for the year ended 31 December 2012 increased by RMB500.4 million, or 37.9%, to RMB1,821.7 million from RMB1,321.3 million in 2011. The profit for the year attributable to the equity owners of the Company increased by RMB65.9 million, or 36.2%, to RMB247.7 million from RMB181.8 million in 2011.

The proposed final dividend was RMB61.0 million of RMB0.04 per share (2011: RMB0.01 per share).

RESULTS

The board of directors (the "Board") of SPT Energy Group Inc. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 (the "Reporting Period"), together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

		Year ended 31 December	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**1,821,661**	1,321,260
Other (losses), net		**(11,435)**	(7,760)
Operating costs			
Material costs		**(460,223)**	(363,390)
Employee benefit expenses		**(414,764)**	(252,958)
Operating lease expenses		**(79,340)**	(48,056)
Transportation costs		**(75,899)**	(66,327)
Depreciation and amortisation		**(57,372)**	(43,551)
Technical service expenses		**(129,357)**	(93,005)
Impairment loss of assets		**(10,999)**	(9,263)
Others		**(220,203)**	(161,301)
		(1,448,157)	(1,037,851)
Operating profit	*4*	**362,069**	275,649
Finance income	*5*	**2,331**	536
Finance costs	*5*	**(25,128)**	(14,535)
Finance costs, net		**(22,797)**	(13,999)
Profit before income tax		**339,272**	261,650
Income tax expense	*6*	**(84,334)**	(75,067)
Profit for the year		**254,938**	186,583
Attributable to:			
Equity owners of the Company		**247,703**	181,806
Non-controlling interests		**7,235**	4,777
		254,938	186,583
Dividends proposed after balance sheet date	*10*	**61,000**	13,350
Earnings per share for the profit attributable to the equity owners of the Company			
Basic earnings per share	*7*	**0.184**	0.180
Diluted earnings per share	*7*	**0.183**	0.180

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**254,938**	186,583
Other comprehensive income:		
Currency translation differences	**(3,270)**	(18,299)
Total comprehensive income for the year	**251,668**	168,284
Attributable to:		
Equity owners of the Company	**244,245**	163,438
Non-controlling interests	**7,423**	4,846
	251,668	168,284

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

	Notes	As at 31 December 2012 RMB'000	2011 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**277,497**	214,625
Land use right		**23,689**	—
Goodwill		**781**	—
Intangible assets		**9,055**	229
Deferred income tax assets		**57,233**	42,071
Prepayments and other receivables		**20,594**	27,491
		388,849	284,416
Current assets			
Inventories		**315,309**	245,089
Trade and note receivables	*8*	**1,043,269**	577,067
Prepayments and other receivables		**75,120**	58,824
Restricted bank deposits		**13,785**	2,031
Cash and cash equivalents		**658,713**	301,340
		2,106,196	1,184,351
Total assets		**2,495,045**	1,468,767
Equity			
Equity attributable to the Company's equity owners			
Ordinary share		**968**	849
Share premium			
— Proposed final dividend	*10*	**61,000**	—
— Others		**654,963**	275,455
Other reserves		**211,889**	159,349
Currency translation differences		**(37,054)**	(33,596)
Retained earnings			
— Proposed final dividend	*10*	**—**	13,350
— Others		**689,881**	454,862
		1,581,647	870,269
Non-controlling interests		**46,527**	33,520
Total equity		**1,628,174**	903,789

		As at 31 December	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Liabilities			
Non-Current liabilities			
Borrowings		**125,730**	9,071
Deferred income tax liabilities		**20,666**	7,629
Trade payables		**4,998**	—
		151,394	16,700
Current liabilities			
Borrowings		**194,189**	210,101
Trade payables		**325,375**	199,929
Accruals and other payables	*9*	**162,175**	96,084
Current income tax liabilities		**31,134**	41,516
Current portion of long-term borrowings		**2,604**	648
		715,477	548,278
Total liabilities		**866,871**	564,978
Total equity and liabilities		**2,495,045**	1,468,767
Net current assets		**1,390,719**	636,073
Total assets less current liabilities		**1,779,568**	920,489

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Net cash inflows from operations	*11*	**54,174**	151,387
Interest paid		**(17,578)**	(10,226)
Interest received		**3,348**	262
Income tax paid		**(97,833)**	(109,970)
Net cash (used)/generated from operating activities		**(57,889)**	31,453
Cash flows from investing activities			
Purchases of property, plant and equipment		**(117,914)**	(83,126)
Proceeds from disposal of property, plant and equipment		**7,994**	5,175
Purchase of land use right		**(17,632)**	(6,500)
Payments for intangible assets		**(8,902)**	(153)
Acquisition of a subsidiary, net		**(6,754)**	—
Net cash used in investing activities		**(143,208)**	(84,604)
Cash flows from financing activities			
Net proceeds from issuance of convertible bonds		**94,526**	—
Proceeds from bank borrowings		**258,198**	515,496
Repayments of bank borrowings		**(220,744)**	(455,652)
Contribution to subsidiaries by their then equity owners		**—**	15,357
Consideration paid to their then equity owners for acquisition of subsidiaries under common control		**—**	(158,038)
2011 final dividend paid in 2012		**(13,350)**	—
Proceeds from issuance of ordinary shares		**446,778**	334,749
Payment of fees relating to issuance of ordinary shares		**(6,151)**	(61,207)
Net cash generated from financing activities		**559,257**	190,705
Net increase in cash and cash equivalents		**358,160**	137,554
Cash and cash equivalents, at beginning of the year		**301,340**	166,721
Exchange loss on cash and cash equivalents		**(787)**	(2,935)
Cash and cash equivalents at end of the year		**658,713**	301,340

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 4th Floor, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY-1112, Cayman Islands. The Company had its primary listing on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 December 2011 through a global offering ("Global Offering").

The Company is an investment holding company. The Group is principally engaged in provision of oilfield services including drilling, well completion, reservoir, with ancillary activities in trading and manufacturing of oilfield services related products mainly in the People's Republic of China (the "PRC"), Republic of Kazakhstan ("Kazakhstan"), Singapore and Canada. The ultimate controlling party of the Group is Mr. Wang Guoqiang (王國強) and Mr. Wu Dongfang (吳東方) (collectively referred to as the "Controlling Shareholders").

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 26 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1.1 Basis of preparation

These policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially subsequently reclassifiable to profit or loss (reclassification adjustments). The amendments do not address which items are presented in OCI.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has assessed and concluded the adoption of IFRS 10 does not have a significant impact on the Group.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. SEGMENT INFORMATION

The executive directors and senior management are considered as chief operating decision maker ("CODM"), comprising the executive directors and senior management, reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on these financial statements.

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services, which is the basis by which the CODM makes decisions about resources to be allocated to the segments and assesses their performance.

They are so managed according to different nature of products and services. Most of these entities engaged in just single business, except a few entities deal with diversified operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

The CODM assesses performance of three reportable segments: drilling, well completion and reservoir. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

(a) Revenue

Revenue recognised during the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	*RMB'000*
Drilling	**658,850**	450,798
Well completion	**531,502**	354,911
Reservoir	**631,309**	515,551
	1,821,661	1,321,260

The measurement of profit or loss and assets of the operating segments are the same as those described in the summary of significant accounting policies. The CODM evaluates the performance of the reportable segments based on profit or loss before income tax expense, depreciation and amortisation, interest income and finance costs ('EBITDA').

Revenue amounting to RMB1,426,441,000 (2011: RMB1,093,253,000) are derived from Petro China and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

(b) Segment information

The segment information for the years ended 31 December 2012 and 2011 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *RMB'000*
Year ended 31 December 2012				
Revenue from external customers	**658,850**	**531,502**	**631,309**	**1,821,661**
EBITDA	**190,917**	**144,484**	**214,774**	**550,175**
Depreciation and amortisation	**(23,405)**	**(16,601)**	**(17,366)**	**(57,372)**
Income tax expense	**(34,596)**	**(26,411)**	**(40,770)**	**(101,777)**
Total assets	**589,149**	**538,760**	**485,602**	**1,613,511**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**48,034**	**15,952**	**25,022**	**89,008**
Year ended 31 December 2011				
Revenue from external customers	450,798	354,911	515,551	1,321,260
EBITDA	111,335	101,170	187,426	399,931
Depreciation and amortisation	(17,720)	(12,540)	(13,291)	(43,551)
Income tax expense	(26,858)	(25,428)	(49,959)	(102,245)
Total assets	308,510	399,241	325,358	1,033,109
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	53,907	2,138	16,436	72,481

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

	2012 *RMB'000*	2011 *RMB'000*
EBITDA for reportable segments	**550,175**	399,931
Unallocated expenses		
— Share-based payments	**(7,486)**	—
— Other losses, net	**(11,435)**	(7,760)
— Unallocated overhead expenses	**(111,813)**	(72,971)
	(130,734)	(80,731)
	419,441	319,200
Depreciation and amortisation	**(57,372)**	(43,551)
Finance costs	**(25,128)**	(14,535)
Finance income	**2,331**	536
Profit before tax	**339,272**	261,650

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

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

	2012	2011
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,613,511**	1,033,109
Unallocated assets		
— Deferred income tax assets	**57,233**	42,071
— Unallocated inventories	**73,832**	26,067
— Unallocated prepayment and other receivables	**77,971**	64,149
— Restricted bank deposits	**13,785**	2,031
— Cash and cash equivalents	**658,713**	301,340
	881,534	435,658
Total assets per balance sheet	**2,495,045**	1,468,767

(c) Geographical segment

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

	2012	2011
	RMB'000	*RMB'000*
Kazakhstan	**749,734**	615,607
PRC	**791,437**	434,443
Canada	**117,856**	131,393
Singapore	**131,244**	113,507
Others	**31,390**	26,310
	1,821,661	1,321,260

The following table shows the non-current assets other than deferred tax assets by geographical segment according to the country of domicile of the respective entities in the Group:

	2012	2011
	RMB'000	*RMB'000*
Kazakhstan	**128,442**	116,180
PRC	**114,600**	79,824
Canada	**10,741**	11,772
Singapore	**43,137**	18,982
Others	**34,696**	15,587
	331,616	242,345

4. EXPENSE BY NATURE AND PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Operating profit is arrived at after charging the following:

	2012	2011
	RMB'000	*RMB'000*
(Gain)/Losses on disposal of property, plant and equipment	**(6,118)**	35
Losses on disposal of intangible assets	**—**	576
Sales tax and surcharges	**8,451**	7,380
Depreciation	**56,874**	43,443
Share issue costs	**—**	22,122
Amortisation of land use right and intangible assets	**498**	108
Auditor's remuneration	**3,980**	2,000

5. FINANCE COSTS, NET

	2012	2011
	RMB'000	*RMB'000*
Finance income:		
— Interest income on short-term bank deposits	**3,348**	262
— Net foreign exchange (losses)/gains on financing activities	**(1,017)**	274
Finance income	**2,331**	536
Interest expense:		
— Bank borrowings	**(18,864)**	(10,120)
— Bank charges	**(2,133)**	(4,415)
— Liability component of convertible bonds	**(4,131)**	—
Total finance costs	**(25,128)**	(14,535)
Net finance costs	**(22,797)**	(13,999)

6. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
Current taxation	**87,896**	78,484
Deferred taxation	**(3,562)**	(3,417)
Income tax expense	**84,334**	75,067

a. The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

b. Subsidiaries established in Netherlands and Luxemburg are subject to Netherland and Luxemburg profit tax at a rate of 20% and 30% respectively.

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

d. The subsidiaries established in Singapore are subject to Singapore profit tax at 16.5% and an incentive tax rate at 10% respectively.

e. PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in Mainland China 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 year ended 31 December 2012, certain subsidiaries established in the western area of PRC were subject to an incentive tax rate of 15% while other subsidiaries established in PRC are subject to income tax rate of 25%.

f. The corporate income tax rate for subsidiaries established in Kazakhstan is 20%. Income tax is charged on all business income generated in Kazakhstan with relief for tax deductible expenses.

g. The corporate income tax rate for subsidiaries established in Canada is 29%.

The income tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**339,272**	261,650
Tax calculated at domestic tax rates applicable to profits in the respective countries	**62,601**	59,219
Expenses not deductible for taxation purposes	**4,802**	6,929
Losses not recognised as deferred tax assets	**752**	2,621
Accrued withholding tax of the unremitted earnings of certain subsidiaries	**12,260**	6,298
Withholding tax paid in foreign jurisdiction not deductible against local tax	**3,919**	—
Income tax expense	**84,334**	75,067

7. EARNINGS PER SHARE

(a) Basic earnings per share

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

	2012	2011
	RMB'000	*RMB'000*
Profit attributable to equity owners of the Company	**247,703**	181,806
Weighted average number of ordinary shares in issue (thousands)	**1,345,932**	1,008,260
Basic earnings per share (RMB per share)	**0.184**	0.180

(b) Diluted earnings per share

Dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit attributable to equity owners of the Company	**247,703**	181,806
Add: Interest expense on convertible bonds (Note 5)	**4,131**	—
	251,834	181,806
Weighted average number of ordinary shares in issue (thousands)	**1,345,932**	1,008,260
Adjustment for:		
— Assumed conversion of convertible bonds (thousands)	**25,227**	—
— Share options (thousands)	**2,161**	—
	1,373,320	1,008,260
Diluted earnings per share	**0.183**	0.180

8. TRADE AND NOTE RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**1,054,439**	586,341
Less: impairment of trade receivables (a)	**(13,170)**	(9,274)
Trade receivables — net	**1,041,269**	577,067
Note receivables	**2,000**	—
	1,043,269	577,067

Notes

(a) Trade and note receivables are financial assets classified as "loan and receivables". The fair values of trade and note receivables approximated their carrying values due to their short maturity.

(b) Most of the trade receivables are with credit terms of six months, except for retention money amounting to RMB11,909,000 (2011: RMB5,283,000).

(c) Ageing analysis of gross trade and note receivables as at 31 December 2012 and 2011 is as follows:

	2012	2011
	RMB'000	*RMB'000*
Up to 6 months	**960,293**	554,184
6 months–1 year	**48,673**	12,233
1–2 years	**37,576**	19,378
2–3 years	**9,419**	—
Over 3 years	**478**	546
Trade and note receivables, gross	**1,056,439**	586,341
Less: Impairment of trade and note receivables	**(13,170)**	(9,274)
Trade and note receivables, net	**1,043,269**	577,067

(d) Trade and note receivables of RMB75,326,000 (2011: RMB21,047,000) were past due but not impaired. These receivables relate to a number of independent customers for whom there were no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012	2011
	RMB'000	*RMB'000*
Up to 1 year	**60,069**	15,688
1 to 2 years	**15,243**	5,291
2 to 3 years	**14**	—
Over 3 years	**—**	68
	75,326	21,047

(e) As at 31 December 2012, trade and note receivables amounted to RMB13,170,000 (2011: RMB9,274,000) were impaired and fully provided. The individually impaired trade and note receivables mainly related to certain customers who are in unexpectedly difficult financial situations and certain receivables with long ageing which the Company considered difficult to recover. The ageing of these impaired trade receivables is as follows:

	2012	2011
	RMB'000	*RMB'000*
Up to 1 year	**2,888**	—
1 to 2 years	**413**	8,796
2 to 3 years	**9,391**	—
Over 3 years	**478**	478
	13,170	9,274

Movements of impairment of trade receivables are as follows:

	2012	2011
	RMB'000	*RMB'000*
As at 1 January	**(9,274)**	(647)
Add: provision for impairment of trade receivables	**(3,896)**	(8,796)
Less: reversal of impairment of trade receivables	**—**	169
As at 31 December	**(13,170)**	(9,274)

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

	2012	2011
	Equivalent in RMB'000	*Equivalent in RMB'000*
RMB	**502,072**	273,792
Kazakhstan Tenge ("KZT")	**358,075**	187,892
United States Dollar ("USD")	**175,958**	109,963
Singapore Dollar ("SGD")	**4,847**	—
Canadian Dollar ("CAD")	**2,317**	5,420
	1,043,269	577,067

(g) Trade receivables of RMB250,593,000 (2011: RMB179,276,000) have been pledged for the Group's borrowings.

9. ACCRUALS AND OTHER PAYABLES

Group

	2012	2011
	RMB'000	*RMB'000*
Interest payable	**3,008**	684
Others	**21,035**	26,736
Total financial liabilities	**24,043**	27,420
Customer deposits and receipts in advance	**14,841**	1,318
Payroll and welfare payable	**42,856**	30,561
Taxes other than income taxes payable	**80,435**	36,785
Total non-financial liabilities	**138,132**	68,664
	162,175	96,084

Ageing analysis of accrual and other payables at the respective balance sheet dates is as follows:

	2012	2011
	RMB'000	*RMB'000*
Less than 1 year	**152,079**	92,928
1–2 years	**8,082**	2,999
2–3 years	**2,014**	133
Over 3 years	**—**	24
	162,175	96,084

Company

	2012	2011
	RMB'000	*RMB'000*
Amounts due to subsidiaries	**—**	14,177
Others	**2,014**	12,034
Total financial liabilities	**2,014**	26,211

10. DIVIDENDS

The dividends paid during the year ended 31 December 2012 were RMB13,350,000 (2011: Nil).

A dividend in respect of the year ended 31 December 2012 of RMB0.04 (equivalent to HKD0.049) per share, amounting to a total dividend of RMB61,000,000 (equivalent to HKD74,725,000), is to be proposed at the next annual general meeting. The dividend will be paid out of the share premium account of the Company. The financial statements do not reflect this dividend payable.

11. CASH GENERATED FROM OPERATIONS

	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**339,272**	261,650
Adjustments for:		
Property, plant and equipment		
— depreciation charge (Note 4)	**56,874**	43,443
— net (gain)/loss on disposals (Note 4)	**(6,118)**	35
Land use right and intangible assets		
— amortisation	**498**	108
— net loss on disposals (Note 4)	**—**	576
Provision for impairment of assets	**10,999**	9,263
Share issue costs (Note 4)	**—**	22,122
Net foreign exchange loss	**14,258**	7,361
Interest income (Note 5)	**(3,348)**	(262)
Interest expenses on borrowing (Note 5)	**18,864**	10,120
Interest expenses on convertible bonds (Note 5)	**4,131**	—
Share-based payments	**7,486**	—
Changes in working capital:		
Inventories	**(69,349)**	(34,024)
Trade receivables	**(464,845)**	(140,552)
Prepayments and other receivables	**(17,979)**	15,202
Trade payables	**119,913**	(55,848)
Accruals and other payables	**55,272**	3,530
Restricted bank deposits	**(11,754)**	8,663
Net cash inflows from operations	**54,174**	151,387

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

	2012	2011
	RMB'000	*RMB'000*
Net carrying value	**6,698**	5,210
Gain/(Loss) on disposal of property, plant and equipment (Note 4)	**6,118**	(35)
Less: unsettled receivables in relation to the disposal	**(4,843)**	—
Proceeds from disposal of property, plant and equipment	**7,973**	5,175

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2012, the Group realised revenue of RMB1,821.7 million and profits after tax of RMB254.9 million, representing increases of 37.9% and 36.6%, respectively, as compared to the year ended 31 December 2011.

The Company is dedicated to providing various turnkey and special technical services in respect of the exploration and development of oil and natural gas, and possesses the major technologies and on-site construction capacities necessary for oil exploration and production through many years of efforts. In particular the Company has gained abundant experience and achieved substantial growth in the areas of core oilfield services and technologies, including the research and assessment on oil and gas reservoir of the complex wells, the most complicated wells and unconventional oil and gas wells, drilling, well completion and fracturing technologies. The Company is one of the few non-state-owned enterprises in providing large-scale overseas oilfield services with wide business coverage in major oil and gas production regions around the world, such as China, Central Asia, North America, Southeast Asia and the Middle East. During the year, the overseas and domestic business of the Group have developed rapidly. In overseas market, the Group was able to maintained its leading position in scale advantages and realised a revenue of RMB1,030.2 million, which accounted for 56.6% of the total revenue of the Group or represented an increase of 16.2% over the corresponding period last year. As for the domestic market, the Group realised a revenue of RMB791.4 million, which accounted for 43.4% of the total revenue of the Group or represented an increase of 82.2% over the corresponding period last year.

During the Reporting Period, the Group further strengthened the promotion and application of the relevant technologies by focusing on the capacity construction of turnkey operations and unconventional oil and gas resources operations. In particular, the Group has undertaken a lot of work and achieved significant results in terms of independent tools research and development, talent team building and technology application and promotion, etc.

Regarding turnkey business, in the first half of this year, the Group recruited and deployed various internal professional talents to establish an integrated Project Department, specializing in running the relevant oil and gas integration projects, and in project management, reservior reseach, drilling engineering, drilling fluid, fracturing and well completion, whereby forming the integrated projects operation capability with an integration of project assessment, design and engineering. In August 2012, the Group successfully won a tender for sidetracking turnkey operations of 20 wells in NB oilfield in Kazakhstan with a contract value of USD12 million. In the same year, the Group won another tender of the turnkey business for 5 wells located in Mangystau, Kazakhstan of Emir-oil LLC with a contract value of USD36 million, which greatly demonstrated the Group's competitive strength in this field. Meanwhile, during the Reporting Period, the Group has also proactively developed the turnkey projects in the whole well drilling and well completion of ultra-deep wells and unconventional oil and gas wells in the domestic market. The Group is expected to obtain related business contracts in 2013, so as to make significant contributions to the output value and performance of the Company.

In terms of unconventional gas business, firstly, the Group has been focusing on the core technologies of unconventional gas exploration and development such as drilling, well completion and fracturing. In addition, the Group has conducted researched and developed and applied on-site, and is well equipped with the capacity to independently design and develop the products necessary for the development of shale gas, such as mainstream mud, well cementation, well completion and fracturing fluid. The Group is also positively enhancing the processing capacity of well-completion tools, the testing of which is anticipated to be finalized in 2013 and formally put into production. In April 2012, the Group successfully completed the large scale hydraulic fracturing technical services for the first horizontal shale gas well of CNPC in Changning, Sichuang. The fracturing operations were smoothly completed with the test output of 140,000 cubic meters per day. The said well is also one of the shale gas wells with highest yield among these independently developed in China. In November 2012, the Group won a tender in the competitive bidding with many international bidders and independently undertook and all oil-based drilling fluid service for a total of 14 wells of two well groups in the second-round tender of shale gas demonstration zone of CNPC in Changning, Sichuan. In July 2012, the Group successfully implemented the turnkey drilling operation for the second coal-bed well in Indonesia. The remarkable success in the above mentioned businesses indicates that the service technologies of the Group is increasingly well recognised in the field of exploration and development of unconventional gas, which lays a solid foundation for the rapid development of subsequent related businesses. Secondly, during the Reporting Period, the Group has strengthened the external cooperation and resource integration. On 7 November 2012, the Company and American Gas Technology Institute (GTI) jointly established the "China Shale Gas Training and Consulting Center", which is committed to fully utilise their advantages in providing comprehensive and practical training and consulting services to state-owned oil companies, emerging independent medium-and small-sized oil companies, investors, governmental sectors, research institutions and universities in China, which are involved in the exploitation and development of shale gas. GTI is a non-profit institution engaged in the oil research, technical development, training and education with a history of seventy years, which has always been in a leading position in the aspect of development and deployment of natural gas technical solutions, in particular, the overall solutions for the exploitation and development of unconventional natural gas. The establishment of the strategic alliances will significantly promote the Group's research and deployment of the development strategies in the domestic shale gas market, the involvement into customers' early valuation of exploration area, the design of exploration schemes as well as the contracted turnkey operations of shale gas wells.

Revenue Analysis

For the year ended 31 December 2012, the analysis of the Group's revenue by business segment is as follows:

	2012	2011	Year-on-year
	RMB'000	*RMB'000*	growth
Drilling	**658,850**	450,798	46.2%
Well completion	**531,502**	354,911	49.8%
Reservoir	**631,309**	515,551	22.5%
Total	**1,821,661**	1,321,260	37.9%

In 2012, the three main business segments of the Group maintained a stable growth. The drilling segment and the well completion segment increased by 46.2% and 49.8%, respectively, driven by the rapid development of the turnkey drilling operations, oil-base mud and well cementation technology service, etc. In general, the three main business segments maintained a relatively balanced development pattern. With rapid growth of the turnkey drilling operations and unconventional gas business in 2013, we believe that the drilling segment and the well completion segment could further contribute to the Group's output value.

Reservoir Segment

Revenue	**2012** *RMB'000*	2011 *RMB'000*	Year-on-year growth
PRC	**127,341**	61,993	105.4%
Overseas	**503,968**	453,558	11.1%
Total	**631,309**	515,551	22.5%

For the year ended 31 December 2012, the reservoir services segment realised a revenue of RMB631.3 million, representing an increase of 22.5% as compared with the corresponding period last year. The overseas market contributed a revenue of RMB504.0 million, representing an increase of 11.1% as compared with the corresponding period last year, while the domestic market contributed a revenue of RMB127.3 million, representing an increase of 105.4% as compared with the corresponding period last year.

The reservoir segment is the earliest and well-established business segment of the Group. It mainly comprises reservoir research, dynamic monitoring, oil testing service, oil production technology and turnkey business for oil and gas production.

1. Dynamic monitoring business: In the first half of 2012, the Group won a contract of a total amount of USD32.38 million for the provision of dynamic monitoring service for PetroKazhakstan Company in Kazakhstan for a term of 33 months, and therefore, the Group's market position in Kazakhstan region has been further enhanced. In December 2012, the Group won a contract of a total amount of USD1.15 million for the provision of oilfield dynamic monitoring services for KOA, the national oil company of Kazakhstan, with an operation workload of approximately 1,200 wells. This was another breakthrough achieved by the Group in overseas market in monitoring projects, which contributed to the formation of an international team and the enhancement of the international recognition and the reputation of the Group.

2. Oil production and testing business: In 2012, for the oil production and testing business, the Group not only made business breakthrough in the surface testing for two new oil fields, i.e. Abdul kalam Cass and Redabai (熱的拜), but also completed the operation of 120 wells during the year. In addition, the scope of business was extended into the comprehensive services for high pressure and high temperature wells. In the second half of 2012, the Group won a contract of a contract amount of USD3.56 million for oil testing from OTG in Aktobe of Kazakhstan. This was the first deep and extra-high pressure well in the region. Upon a successful exploration, the Group may obtain additional 7 wells' exploration business.

3. Oil production technology business: In 2012, the Group benefited from oil production technologies such as submersible direct-driven screw pump, gas lift technology and water shut-off and profile control. The Group completed the technology integration of the submersible direct-driven screw pump, and researched and developed its own automatic centralizer device and self-cleaning sand control device, completely solving the technological bottleneck of the short lifespan troubled by downhole reducer. Due to such technological advantages as energy conservation, long-term efficiency and digital controlling system, the technology served as a revolution in the oil production technology, bringing about potential cooperation with CNPC Xibu Drilling Engineering Company Limited, Sinopec North China Petroleum Bureau, CNOOC, Daqing Oilfield, etc. Gas lift technology: leveraging on the gas lift technology team comprising experts with over 30 years' experience in gas lift operations, the Group developed its own negative pressure gas lift, gas lift applying eccentric poising gas-lift valve and gas lift applying built-in fracturing fluid technologies. We conducted operations in 17 wells in liquid unloading and gas production projects in Sulige (蘇里格) gas field of CNPC Changqing with a success ratio of 100%. The Group has recently communicated with MI Oilfield in Kazakhstan and has reached a preliminary cooperation intention. Water shut-off and profile control projects: it is one of the essential measures for oilfields to realize production enhancement at the middle and later stages. Taking into account of the current reservoir situation of KBM oilfield in Kazakhstan, the Group collaborated with the China University of Petroleum on the development of water shutoff agents to make a highly pertinent program. Recently, the Group entered into a construction contract on shut-off and profile control for 5 wells in KBM oilfield. Meanwhile, the Group has been undertaking a shut-off and profile control program based on the existing oilfield reservoir conditions in NB oilfield in Kazakhstan. The Group reached a consensus on the evaluation program with our customers and preparing for a preliminary test.

4. Turnkey business of the oilfield daily operation and maintenance was a new type of reservoir services developed by the Company in 2012. The service is primarily engaged in the turnkey business of the production of the oil and gas station, which is an indispensable, regular and continuing service for oilfields at the production stage. This type of business offers more stableness and sustainability as compared with the other businesses. In 2012, The Group carried out this business mainly in Tarim Oilfield and realised a revenue of approximately RMB68 million. It is expected that this business will grow substantially with a forecasted production value of approximately RMB150 million.

5. As the Group is dedicated to the provision of a package of resolutions from the design and evaluation of the oilfield at the early stage of exploration to oilfield development at the later stage, the Company always places great importance to the reservoir research and evaluation. At present, the reservoir research covers three backbone subjects, i.e. petroleum geology, geophysics and reservoir engineering. In 2012, the Group further strengthened the reservoir geological research. While maintaining the market research in Daqing Oilfield, Northeast Petroleum Bureau of Sinopec and Jidong Oilfield, etc. the Group expanded its research business into international markets and acquired the comprehensive research projects of reservoir geology for two additional oilfields in Kertz of Kazakhstan, i.e. South Kenneth Oilfield and Bektas (貝克塔斯) Field, with a project value amounting to USD900,000. This is a strong driving force for the Group to expand into international market in respect of the reservoir geology research and deepen its development in the global engineering business chain. In addition, the research team currently plays an important role in technical supporting for bidding activity on turnkey projects of the exploration and development of shale gas in China.

Well Completion Segment

Revenue	**2012** *RMB'000*	2011 *RMB'000*	Year-on-year growth
China	**350,466**	228,705	53.2%
Overseas	**181,036**	126,206	43.4%
Total	**531,502**	354,911	49.8%

In 2012, the business of well completion services of the Group achieved a significant growth and the Group recorded revenue of RMB531.5 million, representing an increase of 49.8% as compared to the corresponding year. The well completion services of the Group mainly include well completion technology services and fracturing technology services. During the year, the rapid growth in well completion business is mainly benefiting from the overall acceleration of domestic natural gas exploitation, as well as faster growth of overseas well completion business, especially in the Central Asian market.

1. The Company is one of the earliest domestic enterprises engaged in the business of well completion, and is in leading position in the domestic market of high-end gas well completion services. In 2012, the Group realised a revenue of RMB350.5 million from well completion services in the PRC market, representing an increase of 53.2% as compared to the corresponding year. In 2012, in addition to continuously maintaining its leading position of high-end gas well completion services in Tarim Oilfield, the Group successfully expanded into North China Petroleum Bureau of Sinopec (中石化華北局) and the well completion technology services market in Shengli Oilfield, of Sinopec respectively, which opened a new situation for the domestic well completion technology market. In addition, the Group achieved significant results in the domestic gas storage well completion market. During the Reporting Period, the Group has completed the well completion technology services for a total of 21 wells in several gas storages, including Xinjiang Hutubi gas storage (新疆呼圖壁儲氣庫),

Sichuan Xiangguosi gas storage (四川相國寺儲氣庫), Changqing Oilfield gas storage (長慶油田儲氣庫) and North China gas storage (華北儲氣庫), etc. In overseas market, the well completion business has grown faster in 2012, among which, the Group realised a revenue of RMB82.7 million from well completion technology operation services in Kazakhstan in the period, representing an increase of 24.8% as compared to the corresponding period last year. Especially, a dual-lateral horizontal well in KJYK, Aktobe (阿克糾賓洲肯吉亞克鹽下) was the second dual-lateral horizontal well of CNPC in its overseas market and the first one in Kazakhstan. With the vertical depth of 4,900 meters of each dual-lateral horizontal section, as well as high content of hydrogen sulfide gas in this well, there was huge challenge in connection with the completion process design and the construction operations of such well. The Group successfully competed with other overseas competitors and overcame various design and engineering problems and smoothly completed the entire operation process, which fully demonstrated the Group's leading technical strengths in the field of high-end and complex well consolidate, and definitely strengthened the leading market position of the Group in this region.

2. With the acceleration of exploration and development of unconventional oil and gas including tight oil and shale gas, the oil companies and services companies paid more and more attention to fracturing operations. The core of fracturing operations depends on whether a suitable hydraulic fracture can be designed according to the characteristics of the reservoir and effectively connected with the reservoir, and whether the fracturing fluid system is in line with the special situation of different strata and reservoir and is compatible with formation fluid, in order to achieve the oil and gas stimulation. During the Reporting Period, the Group achieved good results in the domestic market of the unconventional oil and gas, including shale gas and tight oil. In April 2012, the Group successfully completed the large scale hydraulic fracturing technical services for the first shale gas horizontal well of CNPC in Changning, Sichuan. The well was the first shale gas well in the Changning-Weiyuan State-level Shale Gas Demonstration Area, Changning district, and the fracturing operations were smoothly completed through 10 stages fracturing at nearly 1,200m of horizontal section by applying the international leading shale gas horizontal well staged fracturing technology. With the test output of 140,000 cubic meters per day, the well was currently a shale gas well with the highest yield independently developed in the PRC. The great success of this well fully demonstrated its good gas content and great potential of exploration and development in this block, which imposed great strategic significance for the recognition and evaluation of the reservoir by the oil companies, and set up confidence in shale gas exploration, including the research and deployment of subsequent development and investment schemes. It also further demonstrated that the Company maintained a leading position in the field of fracturing technology and indicate that the Group was in the front rank of the domestic shale gas fracturing area, which would create positive and profound impact on the domestic shale gas fracturing operations of the Group. Notwithstanding the difficulty in ensuring the fracturing effect in the tight oil in Tuha Oilfield, the Group entered into this market through a huge success of a test well in 2011, and further successfully provided the fracturing services for 7 wells in terms of the tight oil business in Tuha Oilfield in 2012, which enabled the Group to continuously maintain its leading position in the high-end fracturing technical service market in this oilfield.

Drilling Segment

Revenue	**2012**	2011	Year-on-year growth
	RMB'000	*RMB'000*	
China	**313,630**	143,744	118.2%
Overseas	**345,220**	307,054	12.4%
Total	**658,850**	450,798	46.2%

For the year ended 31 December 2012, the Group recorded revenue of RMB658.8 million from the drilling service segment, representing an increase of 46.2% as compared with the corresponding period last year. The domestic market contributed revenue of RMB313.6 million which represented an increase of 118.2% as compared with the corresponding period last year, while the overseas market contributed revenue of RMB345.2 million which represented an increase of 12.4% as compared with the corresponding period last year.

The drilling operations of the Group include the drilling turnkey services, mud service (drilling fluid service), the cementing service, directional drilling service, under-balanced drilling, sidetracking well service, workover service, disposal of the drilling waste and other integrated and special technical services. These services are widely rendered in domestic Tarim Oilfield, Sichuan Oilfield and Changqing Oilfield, as well as other overseas markets including Kazakhstan, Turkmenistan and Indonesia.

1. Drilling turnkey operations: During the Reporting Period, the drilling operations have developed rapidly in overseas market. After successfully carrying out the CBM drilling turnkey operations of the second well in Indonesia, in August 2012, we won the bid of the sidetracking drilling turnkey operations of 20 wells in NB Oilfield in Kazakhstan with the contract amount of US$12 million, and most of the operations have been successfully completed in 2012. In November of the same year, we won the bid of the drilling turnkey operations of 5 wells located in Mangystau, Kazakhstan of Emir-oil LLC, with the bid amount of US$36 million. The success of above drilling turnkey projects has laid a solid foundation for the Group to further accelerate the development of the turnkey services.

2. Mud service operations: Targeting at the huge market potential of drilling fluid new technology and materials in respect of ultra-deep gas well and unconventional oil and gas well, the Group has always emphasized on the research and development and application of relevant drilling fluid technologies and products. Up to the end of the Reporting Period, the Group has basically developed a series of drilling fluid proprietary technologies, and has applied the intellectual property rights declaration for the relevant products and technologies. In 2012, only in terms of oil-based drilling fluid, we have achieved the scale of operations in Tarim Oilfield and conducted accumulative operations for a total of 8 wells. In current year, we recorded an operating income of RMB61 million, representing an increase of 85% as compared to the corresponding period last year. In November, 2012, the Group successfully defeated the other competitors at home and abroad, and undertook by itself the second round of investments in shale gas demonstration area of CNPC in Sichuan (中石油四川頁岩氣示範區) as well as all oil-based mud services for a total of 14 wells of two well groups. The related entire operations are expected to be completed in 2013.

3. Cementing operations: along with the wide application of oil-based mud in high temperature wells, complex wells and unconventional oil and gas wells, more and more concerns about the problem of the oil-based mud cementing quality are emerged. Regarding this new problem, the Group has started the research and resolution of related technologies as early as 2009, and has selected the appropriate reverse wetting agent and formulated the special spacer for use in oil-based mud cementing, so as to enhance the oil-based mud cementing quality. During the Reporting Period, we have achieved a huge success in the application of such technology and maintained an absolute leading position in oil-based mud cementing operations in Tarim Oilfield. In current year, we completed the cementing operation services for 17 wells. Following the further acceleration of shale gas exploration, oil-based mud will inevitably become the main drilling fluid service technology and thereby oil-based mud cementing will face huge development opportunities.

4. Waste disposal operations: as the country pays great emphasis and attention on the environmental problems, more and more oil companies attach importance to the waste disposal technology in the process of oilfield drilling. In order to meet such need of customers, the Group has conducted independent Research and Development ("R&D") related to the special technology of applying microbial technology in disposal of oilfield wastes, which enables the Group to become one of the few domestic oilfield service enterprises being capable of providing such particular service. In 2012, in view of the huge market prospect of such technology, we have entered into the service agreement with the related customers of Southwest Oil and Gas Field Branch, CNPC and CNOOC in connection with the relevant product.

5. Drilling operations: in order to further strengthen the turnkey drilling capacity of the Group, the group companies purchased a total of 5 drilling rigs in 2012, of which two 5,000m rigs are dedicated for the domestic market, which are expected to be formally put into use at the end of April 2013; two 3,000m rigs for Kazakhstan market, which have been delivered in September; and one CMB special rig for Indonesia market, which has already arrived in September. The purchase of the above rig equipment further demonstrates the equipment capacity in drilling turnkey operations of the Group and expands the operation scale of the Group's drilling operations, laying a solid foundation for subsequent scale operation of the Group's turnkey business.

Market Environment

For industry environment, the Group believes that the global oil and gas market will keep stable and maintain a rapid growth rate in the coming five years. Especially in the PRC's market, the domestic oil companies will accelerate the productivity construction and exploration of oil and gas fields while driven by the huge gap between supply and demand of oil. It is expected that the PRC will enter the golden era for oil and gas exploration in the coming three to five years. In particular, the exploration and development of shale gas in the PRC will be greatly accelerated for the further implementation of the diversified strategies of investment subjects and will bring a great development prospect for the companies providing oilfield services with the capacity of turnkey services.

1. Increasing Importance of Turnkey Services Model

Along with the increasing of complex wells and unconventional oil and gas wells, the oil companies will attach more importance to the turnkey operation services of, especially the unconventional gas like shale gas as the higher requirements of efficiency and cost from the clients, so the turnkey operation services model will become the mainstream of the services model. In line with the industry development, the small and medium oil services providers in China will come every effort to extend their industrial chain and break through the bottlenecks of services scale as well as technology, so as to expend their comprehensive competitiveness, and integrated services will be the industry tendency in 2013.

2. Great Development Opportunities in the Natural Gas Industry

It is expected that both demand and import volume of the natural gas in the PRC will remain a rapid growth in 2013, accompanying with the natural gas industry will possess a favorable outlook with the deepening of the development of urbanization and the increasing seriousness of the air quality issues. The demand of natural gas in the PRC will experience an explosive growth following the promulgation of the articles of the Twelfth Five-year Plan for the Development of Natural Gas (天然氣發展"十二五"規劃). According to the deployment, a diversified Natural Gas supply pattern will be formed, mainly consisting of conventional natural gas and complementing by coal gas, CBM and shale gas in 2015. In terms of demand, the growth rate of the demand for natural gas is expected to be higher than that of the output in the PRC, which means that the gap between supply and demand of natural gas and China's dependence on external natural gas will be further expanded. The proportion of natural gas in the primary energy sources will increase from the current 3% to 8%. The natural gas in the PRC will enter accelerated growth period following the implementation of natural gas pipeline project.

3. A Prosperous Market Prospect for Shale Gas

As PRC has leading and affluent shale gas reserves in the world, we are facing a favorable development opportunity on the exploration of unconventional gas in 2013. The exploration of shale gas has attracted extensive attentions from various parties subsequent to the promulgation of the Development Program of Shale Gas (2011–2015) (《頁岩氣發展規劃 (2011–2015)》). In particular, as the corporation with other countries in respect of the exploitation technology are emphasized in the Twelfth Five-year Plan, such trend is more and more apparent. Compared with unconventional gas, the exploration and development of shale gas is still in the early stage. The technology needed for exploration and development of shale gas is still in the orientation stage for both state-owned services companies and private services companies. However, a number of works on exploration and development of shale gas have been conducted in China, such as outcrop geological survey, the development lead test of preliminary research and exploration, etc. In particular, more that 40 shale gas wells were drilled and gas recovery from more 10 wells, in which the prime daily output of certain wells exceed 10 thousand m^3 in the marine facies of shale gas in south of China. The practices demonstrate that the growth of shale gas will possess a prosperous outlook in China, and the development of shale gas resources in China will become more accelerated in 2013 along with the break through of exploration and development and key technology, the improvement of economic condition as well as the support from national policies.

R&D and Manufacturing

The oilfield technical service is a technology-intensive industry. With the increasing difficulty in oilfield exploration and development, the capability in developing and applying new technologies is the key for achieving long-term sustainable development and grasping market opportunities for the service companies.

During the Reporting Period, the Group has integrated all of the intra-group research and development strengths, and established its technology committee of the Group, arranged and deployed the Group's medium-and-long term plan in R&D and technology development, which focused on, among which, the research and development of tools and materials required for the exploitation of shale gas and other unconventional gas, in which the well-drilling and competition well tools. In December 2012, the Group held a review meeting for services and technical innovations during the meeting, a total of more than 40 innovations has been applied, and 3 silver awards, 3 bronze awards and 15 consolation prizes were evaluated finally, among which, numerical well test technology, piloted de-archive packer technology and the salvage technology of repairing complex wells were demonstrated the leading technical level in the world with a prosperous market prospect after assessed by relevant experts.

During the Reporting Period, the Group further accelerated the R&D and manufacturing downhole tools. The construction of the Group's R&D and manufacturing base in Singapore has been completed and was officially put into use. Especially for shale gas, the Group has independent design and R&D capacity for the major well completion products of shale gas such as packer, slide bushing, bridge plug, ball set, etc. The completion of the construction of the center would greatly enhance the Group's technological edge in respect of downhole operation, and reduce the production cost and greatly enhance the Group's competitiveness in shale gas development market.

As of the end of the Reporting Period, the Group possesses a total of 34 approved patents. During the Reporting Period, the Group has newly applied for 5 patents and has 12 patents pending the approvals.

Human Resources

Upon the listing of the Group, in order to strengthen technical and service capabilities for each business line as well as maintain the competitive edges of the business development, the Group has further optimized its internal organizational structure, reinforced the development and training of internal talents, and continued to attract high-caliber talents in management, engineering service and R&D in 2012. Subsequent to the increasing business growth in PRC and abroad and steady increase of headcount, as of 31 December 2012, the Group had 3,324 employees in total, including 1,191 non-Chinese employees. During the year of 2013, the Group will continue to introduce the core technology and service, and attract more talents to increase the talent pool relating to unconventional oil and gas business. In the overseas market, the Group will keep on implementing the strategy of talent localization and optimizing the international personnel structure. The Group will make efforts to enhance the capability of expanding international business, which has become the important guideline of the talent strategy, proactively bring in the international talents, and improve the rate of talent localization so as to provide the guarantees for the successful implementation of the internal business.

For the remuneration policy and employee incentives, in order to attract and retain the crucial staff in key positions, the Group had implemented the share option scheme and granted options to some key employees in early 2012. Besides, to promote and meet the rapid business development, the Group has further improved its compensation management system for staff, optimized the compensation structure and enhanced the incentive mechanism. Meanwhile, in order to meet the demand of business globalization, the Group will further develop and improve the compensation strategies for international staff in various countries and regions, to fulfill the actual requirement of human resources management for different regions.

For the staff development and training, based on the actual demand of our business, in 2012, the Group had strengthened the specialized technical training system by increasing the training inputs and implementation efforts targeted for each technical department so as to accelerate the talents training and enhance the capacity construction of the talent team. Moreover, the Group also carried out the special marketing skill training for its marketing staff, oil – based professional training program for non-professional oil officers and learning development program for certain senior management members receiving EMBA at an established international business college. In 2013, the Group will not only carry on the routine training programmes, but also further promote and implement the technical training in connection with the unconventional oil and gas business, which will make good preparation for large-scale exploration of the unconventional gas.

Outlook

During a fairly long period in the future, the development of natural gas will remain to be one of the most attractive industries for investment in the market. With the promulgation of the Five-year Plan for shale gas in PRC and the completion of the second round of tender for shale gas regions, exploration and development of shale gas in PRC will further be accelerated. In order to better cope with the external circumstances, the Group will seize the opportunities and, at the same time, lay a solid foundation for our plans in 2013 with the following major aspects:

1. To reinforce and improve the turnkey operation capacity and further realize the design and implementation in such aspects as organization, talent, equipment and technology. Focusing on mainly solving the difficulties and problems faced by its customers, the Group should ensure that its integrated projects have flexible mechanism, advanced technology, reliable equipment and fast reaction.

2. To further strengthen the expansion of shale gas in the markets concerned. By leveraging on the existing advanced technologies and performance on a full basis, the Group will take comprehensive and in-depth actions to tap into such markets. Meanwhile, in response to the early operation that the mass development might have, the Group will use a combination of means such as investment, alliance, merger and acquisition to strengthen the capabilities of such heavy equipments as drilling rig and fracturing pump, laying a solid foundation for the mass turnkey operations in the near future.

3. To strive to enhance the level of internal management, make a practical and solid achievement in corporate process optimization, corporate culture construction as well as technology and management innovation, so as to enhance the overall service quality of the Company and reduce the consolidated expenses.

As a result of foregoing, looking ahead for 2013, with the encouraging external circumstances, each segment of the Group is put in place. We are of the view that, in 2013, the Group will maintain a momentum of steady growth, on the basis of which, the operating scale is expected to make considerable strides and the technical strength of the Company will be further intensified. Based on the foreseeable growth of the turnkey business and unconventional gas business, the Group will have better performance in the turnkey drilling business (including the conventional natural gas and shale gas), the well completion business, oil-base mud and well cementation service business, oil and gas field operation turnkey service business, etc.

Financial Review

Revenue

For the year ended 31 December 2012, the Group realised a revenue of RMB1,821.7 million, representing an increase of RMB500.4 million, or 37.9%, as compared to the corresponding period last year. The of increase Group's revenue was mainly generated from the growth of well completion segment and drilling segment, for which the revenue increased by 49.8% and 46.2% respectively, as compared to the corresponding period last year.

Other (losses)/gains, net

We recognised net other losses of RMB11.4 million and RMB7.8 million for the year ended 31 December 2012 and 2011, respectively. The net other losses for the year ended 31 December 2012 was mainly due to the appreciation of USD-denominated liabilities of Kazakhstan companies against KZT, while the net other losses for the year ended 31 December 2011 was mainly due to the appreciation of USD-denominated liabilities of Kazakhstan companies against KZT, as well as the depreciation of USD-denominated receivables of PRC companies against RMB.

Material cost

For the year ended 31 December 2012, material cost of the Group was RMB460.2 million, representing an increase of RMB96.8 million, or 26.6%, as compared with 2011. The increase was attributable to the Group's business growth, especially the growth of well completion segment and drilling segment.

Employee benefit expense

Our employee benefit expense for the year ended 31 December 2012 was approximately RMB414.8 million, representing an increase of RMB161.8 million, or 64.0%, as compared with 2011. The increase was primarily due to the increase in the numbers of employees as a result of the growth of our business.

Operating lease expense

Our operating lease expense for the year ended 31 December 2012 was approximately RMB79.3 million, representing an increase of RMB31.3 million, or 65.1%, as compared with 2011. The increase was mainly due to more offices leased by us to support our business expansion and more operating vehicles to support the growth of reservoir segment and drilling segment.

Transportation cost

For the year ended 31 December 2012, our transportation cost was approximately RMB75.9 million, representing an increase of RMB9.6 million, or 14.4%, as compared with 2011. The increase was primarily due to the normal business growth of the Group.

Depreciation and amortisation

Our depreciation and amortisation expense for the year ended 31 December 2012 was approximately RMB57.4 million, representing an increase of RMB13.8 million, or 31.7% as compared with 2011. This was mainly due to the increase of machinery and equipment as a result of our Group's business growth, especially the growth of drilling segment and reservoir segment, as well as the increase of land use right, building and other fixed assets for our manufacturing and service purpose.

Technical service expense

Our technical service expense for the year ended 31 December 2012 was approximately RMB129.4 million, representing an increase of RMB36.4 million, or 39.1%, as compared with 2011. The increase was mainly due to the business growth of the Group.

Impairment loss of assets

Our impairment loss of assets for the year ended 31 December 2012 was approximately RMB11.0 million. The impairment loss was mainly related to trade receivables from two Kazakhstan customers who were in unexpected financial difficulties and the Group estimated it was unlikely to collect such receivables.

Others

Other operating costs of our Group for the year ended 31 December 2012 increased from RMB161.3 million for the year ended 31 December 2011 to RMB220.2 million, representing an increase of RMB58.9 million, or 36.5%. This was mainly due to the increase of administrative expenses arising from the business expansion, the establishment of new subsidiaries and offices, and the increased number of employees.

Operating profit

As a result of the foregoing, our operating profit increased to RMB362.1 million for the year ended 31 December 2012, representing an increase of RMB86.4 million, or 31.4%. Our operating profit margin (operating profit divided by revenue) for 2012 was 19.9%, representing a decrease of 1 percentages as compared with 20.9% for 2011.

Net finance cost

Our net finance cost for the year ended 31 December 2012 was approximately RMB22.8 million, representing an increase of RMB8.8 million, or 62.8%, from RMB14.0 million for the year ended 31 December 2011. The increase was mainly due to an increase in our borrowings.

Income tax expense

Our income tax expense for the year ended 31 December 2012 was approximately RMB84.3 million, representing an increase of about RMB9.3 million, or 12.3%, from RMB75.1 million for the year ended 31 December 2011. The comprehensive income tax rate of 2012 was 24.9%, representing a decrease of 3.8 percentages as compared with 28.7% of 2011. The decrease was mainly due to the fact that the subsidiaries incorporated in western China were entitled to the incentive income tax rate of 15% in 2012 and such subsidiaries contributed more profit to the Group.

Profit for the period

As a result of the foregoing, our profit for the year ended 31 December 2012 was approximately RMB254.9 million, representing an increase of RMB68.4 million, or 36.6%, from RMB186.6 million for the year ended 31 December 2011.

Profit attributable to the equity owners of the Company

In 2012, the profit attributable to the equity owners of the Company was approximately RMB247.7 million, representing an increase of RMB65.9 million, or 36.2%, as compared with the same period of 2011.

Property, plant and equipment

Property, plant and equipment consist of buildings, machinery and equipment, motor vehicles, furniture, fixtures, construction-in-progress and others. As at 31 December 2012 and 2011, property, plant and equipment were approximately RMB277.5 million and RMB214.6 million, respectively. The increase in 2012 was primarily due to our business expansion, which led to the demand for more buildings, machinery and equipment.

Inventory

Our inventory balance increased from RMB245.1 million as at 31 December 2011 to RMB315.3 million as at 31 December 2012, representing an increase of RMB70.2 million, or 28.7%. The increase was mainly due to the fact that we expected a further business expansion in 2013 and therefore prepared more inventories in advance to support the business expansion.

Trade receivables

As at 31 December 2012, the net trade receivables was RMB1,043.3 million, representing an increase of RMB466.2 million as compared with 2011. The average turnover days of trade receivables in 2012 were 162 days, representing an increase of 21 days as compared with 2011. (Note: Turnover days of trade receivables are equal to the sum of the balance of trade receivables at the beginning of the year and the balance of trade receivables at the end of the year divided by 2 and divided by the revenue and multiplied by 365 days per year). The increase was primarily due to a substantial increase in revenue and the majority was recogised on a collective basis during the third or fourth quarter.

Liquidity and capital resources

As at 31 December 2012, our cash and bank deposit were approximately RMB672.5 million (including restricted bank deposit of RMB13.8 million and cash and cash equivalents of RMB658.7), representing an increase of RMB369.1 million as compared with the same period of 2011. The increase was primarily due to the issuance of new shares and convertible bonds during the year.

As at 31 December 2012, our outstanding short-term bank borrowings and the current portion of long-term bank borrowings were RMB196.8 million, while our outstanding long-term borrowings were RMB125.7 million.

As at 31 December 2012, our gearing ratio was 19.8%, representing a decrease of 4.5 percentages as compared with the gearing ratio of 24.3% in 2011. The decrease was mainly due to the issuance of shares in December 2012. Gearing ratio is calculated as total borrowings divided by total equity. Total borrowings include “borrowings” and “current portion of long-term borrowings” as shown in the consolidated balance sheet.

The equity attributable to the equity owners of the Group increased from approximately RMB870.3 million in 2011 to approximately RMB1,581.6 million in 2012. The increase was primarily due to the Company’s issuance of shares and the increased profit of 2012.

Cash flow from operating activities

For the year ended 31 December 2012, net cash used from operating activities was RMB57.9 million, while net cash generated from operating activities for the year ended 31 December 2011 was RMB31.5 million. The net cash used from operating activities was mainly resulted from increase of turnover of the trade receivables in 2012.

Cash flow from investing and financing activities

For the year ended 31 December 2012, we had net cash used in investing activities of approximately RMB143.2 million, which was primarily due to the RMB117.9 million used to purchase property, plant and equipment and RMB17.6 million used to obtain land use right.

For the year ended 31 December 2012, we had net cash generated from financing activities of approximately RMB559.3 million, which was mainly due to the issuance of new shares and convertible bonds.

Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, Singapore and Canada with most of the transactions denominated and settled in RMB, KZT, SGD and CAD, respectively. The Group's certain sales to and purchase from overseas are denominated in USD. Foreign exchange risk also arises from borrowings comprising bank borrowings, convertible bonds and certain bank deposits denominated in foreign currencies. The Group is exposed to foreign currency exchange risk primarily with respect to USD.

During the financial year, the Group has not used any financial instrument to hedge the foreign exchange risk. However, we will manage our foreign currency risk by closely monitoring the foreign currency exposure and will consider hedging significant currency exposure should the need arise.

Contractual Obligations

Our contractual commitment mainly includes the capital expenditure commitment and the repayment obligation under operating lease arrangements. The capital expenditure commitments mainly represent property, plant and equipment, and our property, plant and equipment commitment in 2012 amounted to RMB2.7 million. The operating leases mainly include the lease of offices, warehouses and equipments and, as at 31 December 2012, our commitment under operating leases was RMB28.8 million.

Contingent liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities or guarantees.

Off-balance sheet arrangements

As at 31 December 2012, the Group did not have any off-balance sheet arrangements.

Use of Net Proceeds from the Listing

The Company's shares were listed on the Stock Exchange on 23 December 2011 (the "Listing"). The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$372.4 million. On 31 December 2012, HK$295.0 million of the net proceeds from the Listing was used by the Company in the manner consistent with that in the Prospectus for the purpose of purchase of manufacturing equipment for the oilfield services lines, acquisition of selected companies in the oilfield services or related businesses, enhancing our research and development capabilities, repaying outstanding bank loans and for additional working capital purpose. The remaining HK$77.4 million will be continued to apply in proportion as the manner referred in the Prospectus.

Final Dividend

The Board recommended the payment of a final dividend of HKD0.049 (RMB0.04) per Share for the year ended 31 December 2012 (2011: HKD0.012335) to the shareholders. The final dividend is subject to the approval of shareholders of the Company at the forthcoming annual general meeting and will be payable before the end of July 2013 and paid out of share premium account.

Closure of Register of Members

In order to determine the identity of the shareholders who are entitled to attend the forthcoming annual general meeting to be held on Wednesday, 5 June 2013, the register of members of the Company will be closed from 31 May 2013 to 5 June 2013, both days inclusive. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 30 May 2013.

In order to determine the entitlement to the final dividend, the register of members of the Company will be closed from 13 June 2013 to 17 June 2013, both days inclusive. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 11 June 2013.

Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted code provisions of the Code of Corporate Governance Practices (from 1 January 2012 to 31 March 2012) and Corporate Governance Code (from 1 April 2012 to 31 December 2012) (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance. Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Under the existing organizational structure, Mr. Wang Guoqiang is the chairman of the Board and chief executive officer of the Company. The Board believes that Mr. Wang Guoqiang's extensive experience in the oil industry is beneficial to the business prospects and management of the Group. The board and the senior management, which comprises experienced and high calibre individuals, can ensure the balance of power and authority. The Board currently comprises three executive directors (including Mr. Wang Guoqiang), one non-executive director and three independent non-executive directors and therefore has a fairly strong independence element in its composition. Save as disclosed herein, the Company was in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2012. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code for the year ended 31 December 2012.

Purchase, Sale or Redemption of the Listed Securities

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year.

Publication of the Audited Consolidated Annual Results and 2012 Annual Report on the websites of the Stock Exchange and the Company

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.spt.cn), and the 2012 Annual Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
SPT Energy Group Inc.
Mr. Wang Guoqiang
Chairman

Hong Kong, 26 March 2013

As at the date of this announcement, the executive directors are Mr. Wang Guoqiang, Mr. Wu Dongfang and Mr. Liu Ruoyan, the non-executive director is Mr. Lin Yang, and the independent non-executive directors are Ms. Chen Chunhua, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming.

* *for identification purpose only*