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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

INTERIM RESULTS HIGHLIGHTS

1. Revenue increased by 47.4% to RMB870.2 million as compared to the six months ended 30 June 2012
2. Net profit attributable to equity owners of the Company increased by 48.3% to RMB97.6 million as compared to the six months ended 30 June 2012
3. The Board did not propose any interim dividend for the six months ended 30 June 2013 (for the six months ended 30 June 2012: nil) to the shareholders of the Company

The board (the “Board”) of directors (the “Directors”) of SPT Energy Group Inc. (the “Company”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2013, together with the comparative figures for the same period of the previous year as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
	Note	Unaudited	Unaudited
Revenue		870,199	590,333
Other losses, net		(80)	(423)
Operating costs			
Material costs		(182,379)	(130,107)
Employee benefit expenses	13	(236,466)	(153,245)
Operating lease expenses		(30,991)	(29,695)
Transportation costs		(24,125)	(33,276)
Depreciation and amortisation		(34,567)	(29,278)
Technical service expenses		(129,018)	(43,709)
Impairment loss of assets		(8,200)	(3,650)
Others		(90,292)	(62,866)
		(736,038)	(485,826)
Operating profit	14	134,081	104,084
Finance income		4,882	1,353
Finance costs		(14,851)	(8,885)
Finance costs, net		(9,969)	(7,532)
Profit before income tax		124,112	96,552
Income tax expense	15	(25,352)	(29,225)
Profit for the period		98,760	67,327
Profit attributable to:			
Equity owners of the Company		97,569	65,819
Non-controlling interests		1,191	1,508
		98,760	67,327
Earnings per share for the profit attributable to the equity owners of the Company			
Basic earnings per share		0.064	0.049
Diluted earnings per share	16	0.063	0.049

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Profit for the period	98,760	67,327
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(25,026)</u>	<u>3,034</u>
Total comprehensive income for the period	<u>73,734</u>	<u>70,361</u>
Total comprehensive income for the period attributable to:		
Equity owners of the Company	72,695	68,851
Non-controlling interests	<u>1,039</u>	<u>1,510</u>
	<u>73,734</u>	<u>70,361</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		320,184	277,497
Land use right		23,448	23,689
Goodwill		781	781
Intangible assets		8,534	9,055
Deferred income tax assets	12	80,886	57,233
Available-for-sale financial assets		1,680	–
Prepayments and other receivables		20,765	20,594
		<u>456,278</u>	<u>388,849</u>
Current assets			
Inventories		461,299	315,309
Trade and notes receivables	6	905,764	1,043,269
Prepayments and other receivables		74,714	75,120
Restricted bank deposits		–	13,785
Term deposits with initial terms of over three months		10,013	–
Cash and cash equivalents		637,024	658,713
		<u>2,088,814</u>	<u>2,106,196</u>
Total assets		<u>2,545,092</u>	<u>2,495,045</u>
EQUITY			
Equity attributable to the Company's equity owners			
Ordinary share	7	971	968
Share premium			
–Proposed final dividend		–	61,000
–Others		721,060	654,963
Other reserves	8	216,338	211,889
Currency translation differences		(61,928)	(37,054)
Retained earnings		726,292	689,881
		<u>1,602,733</u>	<u>1,581,647</u>
Non-controlling interests		<u>47,566</u>	<u>46,527</u>
Total equity		<u>1,650,299</u>	<u>1,628,174</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
	<i>Note</i>		
LIABILITIES			
Non-Current liabilities			
Borrowings	9	125,967	125,730
Deferred income tax liabilities	12	25,895	20,666
Trade payables	10	5,151	4,998
		157,013	151,394
Current liabilities			
Borrowings	9	126,000	194,189
Trade payables	10	373,832	325,375
Accruals and other payables	11	192,809	162,175
Current income tax liabilities		41,038	31,134
Current portion of long-term borrowings	9	4,101	2,604
		737,780	715,477
Total liabilities		894,793	866,871
Total equity and liabilities		2,545,092	2,495,045
Net current assets		1,351,034	1,390,719
Total assets less current liabilities		1,807,312	1,779,568

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Cash flows from operating activities		
Net cash inflows/(outflows) from operations	151,430	(90,126)
Interest paid	(8,287)	(8,016)
Interest received	3,186	119
Income tax paid	(34,492)	(52,156)
Net cash generated from/(used in) operating activities	111,837	(150,179)
Cash flows from investing activities		
Purchases of property, plant and equipment	(58,020)	(39,495)
Proceeds from disposal of property, plant and equipment	3,125	360
Purchase or advance for purchase of land use right	–	(17,427)
Purchase of intangible assets	(17)	–
Purchases of available-for-sale financial assets	(1,680)	–
Acquisition of certain subsidiary, net of cash acquired	–	(6,754)
Increase in term deposits with initial term of over three months	(10,013)	–
Net cash used in investing activities	(66,605)	(63,316)
Cash flows from financing activities		
Proceeds from borrowings	82,847	107,569
Repayments of borrowings	(152,385)	(92,652)
Proceeds from exercise of share option	4,120	–
Net cash used in/(generated from) financing activities	(65,418)	14,917
Net decrease in cash and cash equivalents	(20,186)	(198,578)
Cash and cash equivalents, at beginning of the period	658,713	301,340
Exchange losses/(gains) on cash and cash equivalents	(1,503)	173
Cash and cash equivalents at end of the period	<u>637,024</u>	<u>102,935</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, 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 Company and its subsidiaries (the “Group”) are principally engaged in the 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 Company is Mr. Wang Guoqiang (王國強) and Mr. Wu Dongfang (吳東方) (collectively referred to as the “Controlling Shareholders”).

This interim condensed consolidated financial information is presented in Renminbi (“RMB”), unless otherwise stated. This interim condensed consolidated financial information was approved for issue on 27 August 2013.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2013 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

- 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 reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group has included the disclosures for items that may be classified to profit and loss in this interim condensed consolidated statement of comprehensive income.
- IFRS 10 ‘Consolidated financial statements’. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over 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 Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. This standard has no material impact on this interim condensed consolidated financial information.
- IFRS 13 ‘Fair value measurement’. IFRS 13 measurement and disclosure requirements are applicable for the December 2013 year end. This standard has no material impact on this interim condensed consolidated financial information.

There are no other amended standards or interpretations that are effective for the first time for this interim period that would be expected to have a material impact on the Group.

4. SEGMENT INFORMATION

The chief operating decision-maker (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 nature of products and services. Most of these entities engaged in just single business, except a few entities which deal with diversified operations; 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 the related ancillary trading and manufacturing activities.

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”). Information provided to the CODM is measured in a manner consistent with that in the financial statements.

(a) Revenue

Revenue recognised during the six months ended 30 June 2013 and 2012 is as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Drilling	340,987	178,216
Well completion	269,267	179,400
Reservoir	259,945	232,717
	870,199	590,333

(b) Segment information

(i) The segment information on EBITDA for the six months ended 30 June 2013 and 2012 is as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
EBITDA		
Drilling	89,034	46,080
Well completion	72,894	45,960
Reservoir	81,101	82,977
	243,029	175,017

- (ii) The segment information on total assets as at the respective balance sheet date is as follows:

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
<i>Note</i>		
Total assets		
Drilling	693,363	589,149
Well completion	577,457	538,760
Reservoir	395,940	485,602
	1,666,760	1,613,511

- (iii) A reconciliation of EBITDA to total profit before income tax is provided as follows:

	Six months ended 30 June 2013 RMB'000 Unaudited	2012 RMB'000 Unaudited
EBITDA for reportable segments	243,029	175,017
Unallocated expenses		
– Share-based payments	(5,429)	(2,958)
– Other losses, net	(80)	(423)
– Unallocated overhead expenses	(68,872)	(38,274)
	(74,381)	(41,655)
	168,648	133,362
Depreciation and amortisation	(34,567)	(29,278)
Finance costs	(14,851)	(8,885)
Finance income	4,882	1,353
Profit before tax	124,112	96,552

- (iv) 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 assets. Reportable segments' assets are reconciled to total assets as follows:

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Segment assets for reportable segments	<u>1,666,760</u>	<u>1,613,511</u>
Unallocated assets		
– Deferred income tax assets	80,886	57,233
– Unallocated inventories	64,418	73,832
– Unallocated prepayments and other receivables	84,311	77,971
– Restricted bank deposits	–	13,785
– Term deposits with initial terms of over three months	10,013	–
– Available-for-sale financial assets	1,680	–
– Cash and cash equivalents	<u>637,024</u>	<u>658,713</u>
	<u>878,332</u>	<u>881,534</u>
Total assets per balance sheet	<u>2,545,092</u>	<u>2,495,045</u>

(c) Geographical segment

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

	Six months ended 30 June 2013 RMB'000 Unaudited	2012 RMB'000 Unaudited
Kazakhstan	361,683	272,228
PRC	335,678	187,053
Canada	31,836	50,971
Singapore	128,022	62,005
Others	<u>12,980</u>	<u>18,076</u>
	<u>870,199</u>	<u>590,333</u>

- (ii) 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:

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Kazakhstan	130,131	128,442
PRC	157,369	114,600
Canada	9,055	10,741
Singapore	43,429	43,137
Others	<u>35,408</u>	<u>34,696</u>
	<u>375,392</u>	<u>331,616</u>

5. DIVIDEND

The annual general meeting held on 5 June 2013 approved the Company to pay a final dividend for the year ended 31 December 2012 of RMB0.04 (Hong Kong Dollar (the “HKD”) 0.049) per ordinary share, amounting to RMB61,158,000 (HKD74,893,000). As at 30 June 2013, the dividend has not been paid.

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2013 (for the six months ended 30 June 2012: nil) to the shareholders of the Company.

6. TRADE AND NOTES RECEIVABLES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Trade receivables	924,586	1,054,439
Less: provision for impairment of trade receivables	(18,822)	(13,170)
Trade receivables – net	905,764	1,041,269
Notes receivables	–	2,000
Trade and notes receivables – net	905,764	1,043,269

- (a) Most of the Group’s trade receivables are with the expected credit term of six months, except for retention money amounting to approximately RMB3,532,000 (31 December 2012: RMB11,909,000).

Ageing analysis of gross trade receivables as at the respective balance sheet date is as follows:

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Up to 6 months	623,405	960,293
6 months – 1 year	260,429	48,673
1 – 2 years	33,343	37,576
2 – 3 years	7,004	9,419
Over 3 years	405	478
Trade receivables, gross	924,586	1,056,439
Less: provision for impairment of trade receivables	(18,822)	(13,170)
Trade receivables, net	905,764	1,043,269

As at 30 June 2013, trade receivables of RMB281,598,000 were past due but not impaired (31 December 2012: RMB75,326,000). These receivables relate to a number of independent customers for whom there is no recent history of default.

- (b) Trade receivables amounting to RMB197,800,000 (31 December 2012: RMB250,593,000) have been pledged for the Group’s borrowings (Note 9).

7. ORDINARY SHARES

	Number of share (Thousands)	Nominal value RMB'000
Authorised:		
Ordinary shares of United States Dollar (the "USD") 0.0001 each as at 30 June 2013 and 31 December 2012	2,000,000	1,295
Issued shares:		
As at 31 December 2012	1,525,000	968
Add: share options exercised	3,961	3
As at 30 June 2013	1,528,961	971

8. OTHER RESERVES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Merger reserves	(148,895)	(148,895)
Equity component of convertible bonds	32,370	32,370
Share-based payments (a)	75,935	71,486
Statutory reserves	44,029	44,029
Capital reserves	212,899	212,899
	216,338	211,889

- (a) Pursuant to the share option scheme, the Company granted on 13 June 2013 a total of 67,450,000 share options to Directors and employees to subscribe for 67,450,000 ordinary shares of USD0.0001 each at an exercise price of HKD4.694. These share options are 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 numbers of outstanding share options and their related weighted average exercise prices are as follows:

	Six months ended 30 June			
	2013		2012	
	Weighted average exercise price per share options HKD	Share options (Thousands) Unaudited	Weighted average exercise price per share options HKD	Share options (Thousands) Unaudited
As at 1 January	1.31	30,050	—	—
Granted	4.69	67,450	1.31	33,800
Forfeited	1.31	(541)	1.31	(1,200)
Exercised	1.31	(3,961)		
As at 30 June	3.73	92,998	1.31	32,600

As at 30 June 2013, the number of exercisable share options was 6,056,000.

As at 30 June 2013, outstanding share options have the following expiry date and exercise price:

	Exercise price (HKD per share)	Share options (Thousands)
19 February 2022	1.29	19,111
28 March 2022	1.36	6,437
12 June 2023	4.69	67,450

The total expense recognised in the income statement for share options granted was RMB5,429,000 during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB2,958,000) (Note 13).

The fair value of share options granted during the six months ended 30 June 2013 was determined using the Binominal valuation model. The major assumptions used in the pricing model for options granted are shown below:

Parameters	Options granted during the six months ended 30 June	
	2013	2012
Share price as of the valuation date (HK\$)	4.57	1.28-1.36
Exercise price (HK\$)	4.69	1.31
Expected dividend yield	3.00%	1.84%-1.87%
Maturity years	10.0	10.0
Risk free rate	1.637%	1.247%-1.351%
Annualised volatility*	53.01%	61.34%-61.56%

* The expected volatility was determined with reference to the historical volatility of the Company and comparable companies.

9. BORROWINGS

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Long-term borrowings		
– Secured bank borrowings	11,356	13,745
– Unsecured bank borrowings	46,029	46,736
– Unsecured liability component of convertible bonds	68,582	65,249
	125,967	125,730
Short-term borrowings		
– Unsecured bank borrowings	30,000	97,000
– Secured bank borrowings	96,000	97,189
	126,000	194,189
Current portion of long-term bank borrowings		
– Secured	4,101	2,604
	256,068	322,523

- (a) Long-term secured bank borrowings mature until 2026 and bear floating interest rate with repricing period of 3 months and the effective interest rate for the six months ended 30 June 2013 ranged from 2.25% to 3.28% per annum (six months ended 30 June 2012: 3.12%), while long-term unsecured bank borrowings mature until 2014 and bear fixed interest of 5.31%(six months ended 30 June 2012: nil).

The convertible bonds with a coupon rate of 3% annually mature until 2015 and bear an effective interest rate of 18.19% annually (six months ended 30 June 2012: nil).

Short-term borrowings mature in 1 year and bear interest rate ranging from 6.00% to 10.00% annually during the six months ended 30 June 2013 (six months ended 30 June 2012: 6.56% to 8.52%).

- (b) The collaterals of the Group's secured bank borrowings are as follows:
- (i) As at 30 June 2013, long-term bank borrowings amounting to RMB15,457,000 (comprising its long-term portion amounting to RMB11,356,000 and its current portion amounting to RMB4,101,000) (31 December 2012: RMB16,349,000 comprising long-term portion amounting to RMB13,745,000 and its current portion amounting to RMB2,604,000) are secured by corporate guarantee provided by the Company, certain of the Group's long-term prepayments amounting to RMB17,238,000 (31 December 2012: long-term prepayments amounting to RMB17,844,000) and property, plant and equipment of RMB3,043,000 (31 December 2012: property, plant and equipment amounting to RMB3,467,000).
- (ii) As at 30 June 2013, short-term bank borrowings amounting to RMB96,000,000 (31 December 2012: RMB97,189,000) are secured by corporate guarantees provided by certain subsidiaries, land use right of RMB23,448,000 (31 December 2012: RMB23,689,000) and trade and note receivables of RMB197,800,000 (31 December 2012: RMB250,593,000) (Note 6).
- (c) The short-term borrowings of the Group are wholly repayable within 1 year, while the long-term bank borrowings will be evenly repaid on a monthly basis during the maturity period ranging from 2 years to 13 years. Unless previously converted into ordinary shares, the convertible bonds will become due and payable within 3 years. The Group's borrowings are repayable as follows:

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Within 1 year	130,101	196,793
Between 1 and 2 years	48,846	49,340
Between 2 and 5 years	70,949	70,543
Over 5 years	6,172	5,847
	<u>256,068</u>	<u>322,523</u>

- (d) As at 30 June 2013, the Group's long-term borrowings of RMB12,681,000 (31 December 2012: RMB13,753,000), with contractual interest repricing period of 3 months, is exposed to interest rate changes.
- (e) The Group has the following undrawn bank borrowing facilities:

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Fixed rates		
– Expiring less than one year	100,000	–
Floating rates		
– Expiring less than one year	–	–
	<u>100,000</u>	<u>–</u>

10. TRADE PAYABLES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Current	373,832	325,375
Non-current	5,151	4,998
	378,983	330,373

(a) Ageing analysis of trade payables as at the respective balance sheet dates is as follows:

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Up to 6 months	282,173	247,973
6 months to 1 year	43,503	43,871
1 – 2 years	43,647	11,014
2 – 3 years	9,484	27,515
Over 3 years	176	–
	378,983	330,373

11. ACCRUALS AND OTHER PAYABLES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Dividend payable	61,158	–
Interest payable	2,401	3,008
Others	35,493	21,035
Total financial liabilities	99,052	24,043
Customer deposits and receipts in advance	14,908	14,841
Payroll and welfare payable	39,780	42,856
Taxes other than income taxes payable	39,069	80,435
Total non-financial liabilities	93,757	138,132
	192,809	162,175

12. DEFERRED TAXATION

The movement in deferred income tax assets and liabilities during the six months ended 30 June 2013 and 2012, without taking into consideration offsetting the balances with the same tax jurisdiction, is as follow:

Deferred Tax Assets

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Opening balance at 1 January	57,233	42,071
Credited to income statement (<i>Note 15</i>)	23,779	13,755
Currency translation difference	(126)	(212)
	<u>80,886</u>	<u>55,614</u>
Closing balance at 30 June	<u><u>80,886</u></u>	<u><u>55,614</u></u>

Deferred Tax Liabilities

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Opening balance at 1 January	20,666	7,629
Acquisition of certain subsidiary	–	1,080
Charged to income statement (<i>Note 15</i>)	5,229	4,226
	<u>25,895</u>	<u>12,935</u>
Closing balance at 30 June	<u><u>25,895</u></u>	<u><u>12,935</u></u>

13. EMPLOYEE BENEFITS EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Wages, salaries and allowances	196,132	125,886
Housing benefits	5,864	4,135
Pension costs	19,541	15,474
Share-based payments	5,429	2,958
Welfare and other expenses	9,500	4,792
	<u>236,466</u>	<u>153,245</u>
	<u><u>236,466</u></u>	<u><u>153,245</u></u>

14. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Gains on disposal of property, plant and equipment	(1,013)	(76)
Sales tax and surcharges	1,247	294
Depreciation	33,788	29,220
Amortisation of intangible assets	779	58
Auditor's remuneration	1,500	1,500

15. INCOME TAX EXPENSE

The Group operates mainly in the PRC, Kazakhstan, Singapore and Canada. During the six months ended 30 June 2013, the Company expected the profit before tax in these countries was subject to the income tax rate of 25%, 20%, 10% and 29% respectively.

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 six months ended 30 June 2013, certain subsidiaries established in the western area of the PRC were subject to an preferential tax rate of 15% while other subsidiaries established in the PRC are subject to income tax rate of 25%.

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Current taxation		
– PRC	17,522	17,550
– Kazakhstan	21,118	15,814
– Others	5,262	5,390
Deferred taxation	(18,550)	(9,529)
Income tax expense	25,352	29,225

16. 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 period.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Profit attributable to equity owners of the Company	97,569	65,819
Weighted average number of ordinary shares in issue (thousands)	1,526,346	1,335,000
Basic earnings per share (RMB per share)	0.064	0.049

(b) Diluted earnings per share

Dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by assuming conversion of all dilutive potential ordinary shares. The Company's share options and convertible bonds comprised the potential ordinary shares. However, when calculating the dilutive earnings per share for the six months ended 30 June 2013, the convertible bonds factor was excluded as it has an anti-dilutive effect for the period. As such, only share options factor was considered by comparing the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options with those that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Earnings		
Profit attributable to equity owners of the Company	97,569	65,819
Weighted average number of ordinary shares in issue (thousands)	1,526,346	1,335,000
Adjustment for:		
– Share options (thousands)	15,806	–
	1,542,152	1,335,000
Diluted earnings per share (RMB per share)	0.063	0.049

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

In the first half of 2013 (the “Current Period” or the “Reporting Period”), the Group recorded a revenue of RMB870.2 million and net profit of RMB98.8 million from its operation, representing an increase of 47.4% and 46.7% respectively as compared with the comparative period of 2012. Net cash generated from operating activities in the Current Period were RMB111.8 million. Operating cash flow position significantly improved as compared with the comparative period of 2012.

The Group has wide business coverage in the major oil and gas production regions around the world, such as the PRC, Central Asia, North America, Southeast Asia and the Middle East. The Group is one of the few non-state-owned enterprises in the PRC with the capability to engage in large-scale overseas oilfield services. As a leading non-state-owned integrated oilfield services provider in the PRC, the main businesses of the Group consist of three business segments, namely drilling services, well completion services and reservoir services, covering most of the turnkey and specialised services in the oilfield exploration and production, which led to a pioneering market position in natural gas exploration and development in the PRC, especially in the high-end natural gas well operations servicing market.

In the Current Period, the scale of the Group’s operation increased significantly. Meanwhile, businesses in certain key markets and newly developed businesses have achieved encouraging progress, and the integrated strength of the Group has been further enhanced. For the overseas market, the Group recorded a revenue of RMB534.5 million from main businesses in the Current Period, which accounted for 61.4% of the Group’s total revenue and represented an annual growth of 32.5% as compared with the comparative period of 2012. For the domestic market, the Group recorded a revenue of RMB335.7 million from main businesses during the Current Period, which represented an increase of 79.5% as compared with the comparative period of 2012.

On 9 April 2013, the Group and CNPC’s Amu Darya Natural Gas Company in Turkmenistan entered into a strategic cooperation framework agreement. Amu Darya Natural Gas Company in Turkmenistan is by far CNPC’s largest overseas collaborative project on exploration and development of natural gas, and also one of the fastest growing international oil and gas companies. Pursuant to the agreement, both parties will cooperate in certain areas, such as engineering project management, drilling services, production enhancement and cementing services, well completion services and reservoir technical services, etc. Turkmenistan is the PRC’s main source of natural gas supply from west to east. According to plan, there will be a pipeline between PRC and Turkmenistan which will transport 30 billion cubic meters of natural gas to the PRC each year in the next 30 years. This represents tremendous opportunities for services. The strategic cooperation agreement not only demonstrates the recognition of the Group’s integrated servicing capabilities by the customers, but also enables the Group to seize the opportunities of future development in this region. The Group can thus further consolidate and expand its market share in the region.

In March 2013, the Group won a tender for the drilling and well completion turnkey project of a well owned by Tarim Oilfield Company under China National Petroleum Corporation (the “CNPC”) in Keshen District (克深區塊) and the contract amount was RMB233.2 million. The well is a world-class ultra-deep, ultra-high pressure and high temperature oil-gas well with a design depth of 6,855 meters (“m”) and has already commenced operations smoothly. The project was the first external drilling and well completion integrated turnkey project of CNPC in Tarim Oilfield. The successful tender of the Group further demonstrates that the Group owns excellent organizational and technical strengths in turnkey project and that the Group is highly recognized by customers.

During the Reporting Period, the Group secured a contract with an approximate amount of USD6 million in relation to the provision of dynamic monitoring services of Ahdeb Oilfield in 12 months for AL-Waha Petroleum Company in Iraq. This represents the first order of providing continuing operation services on an annual basis secured by the Group since its expansion into the Middle-East market in 2009, which is of significant strategic importance to the Group. This will help the Group lay a solid foundation in the Middle-East market and drive the Group to introduce more services and products to such market, thus achieving speedy development of the Group in the region.

Following the jointly establishment of China Shale Gas Training and Consulting Centre by the Group and American Gas Technology Institute (“GTI”) in November 2012, the centre successfully organized the “shale gas advanced technology in China and management training seminar – China Class No.1” in June 2013. A total of 107 students have participated in the seminar. A total of 34 teaching professionals were from GTI, Ministry of Land and Resources of the PRC, Chinese Academy of Sciences, CNPC, Sinopec, China University of Petroleum, China University of Geosciences, Norsk Statoil, Hess Corporation, General Electric Company, Schlumberger Limited, Halliburton Company, Baker Hughes and Weatherford International Ltd, etc. and they represented the highest standards of shale gas exploration and development and production technology and management in China and abroad. Such training has aroused great interest in the industry and media both locally and internationally. Adhering to the aim of contributing to shale gas exploration and development in the PRC, China Shale Gas Training and Consulting Centre is currently providing technical advisory services for a number of shale gas companies which have been awarded shale gas contracts. During the Reporting Period, Guizhou Wujing Hydropower Development Co., Ltd. signed a strategic framework agreement on comprehensive services with the Group, pursuant to which the Group will provide integrated solutions and turnkey services on shale gas exploration and development to this company.

REVENUE ANALYSIS

In the Current Period, an analysis of each main business segment of the Group is as follows (with tables):

	For the six months ended 30 June		Growth Rate
	2013	2012	
	RMB'000	RMB'000	
	Unaudited	Unaudited	
Drilling services	340,987	178,216	91.3%
Well completion services	269,267	179,400	50.1%
Reservoir services	259,945	232,717	11.7%
Total	870,199	590,333	47.4%

RESERVOIR SERVICES SEGMENT

Revenue	For the six months ended 30 June		Growth Rate
	2013 RMB'000 Unaudited	2012 RMB'000 Unaudited	
PRC	58,667	27,441	113.8%
Overseas	201,278	205,276	(1.9%)
Total	<u>259,945</u>	<u>232,717</u>	<u>11.7%</u>

In the Current Period, the Group recorded a revenue of RMB259.9 million in reservoir services segment, representing an increase of 11.7% as compared with the comparative period of 2012, while reservoir services in the overseas market recorded a revenue of RMB201.3 million. During the Reporting Period, the Group secured a contract in relation to the provision of dynamic monitoring services of Ahdeb Oilfield in 12 months for AL-Waha Petroleum Company in Iraq, signifying the commencement of provision of the Group's recurring services in the region, and reflecting the Group's competitive strength in reservoir geology, which greatly boosted the development of the Group's other businesses in the region. In addition, to overcome low temperature, high salinity and other unfavorable conditions in the oilfield in Kazakhstan, the Group for the first time commenced water shut-off and profile control business in the region. Satisfactory results have been achieved and it is believed that the consequential market potential is huge. In respect of the domestic market, reservoir services recorded a revenue of RMB58.7 million for the Current Period. Apart from the existing business, the Group successfully entered into a monitoring service contract in respect of "ultra-deep, ultra-high pressure and high temperature gas wells" (三超氣井) in Kuqa, Xinjiang in the Current Period, pursuant to which the Group will collect downhole pressure and temperature data for the client subject to a well depth of over 7,000m, reservoir depth of over 6,500m and stratum pressure of 125MPa, thus further strengthening the Group's leading position in the development of dynamic monitoring for high-end gas wells. Besides, the technology of direct-driven submersible progressing cavity pump for oil recovery which was introduced in 2012 was promoted extensively this year. As the world's leading oil lift technology, the product has technological advantage in small-displacement, anti-eccentric rub, energy-saving and other aspects, and it is expected that batch production will be achieved in its operation this year. The Group has also completed the technological development and the formation of professional team for its gas sealing and testing business which has newly commenced operation in the domestic market, and safely implemented the technology for three wells in the Current Period, which was well accepted by customers, providing assurance for the results of the large-scale implementation of such project in the future.

The above businesses further strengthened and improved the system of the Group's products and services under the reservoir services segment, and at the same time, created a stable and continuous stream of revenue.

WELL COMPLETION SERVICES SEGMENT

Revenue	For the six months ended 30 June		Growth Rate
	2013	2012	
	<i>RMB'000</i>	<i>RMB'000</i>	
	Unaudited	Unaudited	
PRC	76,585	102,806	(25.5%)
Overseas	192,682	76,594	151.6%
Total	269,267	179,400	50.1%

During the Current Period, the Group's well completion services business has gained a substantial growth, with a revenue of RMB269.3 million, representing an increase of 50.1% as compared with the comparative period of 2012.

Of the above revenue, RMB76.6 million was derived from well completion services in the domestic market. The Group's well completion services for Tarim Oilfield continued to maintain its leadership on well completion services for high-temperature and high-pressure wells. Besides, the Group won the tender of 29 well projects in gas storage markets such as Northern China gas storages, Dagang and Changqing gas storages and have already completed the operations of 5 wells. Leveraging on its reliable and stable service quality, the Group won the recognition of customers in the market. In the Sulige region of Changqing Oilfield, the Group improved the multi-stage well completion techniques for horizontal wells. In addition to the Group's existing customer of Changqing Oilfield, the Group expanded the cooperation with drilling companies such as Western Drilling Engineering Co, Ltd. and Bohai Drilling Engineering Co, Ltd. to develop businesses in the regions, laying a solid foundation for the further expansion of its multi-stage well transformation businesses in the region. As to Sichuan Oilfield of CNPC, following the successful repeatedly transformation on inefficient wells in the region in the second half of 2012, the Group continued to run trial operations on low-permeability sandstone reservoir fracturing mode in the region with good results, and had completed well operation services for two wells in the Current Period.

For the overseas market, the Group's well completion business grew rapidly in the Current Period, with a revenue of RMB192.7 million. The Group won the tender of well completion tools and services business and signed 18 sets of related contracts with JOB Pertamina PetroChina East Java (PPEJ) Company in Indonesia during the Reporting Period, and has already commenced the operations of certain well projects. At the same time, for the Kazakhstan market, the Group continued to maintain rapid growth momentum in the well completion business. During the Current Period, in the region of Aktobe, the Group newly signed contracts for the multi-stage transformation of 19 wells, and have already completed the operations of 5 wells. As a result, the output of the oilfields increased significantly. Besides, the Group signed 70 new well completion tools and services contracts for horizontal wells and sidetracking wells in the region of Aktau in Caspian during the Current Period, and has successfully completed the operations of 33 wells, with a successful rate of 100%. At the same time, the conventional fracturing services in Kazakhstan maintained stable operation in 2013, and fracturing services for 46 wells were completed in the Current Period.

DRILLING SERVICES SEGMENT

Revenue	For the six months ended 30 June		Growth Rate
	2013	2012	
	<i>RMB'000</i> Unaudited	<i>RMB'000</i> Unaudited	
PRC	200,427	56,806	252.8%
Overseas	140,560	121,410	15.8%
Total	340,987	178,216	91.3%

In the Current Period, the Group recorded a revenue of RMB341.0 million from drilling services segment, representing an increase of 91.3% as compared with the comparative period of last year.

For the domestic market, in March 2013, the Group won a tender for the drilling and well completion turnkey project of one well of Tarim Oilfield Company under CNPC in Keshen district (克深區塊) and the tender amount is RMB233.2 million. The well is a world-class ultra-deep, ultra-high pressure and high temperature oil-gas well with a design depth of 6,855m and has already commenced operations smoothly. Drilling fluid services achieved a rapid growth in Tarim Oilfield in the Current Period, during which the Group completed oil-base mud services for 8 wells and water-base mud services for 7 wells, and was able to operate 10 wells or more simultaneously at peak time. During the Current Period, the Group recorded a revenue of RMB79.36 million from this business segment, representing an increase of 174% as compared with the comparative period of last year. The new synthetic-base mud system was applied in 6 shale gas wells in Sichuan and achieved relatively good application effect. Besides, the Group's mud waste treatment technology was also promoted and applied in Tarim, Sichuan and other regions. In May 2013, all of the two 5,000m drilling rigs which the Group newly invested in Changqing Oilfield commenced official operation. As at the end of June, the construction of two conventional directional wells was successfully completed. The two drilling rigs were equipped with two movable rails and can be installed with top-driven apparatus, and were capable of drilling several horizontal wells on a single platform. Relying on the drilling rigs, the Group can achieve the integrated operation of factory-scale well drilling and well completion, and further develop the application of its technology of well logging, directional drilling, well completion and production enhancement in the region, thus enhancing its integrated servicing capability of well drilling and well completion.

For overseas markets, the Group completed the drilling services of vertical well and testing and drilling of horizontal wells for a total of 23 wells in Kazakhstan during the Reporting Period. Accordingly, its well drilling business was further developed substantially.

MARKET ENVIRONMENT

Regarding industrial environments, since the Current Period, the global economy was still in a slow recovery phase. While the economic growth of the PRC has slowed down, its pace of structural adjustment has accelerated significantly under an overall stable economic environment. During the Reporting Period, crude oil prices rose slowly in a fluctuated trend, the demand for crude oil and natural gas increased, oil companies continued to expand their investment on upstream businesses and the oilfield services market was still in a boom.

1. Promising outlook for overseas markets, especially markets with Chinese capital background

CNPC states in its “Twelfth Five-Year” plan that overseas business will be its development priority in the period from 2011 to 2015, with an aim to achieve operation output of an oil and gas equivalent of 400 million tonnes by the end of 2015, of which 200 million tonnes will be from overseas operation. With a focus on oil and gas investments, CNPC will accelerate the construction in the overseas oil and gas cooperation zones including Central Asia, Middle East, Africa, the Americas and Asia Pacific. This will drive and promote the synergic development of related businesses such as engineering and technical services. CNPC’s development plan can be summarized as “focusing on Central Asia, growing businesses in the Middle East, strengthening businesses in Africa, expanding businesses in the Americas and promoting businesses in Asia Pacific”.

2. Tremendous growth potentials in the key markets of China where natural gas market remains the hot spot

Natural gas accounts for approximately 3% of the primary energy sources in the PRC, which lags behind a long way from the average standard of the world. With natural gas increasingly utilized in the national economic structure, the main trend of the PRC’s oil and gas market in the next 10 years is to enhance natural gas production to meet the increasingly growing demand for natural gas. At this stage, the three main oilfield areas, Sichuan, Changqing and Tarim, are the main sources of natural gas for the domestic market of the PRC. In recent years, the investments on oil exploration and development of the oilfields in these areas have been increasing year by year. According to the strategic plan of CNPC, during the period of “Twelfth Five-Year” plan or a longer period, three oil and gas production zones with a total output of 50 million tonnes will be constructed in Songliao, Ordos and Xinjiang, and two oil and gas production zones with a total output of 20 million tonnes will be constructed in Sichuan and Bohai Bay. Among the oilfields, the output of Tarim Oilfield will increase from an oil and gas equivalent of 21.19 million tonnes in 2012 to an oil and gas equivalent of 31.70 million tonnes in 2015, thus creating a huge growth potential for the oilfield services market.

3. Growing importance of the strategic position of shale gas, an unconventional oil and gas

At the end of 2012, the second round of bidding for shale gas exploration rights held by the Ministry of Land and Resources of the PRC has aroused much repercussion in the industry, attracting nearly 100 entities, including the three major state-owned oil enterprises, private enterprises, local state-owned enterprises and non-oil national enterprises, to participate in the bidding. With the deepening of theoretical understanding and the advancing of the exploration and development technology, the exploration and development of unconventional oil and gas, especially shale gas, have become the focus of the world’s oil and gas industry. Currently, the oil and gas industry in China is characterized by both conventional and unconventional oil and gas. The key to maintaining competitiveness in the development of unconventional oil and gas is technology. Technological breakthroughs and standardized application are essential for the development of unconventional oil and gas.

RESEARCH AND DEVELOPMENT (“R&D”) AND MANUFACTURING

The oilfield technical service is a technology-intensive industry. 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.

In order to cope with the development of shale oil, shale gas, tight gas and other unconventional businesses at home and abroad, the Group has strengthened its R&D efforts on the technology of directional well drilling, horizontal well segmental reconstruction and completion, fracturing and acidizing and drilling fluid services in recent years. During the Reporting Period, the Group has made breakthroughs on the R&D and manufacturing of standard drilling tools, multi-stage completion supporting tools and other tools. Among which, a directional drilling tool, MWD (the “Measure While Drilling”), self-developed by the Group’s R&D centre in Canada has completed all pre-production trial and testing and is qualified for commercial application, and the first order has already been secured for this product. The tool was conceived in a high-end design concept, can normally operate under an extreme condition of 177 degrees celsius. Representing the world’s highest standard for tools of similar type, the tool will greatly enhance the Group’s integrated technical capability in directional well services. In addition, for the technology of multi-stage fracturing on gas mining, the full bore double acting sleeve and the oil-swellable packer self-developed by the Group have all passed the pre-production testing and achieved the condition for commercial application.

As at the end of the Current Period, the Group possesses a total of 37 approved patents. During the Reporting Period, the Group has 9 patents pending approvals.

HUMAN RESOURCES

In order to strengthen the technical and service capabilities for each business line and ensure a sustainable and rapid development of the Group’s business, the Group has continued to optimize its internal organizational structure, reinforce the training and development of internal talents and continued to attract high-caliber talents of all kind in the Current Period. Following the rapid business growth in the PRC and abroad, the Group’s staff size has steadily increased. As at 30 June 2013, the Group had a total of 3,572 employees. In the PRC, the Group will continue to nurture and attract talents in the areas of core technology and services engaging in the competitive oil and gas business, in order to increase its talent reserves in the unconventional oil and gas business. In the overseas market, the Group will continue to implement the strategy of talent localization and optimize the international personnel structure. The Group will continuously enhance the capability of expanding international business, which has become an important priority on human development, and proactively bring in international talents, thus ensuring the smooth operation of the Group’s international business.

For the remuneration policy and employee incentives, in order to attract and retain crucial staff in key positions, the Group continued to implement the share option scheme and grant 59.09 million options and 8.36 million options to 115 key employees and 8 Directors respectively in the first half of 2013. Meanwhile, to promote and meet the needs of the rapid business development, the Group has further improved its employee compensation management system, optimized the compensation structure and enhanced the incentive mechanism for the front-line production employees.

For the staff development and training, the Group endeavored to accelerate talent training and strengthen team building. Based on the actual demand of its business, the Group has provided specialized training in marketing skills, offered oil-based professional foundation training program to non-professional officers and EMBA continuous learning development program to senior management members. In the future, the Group will further strengthen the professional technical training system of relevant departments in each technical service line, increase the investment and efforts on training, and further promote and implement the training programmes in unconventional oil and gas business.

In order to cope with the needs of the market development of the integrated business of oil and gas fields and to meet the needs of the development of its integrated business, the Group has set up an integrated project management team with professional management standard through self-cultivation and the introduction of external talents, which played a key role in the integrated projects commenced in the first half of the year.

Compliance Management

As a multinational company, the Company endeavours to regulate its operation in accordance with the relevant regulatory requirements in and outside China. Pursuant to the Company's articles of association, applicable laws and regulations and the relevant requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, taking into consideration of the actual conditions of the Company, the Company gradually formulates and improves various work systems and procedures of the Board and its committees thereunder and strictly implements them. Compliance management is one of the core management aspects of the Company. The purpose of compliance management of the Company is to identify, manage and control risks effectively through the establishment of a sound and compliance risk management framework and to facilitate the development of a comprehensive compliance management system so as to ensure that operations are in compliance with the laws. The Company's legal affairs department and audit department, as functional departments for compliance work, shall constantly review the relationship between the market risk, operational risk, litigation risk and compliance management; and shall continue to establish and improve the compliance management systems and procedures of the Company so as to ensure the smooth implementation of various management systems and procedures of the Company.

In the first half of 2013, in order to facilitate smooth business operations, guide and regulate the legal and compliant operations of the Company and its employees in the countries and regions where they operate, and provide legal basis and protection for the development of the Company, the legal affairs department of the Company collected and compiled the national and regional laws and regulations relating to the business development of the Company and established a database on laws and regulations capitalising on the Company's synergistic management platform by capitalising on the growth strategies of the Company and based on its existing conditions. All employees of the Company may share the latest news on laws and regulations through the database on laws and regulations with a view to achieving compliant operations of the Company in a comprehensive manner. Currently, the database on laws and regulations covers the basic laws and regulations of China, Kazakhstan, Turkmenistan, Indonesia, Iraq and Singapore as well as the Listing Rules. The legal affairs department of the Company will closely monitor the latest updates on the laws of various countries and will continue to strengthen and improve the development of the database on laws and regulations according to the requirements of the business operations of the Company to ensure the legal and compliant operations of the Company in an ongoing manner.

OUTLOOK

Since the fourth quarter of 2012, the world economy has been recovering gradually, and it is expected that the global economy will regain momentum in the second half of 2013. Benefited by a number of major investments in exploration and developments projects, particularly investments in key regional markets, the growth of the global oilfield services market will accelerate significantly. As the mode of oilfield development changes and the operation becomes increasingly difficult and complex, the integrated mode of operation will be more widely promoted and applied in these key markets.

Based on the foregoing, in the second half of 2013, the Group will further optimize the structure of market and business and allocate its strategic resources rationally. On the one hand, the Group will seize the opportunity of rapid development in local key markets, in order to achieve a higher level of scale and service capabilities in local markets. On the other hand, the Group will keep up the pace of expansion in overseas markets, prepare for preliminary expansion work in overseas emerging markets and speed up the scale operation in its established markets. Meanwhile, the Group will pay close attention to basic management, and will strive to standardize our management, optimize cost structures and enhance the overall team capabilities in accordance with our established goals, with a view to achieving the annual results targets of the Group smoothly.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2013, the revenue of the Group was RMB870.2 million, representing an increase of RMB279.9 million, or 47.4%, as compared with that of RMB590.3 million for the comparative period of last year. The increase was mainly due to the business growth, especially substantial expansion in the drilling and well completion segments.

Other losses, net

For the six months ended 30 June 2013, the other losses, net of the Group was RMB0.08 million. It mainly represented foreign exchange losses in relation to the appreciation of our USD denominated liabilities against Kazakhstan Tenge (the “KZT”) and devaluation of our USD denominated assets against RMB, partially offset by the devaluation of our USD denominated liabilities against RMB.

Material costs

For the six months ended 30 June 2013, material costs of the Group was RMB182.4 million, representing an increase of RMB52.3 million, or 40.2%, as compared with that of RMB130.1 million for the comparative period of last year. The increase of material costs was mainly driven by the growth of the Group’s business.

Employee benefit expenses

For the six months ended 30 June 2013, employee benefit expenses of the Group was RMB236.5 million, representing an increase of RMB83.3 million, or 54.4%, as compared with that of RMB153.2 million for the comparative period of last year. This was mainly due to the increase in headcount and average salary level along with the business expansion.

Operating lease expenses

For the six months ended 30 June 2013, operating lease expenses of the Group was RMB31.0 million, a minimal change as compared with that of RMB29.7 million for the comparative period of last year.

Transportation costs

For the six months ended 30 June 2013, transportation costs of the Group was RMB24.1 million, representing a decrease of RMB9.2 million, or 27.6%, as compared with that of RMB33.3 million for the comparative period of last year. The decrease was mainly because the Group transacted more service-related trading businesses for which the customers, other than the Group, bore the transportation costs.

Depreciation and amortization

For the six months ended 30 June 2013, depreciation and amortization of the Group was RMB34.6 million, representing an increase of RMB5.3 million, or 18.1%, as compared with that of RMB29.3 million for the comparative period of last year. The increase was mainly due to the procurement of more operating equipment to meet the requirements of the business expansion.

Technical service expenses

For the six months ended 30 June 2013, technical service expenses of the Group was RMB129.0 million, representing an increase of RMB85.3 million, or 195.2%, as compared with that of RMB43.7 million for the comparative period of last year. The increase was mainly because the Group acquired more technical services from suppliers for certain types of operations, which is in line with the expansion of the Group's business in the Current Period.

Impairment loss of assets

For the six months ended 30 June 2013, impairment loss of assets was RMB8.2 million. The impairment loss of assets was in relation to the increase of bad-debt provision of receivables which the Group estimated uncollectable.

Others

For the six months ended 30 June 2013, other operating costs of the Group was RMB90.3 million, representing an increase of RMB27.4 million, or 43.6%, as compared with that of RMB62.9 million for the comparative period of last year. This was mainly due to the increase of administrative expenses driven by the business expansion.

Operating profit

As a result of the aforementioned changes, operating profit of the Group increased from RMB104.1 million for the comparative period of last year to RMB134.1 million for the six months ended 30 June 2013, representing an increase of RMB30.0 million, or 28.8%.

Finance costs, net

For the six months ended 30 June 2013, the Group's finance costs, net was RMB10.0 million, representing an increase of RMB2.5 million, or 33.3%, as compared with that of RMB7.5 million for the comparative period of last year. This was mainly due to the increase of borrowings.

Income tax expense

For the six months ended 30 June 2013, income tax expense was RMB25.4 million, representing a decrease of RMB3.8 million, or 13.0%, as compared with that of RMB29.2 million for the comparative period of last year. The effective income tax rate (income tax expense/profit before income tax) for the six months ended 30 June 2013 was 20.4% while the effective income tax rate for comparative period of last year was 30.3%. This was mainly because certain subsidiaries of the Group entitled to preferential income tax rate have contributed more profit to the Group.

Profit for the Current Period

As a result of the aforementioned changes, the Group's profit for the Current Period increased from RMB67.3 million for the comparative period of last year to RMB98.8 million for the six months ended 30 June 2013, representing an increase of RMB31.5 million, or 46.8%.

Profit attributable to equity owners of the Company

For the six months ended 30 June 2013, profit attributable to equity owners of the Company was RMB97.6 million, representing an increase of RMB31.8 million from that of RMB65.8 million for the comparative period of last year.

Property, plant and equipment

As at 30 June 2013, property, plant and equipment was RMB320.2 million, representing an increase of RMB42.7 million, or 15.4%, as compared with that of RMB277.5 million as at 31 December 2012. This was mainly due to the purchases of operating equipments to meet the requirement of the business expansion.

Inventories

As at 30 June 2013, inventories was RMB461.3 million, representing an increase of RMB146.0 million, or 46.3%, as compared with that of RMB315.3 million as at 31 December 2012. The increase was mainly because the Group purchased more inventories to meet the business expansion.

Trade and notes receivables and trade payables

As at 30 June 2013, trade and notes receivables was RMB905.8 million, representing a decrease of RMB137.5 million, or 13.2%, as compared with that of RMB1,043.3 million as at 31 December 2012. The decrease reflected the fact that the Group improved the management of receivables collection.

As at 30 June 2013, trade payables was RMB379.0 million (comprising non-current trade payables and current trade payables), representing an increase of RMB48.6 million, or 14.7%, as compared with that of RMB330.4 million as at 31 December 2012. The increase was mainly due to more purchases of inventories and equipment to meet the requirement of the business expansion.

Liquidity and capital resources

As at 30 June 2013, the Group's cash and bank deposits, comprising cash and cash equivalents, restricted bank deposits and term deposits with initial terms of over three months, were RMB647.0 million, representing a decrease of RMB25.5 million, or 3.8%, from RMB672.5 million as at 31 December 2012. The decrease was mainly due to the utilisation of cash for purchases of equipment and repayment of borrowings.

As at 30 June 2013, the Group's short-term borrowings and current portion of long-term borrowings were RMB130.1 million, while the long-term borrowings was RMB126.0 million. The long-term borrowings included, among others, liability component of convertible bonds amounted to RMB68.6 million.

As at 30 June 2013, the Group's gearing ratio was 15.5%, representing a decrease of 21.7% as compared with 19.8% as at 31 December 2012. Gearing ratio was calculated as total borrowings divided by total equity. Total borrowings include long-term borrowings, short-term borrowings and current portion of long-term borrowings.

As at 30 June 2013, equity attributable to the equity owners of the Group was RMB1,602.7 million, representing an increase of RMB21.1 million, or 1.3%, as compared with RMB1,581.6 million as at 31 December 2012.

Cash flows from operating activities

For the six months ended 30 June 2013, the Group's net cash generated from operating activities was RMB111.8 million, representing an increase of approximately RMB262.0 million as compared with the net cash used of RMB150.2 million in the comparative period. The substantial improvement reflected the fact that the Group has strengthened its cash management.

Cash flows from investing activities and financing activities

For the six months ended 30 June 2013, the Group's net cash used in investing activities was RMB66.6 million, mainly including purchases of property, plant and equipment amounting to RMB58.0 million and investing in term deposits amounting to RMB10.0 million.

For the six months ended 30 June 2013, the Group's net cash used in financing activities was RMB65.4 million, mainly resulting from the repayments of borrowings of RMB152.4 million, partially offset by new borrowings of RMB82.8 million.

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, Singapore Dollar and Canadian Dollar, respectively. Some of the Group's sales to and purchases 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 six months ended 30 June 2013, the Group has not used any financial instrument to hedge the foreign exchange risk. However, the Group will manage foreign currency risk by closely monitoring the foreign currency exposure and will consider hedging significant currency exposure should the need arise.

Capital structure

The capital of the Company comprises only ordinary shares. As at 30 June 2013, the total number of ordinary shares of the Company in issue was 1,528,961,333 shares (31 December 2012: 1,525,000,000 shares). Total equity attributable to owners of the Company amounted to RMB1,602,733,000 (31 December 2012: RMB1,581,647,000).

Use of net proceeds from initial public offering

The initial public offering of the Company's shares ("IPO") took place on 23 December 2011. The net proceeds from the IPO (after deducting underwriting fees and related expenses) amounted to approximately HK\$372.4 million. As at 30 June 2013, HK\$313.2 million of the net proceeds from the IPO had been used by the Company in the manner consistent with that disclosed in the Company's prospectus dated 14 December 2011, i.e., use of the proceeds for purchase of manufacturing equipment for the oilfield services, acquisition of selected companies engaged in the oilfield services or related businesses, enhancing research and development capabilities, repaying outstanding bank loans and for additional working capital purpose. The remaining HK\$59.2 million will be applied in proportion in the manner as disclosed in the prospectus.

Use of net proceeds from placing

On 11 December 2012, the Company conducted a top-up placing of 190,000,000 ordinary shares at the price of HK\$2.9 per share. The net proceeds from such placing is approximately HK\$543.0 million. The Directors consider that it is in the interests of the Company to enhance the Company's shareholder base and to enhance the capital base of the Company. As at 30 June 2013, HK\$77.6 million of the net proceeds from the placing had been used by the Company in the manner and proportion consistent with the disclosure in the announcement of the Company dated 5 December 2012 (the "Announcement"), i.e., use of the proceeds for purchase of equipment, construction of facilities for research and production, potential investment opportunities and acquisitions, and general working capital. The remaining HK\$465.4 million will be applied in proportion in the manner as disclosed in the Announcement.

Significant investment held

As at 30 June 2013, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

For the six months ended 30 June 2013, the Group has no material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 30 June 2013, the Group pledged part of its trade receivables and non-current prepayment for operating lease to secure the Group's borrowings. The carrying values of the assets pledged are as follows:

	As at 30 June 2013 RMB'000 Unaudited	As at 31 December 2012 RMB'000 Audited
Trade receivables	197,800	250,593
Long-term prepayments	17,238	17,844
Property, plant and equipment	3,043	3,467
Land use right	23,448	23,689

Contingent liabilities

As at 30 June 2013, the Group has no material contingent liabilities.

Off balance sheet arrangement

As at 30 June 2013, the Group has no off balance sheet arrangements.

Contractual obligations

Our contractual commitment mainly included capital expenditure commitments and repayments under operating lease commitments. As at 30 June 2013, capital expenditure commitments were mainly acquisition of property, plant and equipment amounting to RMB0.2 million, while operating lease commitments were mainly lease of offices, warehouses and equipments amounting to RMB24.5 million.

INTERIM DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2013 (for the six months ended 30 June 2012: nil) to the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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.

Having made a specific enquiry to all Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the six months ended 30 June 2013.

CORPORATE GOVERNANCE

For the six months ended 30 June 2013, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules, except for the following provision.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive 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 of 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 four executive Directors (including Mr. Wang Guoqiang), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities.

AUDIT COMMITTEE

The audit committee has reviewed the accounting principles and practices adopted by the Group and the unaudited interim results for the six months ended 30 June 2013 of the Group with the management and the auditor of the Company.

PUBLICATION

The interim results announcement for the Current Period of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.spt.cn) respectively. The 2013 interim report 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.
Wang Guoqiang
Chairman

Hong Kong, 27 August 2013

As of the date of this announcement, the executive Directors are Mr. Wang Guoqiang, Mr. Wu Dongfang, Mr. Liu Ruoyan and Mr. Jin Shumao, the non-executive Directors are Mr. Lin Yang and Ms. Chen Chunhua, and the independent non-executive Directors are Ms. Zhang Yujuan, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming.

* For identification purpose only