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 2014

ANNUAL RESULTS HIGHLIGHTS

The Group's revenue for the year ended 31 December 2014 was RMB2,187.0 million, decreasing by RMB215.8 million, or 9.0%, from RMB2,402.8 million for the comparative year. The profit for the year attributable to equity owners of the Company was RMB116.2 million, decreasing by RMB184.2 million, or 61.3%, from RMB300.4 million for the comparative year.

No final dividend for the year ended 31 December, 2014 was proposed by the Company to the shareholders of the Company (2013: RMB0.05 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 2014 (the "Reporting Year"), together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	3	**2,186,958**	2,402,767
Other (losses)/gains, net		**(17,960)**	12,608
Operating costs			
Material costs		**564,521**	(539,764)
Employee benefit expenses		**(617,065)**	(544,254)
Operating lease expenses		**(134,252)**	(172,818)
Transportation costs		**(75,958)**	(77,809)
Depreciation and amortisation		**(82,744)**	(70,706)
Technical service expenses		**(261,246)**	(322,500)
Impairment reverse/(losses) of assets		**6,064**	(25,844)
Others		**(235,091)**	(247,552)
		(1,964,813)	(2,001,247)
Operating profit	4	**204,185**	414,128
Finance income	5	**2,833**	7,384
Finance costs	5	**(46,653)**	(32,022)
Finance costs, net		**(43,820)**	(24,638)
Profit before income tax		**160,365**	389,490
Income tax expense	6	**(46,098)**	(81,093)
Profit for the year		**114,267**	308,397
Attributable to:			
Equity owners of the Company		**116,176**	300,377
Non-controlling interests		**(1,909)**	8,020
		114,267	308,397
Dividends proposed after balance sheet date	10	**–**	76,520
Earnings per share for the profit attributable to the equity owners of the Company			
Basic earnings per share	7	**0.076**	0.197
Diluted earnings per share	7	**0.075**	0.194

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**114,267**	308,397
Other comprehensive income:		
Items that will not be subsequently reclassified to profit or loss:		
Currency translation differences	**2,898**	(21,776)
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	**(90,134)**	(50,553)
Total comprehensive income for the year	**27,031**	236,068
Attributable to:		
Equity owners of the Company	**28,798**	227,854
Non-controlling interests	**(1,767)**	8,214
	27,031	236,068

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2014

		As at 31 December	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**603,593**	372,721
Land use right		**22,724**	23,206
Goodwill		**781**	781
Intangible assets		**65,453**	34,860
Deferred income tax assets		**89,143**	70,877
Available-for-sales financial assets		**–**	1,680
Prepayments		**50,584**	40,147
		832,278	544,272
Current assets			
Inventories		**550,054**	484,947
Trade and note receivables	*8*	**1,396,110**	1,255,807
Prepayments and other receivables		**201,414**	106,376
Restricted bank deposits		**8,313**	24,840
Cash and cash equivalents		**595,028**	635,954
		2,750,919	2,507,924
Total assets		**3,583,197**	3,052,196
Equity			
Equity attributable to the Company's equity owners			
Ordinary shares		**974**	972
Share premium			
– Proposed final dividend		**–**	76,520
– Others		**591,251**	586,706
Other reserves		**282,351**	242,483
Currency translation differences		**(196,955)**	(109,577)
Retained earnings		**1,096,695**	986,956
		1,774,316	1,784,060
Non-controlling interests		**147,738**	47,134
Total equity		**1,922,054**	1,831,194

		As at 31 December	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-Current liabilities			
Borrowings		**58,730**	84,772
Deferred income tax liabilities		**25,791**	22,089
		84,521	106,861
Current liabilities			
Borrowings		**373,585**	142,000
Trade payables		**849,080**	683,680
Accruals and other payables	*9*	**216,417**	185,097
Current income tax liabilities		**51,400**	55,351
Current portion of long-term borrowings		**86,140**	48,013
		1,576,622	1,114,141
Total liabilities		**1,661,143**	1,221,002
Total equity and liabilities		**3,583,197**	3,052,196
Net current assets		**1,174,297**	1,393,783
Total assets less current liabilities		**2,006,575**	1,938,055

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

		Year ended 31 December	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Net cash inflows from operations	*11*	**9,777**	334,551
Interest paid		**(35,956)**	(18,927)
Interest received		**2,833**	7,384
Income tax paid		**(67,417)**	(69,606)
Net cash (used in)/generated from operating activities		**(90,763)**	253,402
Cash flows from investing activities			
Purchases of property, plant and equipment		**(172,795)**	(134,104)
Proceeds from disposal of property, plant and equipment	*11*	**4,089**	8,977
Purchases of available-for-sale financial assets		**–**	(1,680)
Proceeds from disposal of available-for-sale financial assets		**1,680**	–
Payments for intangible assets		**(39,101)**	(28,080)
Net cash used in investing activities		**(206,127)**	(154,887)
Cash flows from financing activities			
Proceeds from bank borrowings		**425,763**	182,250
Repayments of bank borrowings		**(188,757)**	(231,264)
Dividends paid to shareholders		**(77,905)**	(61,158)
Proceeds from share options exercised		**4,140**	5,620
Acquisition of non-controlling interests of a subsidiary		**–**	(11,584)
Capital injection from non-controlling interests		**102,371**	–
Net cash generated from/(used in) financing activities		**265,612**	(116,136)
Net decrease in cash and cash equivalents		**(31,278)**	(17,621)
Cash and cash equivalents at beginning of the year		**635,954**	658,713
Exchange losses on cash and cash equivalents		**(9,648)**	(5,138)
Cash and cash equivalents at end of the year		**595,028**	635,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts expressed in RMB unless otherwise stated)

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 4th Floor, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY-1112, Cayman Islands. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in provision of oilfield services including drilling, well completion, reservoir, with ancillary activities in trading and manufacturing of oilfield services related products mainly in the People's Republic of China (the "PRC"), Republic of Kazakhstan ("Kazakhstan"), Singapore 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 23 March 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.1 Basis of preparation

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.2 Changes in accounting policy and disclosures

(a) Adoption of new standards and amendments to standards

The Group has adopted the following new and revised standards and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2014:

IAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
IFRS 10, IFRS 12 and IAS 27 (2011) (Amendment)	Investment Entities

The adoption of above new standards and amendments to standards does not have any significant financial effect on these consolidated financial statements.

(b) ***Standards and amendments which are not yet effective***

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 July 2014 or later periods, but have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle[1]
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
IFRS 15	Revenue from Contracts with Customers[3]
IFRS 9	Financial Instruments[4]

[1] Effective for the accounting period beginning on 1 July 2014
[2] Effective for the accounting period beginning on 1 January 2016
[3] Effective for the accounting period beginning on 1 January 2017
[4] Effective for the accounting period beginning on 1 January 2018

The Group will apply the above new/revised standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new/revised standards and amendments to standards.

(c) ***New Hong Kong Companies Ordinance (Cap.622)***

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

3. SEGMENT INFORMATION

The executive directors and senior management are considered as chief operation decision-maker ("CODM") who 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 natures of products and services. Most of these entities are engaged in just single business, except for a few entities which deal with diversified operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

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

(a) Revenue

Revenue recognised during the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
	RMB'000	*RMB'000*
Drilling	**817,264**	953,778
Well completion	**565,802**	649,730
Reservoir	**803,892**	799,259
	2,186,958	2,402,767

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

Revenue amounting to RMB1,558,813,000 (2013: RMB2,004,124,000) 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 2014 and 2013 are as follows:

	Drilling	**Well completion**	**Reservoir**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2014				
Revenue from external customers	**817,264**	**565,802**	**803,892**	**2,186,958**
EBITDA	**154,575**	**107,110**	**210,201**	**471,886**
Total assets	**1,132,380**	**831,098**	**765,337**	**2,728,815**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**63,344**	**122,390**	**55,093**	**240,827**
Year ended 31 December 2013				
Revenue from external customers	953,778	649,730	799,259	2,402,767
EBITDA	247,346	166,357	244,901	658,604
Total assets	985,114	543,346	607,247	2,135,707
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	28,465	20,095	6,934	55,494

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

	2014	2013
	RMB'000	*RMB'000*
EBITDA for reportable segments	**471,886**	658,604
Unallocated expenses		
– Share-based payments	**(35,224)**	(34,074)
– Other (losses)/gains, net	**(17,960)**	12,608
– Unallocated overhead expenses	**(131,773)**	(152,304)
	(184,957)	(173,770)
	286,929	484,834
Depreciation and amortisation	**(82,744)**	(70,706)
Finance costs	**(46,653)**	(32,022)
Finance income	**2,833**	(7,384)
Profit before tax	**160,365**	389,490

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

	2014	2013
	RMB'000	*RMB'000*
Segment assets for reportable segments	**2,728,815**	2,135,707
Unallocated assets		
– Deferred income tax assets	**89,143**	70,877
– Unallocated inventories	**35,017**	66,573
– Unallocated prepayment and other receivables	**126,881**	116,565
– Restricted bank deposits	**8,313**	24,840
– Available-for-sale financial assets	**–**	1,680
– Cash and cash equivalents	**595,028**	635,954
	854,382	916,489
Total assets per balance sheet	**3,583,197**	3,052,196

(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:

	2014	2013
	RMB'000	*RMB'000*
PRC	**938,343**	1,036,895
Kazakhstan	**911,408**	987,983
Canada	**84,117**	71,170
Singapore	**238,712**	288,890
Others	**14,378**	17,829
	2,186,958	2,402,767

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

	2014	2013
	RMB'000	*RMB'000*
PRC	**451,147**	255,051
Kazakhstan	**199,938**	123,523
Canada	**23,771**	13,027
Singapore	**42,133**	55,126
Others	**26,146**	24,988
	743,135	471,715

4. EXPENSES BY NATURE

Operating profit is arrived at after charging the following:

	2014	2013
	RMB'000	*RMB'000*
Losses/(Gains) on disposal of property, plant and equipment	**587**	(904)
Sales tax and surcharges	**8,534**	6,586
Depreciation	**74,558**	67,948
Amortisation of land use right and intangible assets	**8,186**	2,758
Auditor's remuneration as audit service	**4,600**	4,600

5. FINANCE COSTS, NET

	2014	2013
	RMB'000	*RMB'000*
Finance income:		
– Interest income on short-term bank deposits	**2,833**	7,384
Finance income	**2,833**	7,384
Net foreign exchange losses on financing activities	**(6,664)**	(712)
Interest expense:		
– Bank borrowings	**(22,330)**	(14,773)
– Bank charges	**(3,905)**	(4,441)
– Liability component of convertible bonds	**(13,754)**	(12,096)
Total finance costs	**(46,653)**	(32,022)
Net finance costs	**(43,820)**	(24,638)

6. INCOME TAX EXPENSE

	2014	2013
	RMB'000	*RMB'000*
Current taxation	**63,467**	93,823
Deferred taxation	**(17,369)**	(12,730)
Income tax expense	**46,098**	81,093

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 preferential tax rate at 10% respectively.

e. PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in PRC for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the years ended 31 December 2014 and 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%.

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 25%.

h. The corporate income tax rate for subsidiaries established in Indonesia is 25%.

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:

	2014	2013
	RMB'000	*RMB'000*
Profit before income tax	**160,365**	389,490
Tax calculated at domestic tax rates applicable to profits in the respective countries	**28,350**	65,416
Expenses not deductible for taxation purposes	**9,853**	5,590
Losses not recognised as deferred tax assets	**2,601**	7,581
Withholding tax paid in foreign jurisdiction not deductible against local tax	**5,294**	2,506
Income tax expense	**46,098**	81,093

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.

	2014	2013
	RMB'000	*RMB'000*
Profit attributable to equity owners of the Company	**116,176**	300,377
Weighted average number of ordinary shares in issue (thousands)	**1,533,036**	1,527,973
Basic earnings per share (RMB per share)	**0.076**	0.197

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by assuming conversion of all dilutive ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options, however, when calculating the dilutive earnings per share for year 2014, the convertible bond was excluded as it has an anti-dilutive factor 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.

	2014 *RMB'000*	2013 *RMB'000*
Earnings		
Profit attributable to equity owners of the Company	**116,176**	300,377
Add: Interest expense on convertible bonds	**Anti-dilutive**	12,096
	116,176	312,473
Weighted average number of ordinary shares in issue (thousands)	**1,533,036**	1,527,973
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	71,779
– Share options (thousands)	**10,216**	15,460
	1,543,252	1,615,212
Diluted earnings per share	**0.075**	0.194

8. TRADE AND NOTE RECEIVABLES

	2014 *RMB'000*	2013 *RMB'000*
Trade receivables (a)	**1,426,347**	1,292,003
Less: impairment of trade receivables	**(33,986)**	(36,196)
Trade receivables – net	**1,392,361**	1,255,807
Note receivables	**3,749**	–
	1,396,110	1,255,807

Notes

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

(b) Most of the trade receivables are with the expected credit terms of six months, except for retention money amounting to RMB8,292,000 (2013: RMB8,094,000). Except for those disclosed in (d) and (e) below, for trade receivables that are neither past due nor impaired, management considered these were receivables from customer with long cooperation history and no default history, therefore the risk of impairment was low.

(c) Ageing analysis of gross trade receivables as at 31 December 2014 and 2013 is as follows:

	2014 *RMB'000*	2013 *RMB'000*
Up to 6 months	**1,061,059**	1,185,920
6 months – 1 year	**55,774**	24,224
1 – 2 years	**294,487**	76,509
2 – 3 years	**16,074**	5,264
Over 3 years	**2,702**	86
Trade receivables, gross	**1,430,096**	1,292,003
Less: Impairment of trade receivables	**(33,986)**	(36,196)
Trade receivables, net	**1,396,110**	1,255,807

(d) Trade and note receivables of RMB329,069,000 (2013: RMB66,358,000) 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 which were past due but not impaired is as follows:

	2014 *RMB'000*	2013 *RMB'000*
6 months to 1 year	**54,099**	20,695
1 to 2 years	**269,354**	45,617
2 to 3 years	**5,616**	46
	329,069	66,358

(e) As at 31 December 2014, trade receivables amounted to RMB33,986,000 (2013: RMB36,196,000) 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.

Movements of impairment of trade receivables are as follows:

	2014 *RMB'000*	2013 *RMB'000*
As at 1 January	**(36,196)**	(13,170)
Add: reversal/(provision) for impairment of trade receivables	**2,210**	(23,026)
As at 31 December	**(33,986)**	(36,196)

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

	2014	2013
	Equivalent in RMB' 000	*Equivalent in RMB'000*
RMB	**710,337**	702,605
KZT (Kazakhstan Tenge)	**545,282**	436,306
USD (US Dollar)	**133,460**	109,328
SGD (Singapore Dollar)	**854**	4,060
IDR (Indonesia Rupiah)	**222**	–
CAD (Canada Dollar)	**5,955**	3,508
	1,396,110	1,255,807

(g) Trade receivables of RMB216,600,000 (2013: RMB22,000,000) have been pledged for the Group's borrowings.

9. ACCRUALS AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Interest payable	**1,726**	1,598
Rental fee payable	**16,330**	–
Others	**26,346**	19,778
Total financial liabilities	**44,402**	21,376
Customer deposits and receipts in advance	**20,239**	1,470
Payroll and welfare payable	**48,839**	57,446
Taxes other than income taxes payable	**102,937**	104,805
Total non-financial liabilities	**172,015**	163,721
	216,417	185,097

10. DIVIDENDS

The Board does not recommend the payment of a final dividend for the Reporting Year (2013: HKD0.064 per share).

A dividend in respect of the year ended 31 December 2013 of RMB0.05 (equivalent to HKD0.064) per share, amounting to a total dividend of RMB77,905,000 (equivalent to HKD99,718,000), has been approved at the annual general meeting and paid during the year ended 31 December 2014.

11. CASH GENERATED FROM OPERATIONS

	2014	2013
	RMB'000	*RMB'000*
Profit before income tax	**160,365**	389,490
Adjustments for:		
Property, plant and equipment		
– depreciation charge	**74,558**	67,948
– net gains on disposals	**587**	(904)
Land use right and intangible assets		
– amortisation	**8,186**	2,758
Provision for impairment of assets	**(6,064)**	25,844
Net foreign exchange (gains)/losses	**28,874**	(9,294)
Interest income	**(2,833)**	(7,384)
Interest expenses on borrowing	**22,330**	14,773
Interest expenses on convertible bonds	**13,754**	12,096
Share-based payments	**35,223**	34,074
Changes in working capital:		
Inventories	**(65,107)**	(169,638)
Trade receivables	**(138,093)**	(235,564)
Prepayments and other receivables	**(83,282)**	(33,538)
Trade payables	**(31,081)**	271,244
Accruals and other payables	**(24,167)**	(16,299)
Restricted bank deposits	**16,527**	(11,055)
Net cash inflows from operations	**9,777**	334,551

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

	2014	2013
	RMB'000	*RMB'000*
Net carrying value	**4,046**	8,611
Gain on disposal of property, plant and equipment	**(587)**	904
Less: unsettled receivables in relation to the disposal	**630**	(538)
Proceeds from disposal of property, plant and equipment	**4,089**	8,977

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the Reporting Year, revenue of the Group was RMB2,187.0 million, representing a decrease of RMB215.8 million, or 9.0%, as compared with that of RMB2,402.8 million for the previous year. The decrease was mainly due to the weak Oil and Gas market which adversely affected the Group's business. In addition, the devaluation of Kazakhstan Tenge ("KZT") also reduced the Group's revenue when translating KZT denominated revenue into RMB presented revenue.

Other gains/(losses), net

For the Reporting Year, other (losses), net of the Group was RMB18.0 million, while the other gains, net for the previous year was RMB12.6 million. The net losses was primarily due to the devaluation of KZT which caused the appreciation of US Dollar ("USD")-denominated liabilities against KZT. Those related to bank borrowings were accounted for as "Financial cost, net" account.

The net foreign currency exchange losses due to KZT's devaluation was RMB21.5 million as follows:

Losses recognised in other(losses) net	RMB19.8 million
Add: losses recognised in Financial cost net	RMB7.1 million
Deduct: income tax impact	RMB(5.4) million
Net impact:	RMB21.5 million

Material costs

For the Reporting Year, material costs of the Group was RMB564.5 million, representing an increase of RMB24.7 million, or 4.6%, as compared with that of RMB539.8 million for the previous year. The increase was mainly because the Group provided more well completion tools services in the year and these kinds of services consumed much more material costs than other services.

Employee benefit expenses

For the Reporting Year, employee benefit expenses of the Group was RMB617.1 million, representing an increase of RMB72.8 million, or 13.4%, as compared with that of RMB544.3 million for the previous year. The increase was mainly due to more employees hired from the end of 2013 to the beginning of 2014 to prepare for the business development.

Operating lease expenses

For the Reporting Year, operating lease expenses of the Group was RMB134.3 million, representing a decrease of RMB38.5 million, or 22.3%, as compared with that of RMB172.8 million for the previous year. It was partially due to the reduction of relevant workload and partially due to the replacement of the leased equipment by purchased ones.

Transportation costs

For the Reporting Year, transportation costs of the Group was RMB76.0 million, representing a decrease of RMB1.8 million, or 2.3%, as compared with that of RMB77.8 million for the previous year. The decrease was in line with the decline of business.

Depreciation and amortisation

For the Reporting Year, depreciation and amortisation of the Group was RMB82.7 million, representing an increase of RMB12.0 million, or 17.0%, as compared with that of RMB70.7 million for the previous year. The increase was because the Group has invested in more equipment and intangible assets.

Technical service expenses

For the Reporting Year, technical service expenses of the Group was RMB261.2 million, representing a decrease of RMB61.3 million, or 19.0%, as compared with that of RMB322.5 million for the previous year. The decrease was partially due to the decline of business and partially due to less projects requiring outsourcing in the Reporting Year.

Impairment loss of assets

For the Reporting Year, impairment reverse of assets of the Group was RMB6.1 million, representing a decrease of RMB31.9 million, or 123.5%, as compared with that of an impairment cost of RMB25.8 million for the previous year. The reserve was mainly due to the recovery of certain receivables which have been provided in the previous years.

Others

For the Reporting Year, other operating costs of the Group was RMB235.1 million, representing a decrease of RMB12.5 million, or 5.0%, as compared with that of RMB247.6 million for the previous year. This was mainly because the Group has taken measures to cut G&A expenses.

Operating profit

As a result of the aforementioned changes, operating profit of the Group decreased from RMB414.1 million for the previous year to RMB204.2 million for the Reporting Year, representing a decrease of RMB209.9 million, or 50.7%.

Finance costs, net

For the Reporting Year, the Group's finance costs, net was RMB43.8 million, representing an increase of RMB19.2 million, or 77.9%, as compared with that of RMB24.6 million for the previous year. This was mainly due to the increase of bank borrowings.

Income tax expense

For the Reporting Year, income tax expense was RMB46.1 million, representing a decrease of RMB35.0 million, as compared with that of RMB81.1 million for the previous year. The effective income tax rate (income tax expense/profit before income tax) for the Reporting Year was 28.7% while the effective income tax rate for the previous year was 20.8%. This was mainly due to the increase of certain non-deductible expenses, as well as the increase of withholding tax paid in foreign jurisdiction but cannot be offset against local tax.

Profit for the year

As a result of the aforementioned changes, the Group's profit for the Reporting Year decreased from RMB308.4 million for the previous year to RMB114.3 million, representing a decrease of RMB194.1 million, or 62.9%.

Profit attributable to equity owners of the Company

For the Reporting Year, profit attributable to equity owners of the Company was RMB116.2 million, representing a decrease of RMB184.2 million from that of RMB300.4 million for the previous year.

Property, plant and equipment

As at 31 December 2014, property, plant and equipment was RMB603.6 million, representing an increase of RMB230.9 million, or 62.0%, from RMB372.7 million as at 31 December 2013. This was mainly due to the purchases of equipment to meet the business development requirements.

Inventories

As at 31 December 2014, inventories was RMB550.1 million, representing an increase of RMB65.2 million, or 13.4%, from RMB484.9 million as at 31 December 2013. The increase was mainly because the Group kept more inventories during the year to meet the expected business development requirements.

Trade and note receivables and trade payables

As at 31 December 2014, trade and note receivables was RMB1,396.1 million, representing an increase of RMB140.3 million, or 11.2%, from RMB1,255.8 million as at 31 December 2013. The increase reflected the fact that the Group suffered more stress of collecting money from clients under the downside market environment.

As at 31 December 2014, trade payables was RMB849.1 million, representing an increase of RMB165.4 million, or 24.2%, from RMB683.7 million as at 31 December 2013. The increase was mainly because the Group managed to prolong the payment term in order to partially eliminate the negative impact of prolonged receivables turnover days.

Liquidity and capital resources

As at 31 December 2014, the Group's cash and bank deposits, comprising cash and cash equivalents, and restricted bank deposits, were RMB603.3 million, representing a decrease of RMB57.5 million, or 8.7%, from RMB660.8 million as at 31 December 2013. The decrease was mainly due to the net cash outflow from operating activities in the Reporting Year.

As at 31 December 2014, the Group's short-term borrowings and current portion of long-term borrowings were RMB459.7 million, while the long-term borrowings was RMB58.7 million. As at 31 December 2013, the Group's short-term borrowings and current portion of long-term borrowings were RMB190.0 million, the long-term borrowings were RMB84.8 million.

As at 31 December 2014, the Group's gearing ratio was 27.0%, representing an increase of 80.0% as compared with 15.0% as at 31 December 2013. 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 31 December 2014, equity attributable to the equity owners of the Group was RMB1,774.3 million, representing a decrease of RMB9.8 million, or 0.5%, as compared with RMB1,784.1 million as at 31 December 2013.

Cash flows from operating activities

For the Reporting Year, the Group's net cash used in operating activities was RMB90.8 million, representing a decrease of RMB344.2 million or 135.8%, while the net cash generated from operating activities was RMB253.4 million for the previous year. The change was mainly because the Group's receivables turnover rate changed negatively under the downside market environment.

Cash flows from investing activities and financing activities

For the Reporting Year, the Group's net cash used in investing activities was RMB206.1 million, mainly due to the purchases of property, plant and equipment and intangible assets.

For the Reporting Year, the Group's net cash generated from financing activities was RMB265.6 million, mainly resulting from the increase of bank borrowings.

Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, Singapore, Canada and Indonesia with most of the transactions denominated and settled in RMB, KZT, Singapore Dollar ("SGD"), Canadian Dollar ("CAD") and Indonesia Dollar ("IDR") respectively. Certain sales to and purchases from overseas are denominated in USD. Foreign exchange risk also arises from borrowings comprising bank borrowings and certain bank deposits denominated in foreign currencies. The Group is exposed to foreign currency exchange risk primarily with respect to USD.

During the Reporting Year, the Group has not used any financial instrument to hedge its foreign exchange risk.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2014, the total number of ordinary shares of the Company in issue was 1,534,408,999 shares (31 December 2013: 1,530,391,333 shares). As at 31 December 2014, total equity attributable to the equity owners of the Company was RMB1,774.3 million, representing a decrease of RMB9.7 million, or 0.5%, as compared with RMB1,784.1 million as at 31 December 2013.

Significant investment held

As at 31 December 2014, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

For the Reporting Year, the Group had no material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 31 December 2014, the Group pledged parts of its property, plant and equipment, long-term prepayments and trade and note receivables to secure the Group's borrowings. The carrying values of the assets pledged are as follows:

	As at 31 December 2014	As at 31 December 2013
	RMB'000	*RMB'000*
Property, plant and equipment	**1,444**	2,643
Long-term prepayments	**9,761**	16,712
Trade and note receivables	**216,600**	22,000
Land use right	**14,000**	–
Restricted bank deposits	**10**	–

Convertible bonds

For the Reporting Year, the movement in convertible bonds which were recognised partially as equity and partially as long-term borrowings is as follow:

	RMB'000
Face value of convertible bonds issued on initial recognition date	94,526
Less: Equity component	(32,370)
Liability component on initial recognition date	62,156

	2013 *RMB'000*
Liability component as at 31 December 2012	65,249
Add: Interest expense in 2013	12,096
Less: Interest paid and payable	(2,744)
Less: Exchange difference	(2,145)
Liability component as at 31 December 2013	72,456

	2014 ***RMB'000***
Liability component as at 31 December 2013	**72,456**
Add: Interest expense in 2014	**13,754**
Less: Interest paid and payable	**(2,754)**
Less: Exchange difference	**209**
Liability component as at 31 December 2014	**83,665**

Contingent liabilities

As at 31 December 2014, the Group had no material contingent liabilities.

Off-balance sheet arrangements

As at 31 December 2014, the Group had no off-balance sheet arrangements.

Contractual obligations

The Group's contractual commitment mainly included capital expenditure commitments and repayments under operating lease commitments. As at 31 December 2014, capital expenditure commitments were mainly acquisition of property, plant and equipment with the amount of RMB1.0 million, while operating lease commitments were mainly lease of offices, warehouses and equipments with the amount of RMB413.9 million.

BUSINESS REVIEW

For the Reporting Year, the Group recognised revenue of RMB2,187.0 million, declining by RMB215.8 million, or 9.0%, from that of RMB2,402.8 million for the previous year. Net profit for the year was RMB114.3 million, decreasing by RMB194.1 million, or 62.9%, from that of RMB308.4 million for the previous year.

Both decreases in revenue and net profit were mainly due to the following factors:

1. The reduction in investment of domestic Oil and Gas industry persisted for the whole Reporting Year and the global oil prices plunge in the second half of the Reporting Year jointly depressed the whole Oil and Gas market and caused the major clients of the Group to cut their spending on exploration and development work. This was the fundamental factor leading to the decrease in the Group's revenue.

2. The decline of investment by oil companies intensified the oil-field services market competition, which brought down the Group's profit margin. In addition, employee benefit expenses rose as the Group has hired more employees from the end of 2013 to the beginning of the Reporting Year to prepare for the business development, which further reduced the profit.

3. The devaluation of KZT in February 2014 caused a significant decrease in revenue and profit as well.

During the Reporting Year, weakness of the entire Oil and Gas market persisted. Oil companies have cut their spending, especially in their exploration and development work. Following the oil companies' investment decline, the total market size of the oil-field services shrunk and this in turn intensified the market competition. In addition, as domestic oil companies have put more emphasis on the work efficiency than on output expansion, cost-saving strategy was introduced. The oil-field services providers had to experience a hard time with less business, lower profit and tighter cash flow during the year.

Under such circumstances, the business of the Group has suffered from the declining market. Accordingly, revenue has decreased, profit has declined and the operating cashflow has become negative. In addition, the devaluation of KZT by nearly 20% in February 2014 severely hit the Group's operation in Kazakhstan, resulting in significant foreign exchange loss, which further reduced the Group's revenue and profit. The Group has taken necessary measures to stabilise the business in its main markets, explore new markets, control the costs and balance the cash flow. Thanks to the asset-light strategy, the more balanced geographical and service-line structure and the more healthy financial structure, the Group has successfully remained profitable under such difficult market environment.

For the domestic operation, the Group realised revenue amounting to RMB938.3 million, accounting for 42.9% of total revenue for the Report Year and representing a decrease of 9.5% as compared with the previous year. The Group has achieved, among others, the following:

1. The Group and Halliburton B.V. jointly established Xinjiang HDTD Oilfield Service Co., Ltd. ("HDTD"), a fracture stimulation services company in Xinjiang Uygur Autonomous Region of China. Combining Halliburton's advanced fracturing technology, strong equipment performance and the Group's profound understanding of the geological conditions and rich experience in the market development, HDTD is very well equipped to strongly compete in the Xinjiang Oil and Gas market;

2. The Group has entered into an important agreement with Tuha Oil-field Company pursuant to which the Group will provide 6 workover rigs capacity's services to Tuha oilfield in 2015. This is the first time that the Group has secured a continuing service contract in the oilfield. It grants the Group not only the access to a new workover market, but a new opportunity to introduce the Group's other service lines to Tuha oilfield as well;

3. The Group has succeeded in bidding an integrated project in Sichuan Anyue gas field, being the second time to win an integrated project. This is a solid evidence showing the market's recognition of the Group's integrated services capability;

4. The Group has been granted the agency license of GE's certain oil-related equipment sales and services in certain areas of China. The Group considers it a good opportunity to integrate the existing oil-related equipment maintenance business so that the Group will have the ability to provide to their clients a full range of services from such equipment's sales to service and maintenance;

5. The Group has successfully provided oil-base mud services to 7 shale gas wells in Sichuan basin. In addition, the Group and Halliburton jointly won a fracturing tender for Shenhua Group's Baoye-1 shale gas well. The Group has been involved in more and more shale gas projects and accumulated more and more shale gas work experience.

For the overseas operation, the Group realised revenue amounting to RMB1,248.6 million, accounting for 57.1% of total revenue for the Reporting Year and representing a decrease of 8.6% as compared with the previous year. Although the KZT's devaluation has significantly affected the Group's performance in the Kazakhstan market, the Group has used its best endeavors to stabilise the operation and explore new markets. During the Reporting Year, the Group has made the following new achievements:

1. The Group has done its utmost to stabilise its business and reduce the negative impact of KZT's devaluation in the Kazakhstan market. The Group has also provided services or prepared for providing services to non-China National Petroleum Corporation ("CNPC") oil companies such as MIE Holdings Corporation ("MIE"), Tarbagatay Munay Limited Liability Partnership ("TBM") and Sozak Oil and Gas Company, to explore new market and to diversify the client concentration;

2. Following the successful provision of 35 sets well-completion tools services to Amu Darya Natural Gas Company in Turkmenistan in the first half of the Reporting Year, the Group further won a contract of 40 sets well-completion tools services in the same market. In addition, the Group began to provide oil-reservoir services, such as the hermetic seal testing services, in Turkmenistan market as well. Apart from these, the Group has planned to introduce more service lines to Turkmenistan market. Being the key supplier of the Central Asia-China natural gas pipelines, which will reach the capacity of 85 billion cubic meters' natural gas transmission by 2016, Turkmenistan's natural gas industry will boom in the next few years. The Group will be in good shape to get involved in the development of the area based on its sound track records and presence;

3. The Group proactively explored other overseas markets as well. In Iraq, the Group has well organised its service team to perform the dynamic-monitoring services contract obtained in 2013 and pursued more business in the Middle East market. The Group also began to pursue the business opportunities in East Africa.

REVENUE ANALYSIS

For the Reporting Year, the Group's revenue by segment is set out below:

	2014	2013	Fluctuation
	RMB'000	*RMB'000*	
Oil Reservoir Segment	**803,892**	799,259	0.6%
Well Completion Segment	**565,802**	649,730	(12.9)%
Drilling Segment	**817,264**	953,778	(14.3)%
Total	**2,186,958**	2,402,767	(9.0)%

As introduced in "Business Review" section, driven by the downsides of domestic and overseas Oil and Gas markets, as well as KZT's devaluation, the Group's revenue declined for the Reporting Year. Well completion and drilling's revenue declined more as compared with the comparative year, as parts of work of these two segments are related to the oil companies' Capital Expenditure ("CAPEX"), while oil reservoir's revenue remained slightly increasing as most of its work are in relation to oil companies' production work, which has not been affected so much since the Group's major clients did not reduce their output in 2014.

Oil Reservoir Segment

Set forth below is the revenue of oil reservoir segment presented by geographical location:

	2014	2013	Changes
	RMB'000	*RMB'000*	*(%)*
PRC	**332,797**	298,652	11.4
Overseas	**471,095**	500,607	(5.9)
Total	**803,892**	799,259	0.6

For the Reporting Year, the oil reservoir segment realised revenue amounting to RMB803,892,172, representing an increase of 0.6% from the previous year. The revenue recognised in PRC was RMB332,797,015, representing an increase of 11.4%, while the revenue recognised in overseas was RMB471,095,157, representing a decrease of 5.9%. The oil reservoir services are mainly provided for oil companies' production work, as major clients of the Group did not reduce their output during the year, the oil reservoir revenue of the Group was not affected so much but even kept growing in the PRC. However, oil reservoir revenue from overseas decreased as Kazakhstan's oil reservoir revenue was significantly affected by the KZT's devaluation.

The oil reservoir segment of the Group mainly provides geology research and oil reservoir research, dynamic monitoring, oil testing, oil recovery technology service and maintenance of surface production devices. The Group always focuses on the geological data gathering, analysis and evaluation to help clients design effective plans for the exploration, development and production work. Based on the continuing efforts, the Group has grown to the leading independent oil reservoir services provider in China. As such, the Group has the advantage of getting involved in oil and gas wells' exploration, development and production work at the very early stage.

During the Reporting Year, the oil reservoir segment has achieved the following:

1. Penetration into new market. In Turkmenistan, the hermetic seal testing business has been carried out and the oil reservoir team has provided the services to the client's 8 wells. In Kazakhstan, the oil testing business has entered into TBM company's Zaysan oilfield and the oilfield of Hong Kong Sino-Science International Oil and Gas Investment Group Company Limited. In addition, based on the successful performance of the dynamic monitoring contract in Iraq's Ahdeb oilfield, the Group began to pursuit new opportunities in the Iraq market as well. The Group believes these successful penetrations will bring additional markets and more business in the future.

2. Cooperation with GE. The Group has obtained the agency license of GE's certain oil-related equipment sales and services in certain areas of China. The cooperation may complement the Group's current oil-related equipment maintenance business and will help the Group form integrated oil-related equipment services business line from sales to services and maintenance. This will be helpful to the introduction of such business to the clients and the expansion of revenue in the future.

3. Technology breakthrough. The Group successfully provided the fishing service to a Tarim oilfield's well with the wellhead's pressure reaching 83.7MPa. The success has strongly proven the Group's construction ability and technical potentials.

Well Completion Segment

Set forth below is the revenue of well completion segment presented by geographical location:

	2014	2013	Changes
	RMB'000	*RMB'000*	*(%)*
PRC	**192,177**	191,657	0.3
Overseas	**373,625**	458,073	(18.4)
Total	**565,802**	649,730	(12.9)

For the Reporting Year, the well completion segment realised revenue amounting to RMB565,802,003, representing a decrease of 12.9% from the previous year. The revenue recognised in PRC was RMB192,177,132, representing an increase of 0.3%, while the revenue recognised in overseas was RMB373,624,871, representing a decrease of 18.4%. As compared with the oil reservoir segment, well completion revenue for the Reporting Year declined more. This was mainly because most of the well completion services are provided to the clients for their exploring and development works, which have been significantly affected as a result of the oil companies' shrinkage CAPEX following the oil price plunge. The geographical segment revenue has been presented in accordance with the country of domicile of entities within the Group, if it is re-allocated in accordance with the geography where the revenue has been generated from, the actual revenue from both PRC and overseas dropped during the Reporting Year.

The Group is dedicated to providing high-end integrated gas well completion services to the clients. Based on its over 20 years' experience in Tarim oilfield, one of the most difficult oilfields in the world in terms of geological conditions, and close cooperation with Halliburton, the Group has grown to a leading independent well completion services provider in China. The Group's well completion segment mainly provides well completion plan design, well completion tools selection, procurement and installation, perforation, multi-stage fracturing, ancillary materials and surface building constructions.

During the Reporting Year, under the downward market and shrinking CAPEX of oil companies, the Group has used its best endeavors to stabilize the business and pursue new opportunities and achieved the following:

1. The Group has successfully performed the 35 sets well-completion tools contract in Amu Darya gas field of Turkmenistan and the 38 sets well completion tools contract in Anyue gas field of China's Sichuan basin. All these performances have been highly recognised by the clients. In addition, the Group has won a 40 sets well-head tools contract in Turkmenistan during the Reporting Year, strengthening the Group's presence of high market share in Turkmenistan market.

2. The Group and Halliburton jointly established a fracturing company in Xinjiang Autonomous Region in the year. The company will integrate Halliburton's advanced fracturing technology, high-end equipment and materials and the Group's profound understanding of the geological conditions and rich market experiences and provides the clients with high-quality fracturing services. Following the development of more technically sophisticated wells, oil companies will demand more high-end fracturing technologies and services. The Group considers that the jointly established company is ready for the market challenges and will provide high-quality fracturing services to the clients.

Drilling Segment

Set forth below is the revenue of drilling segment presented by geographical location:

	2014	2013	Changes
	RMB'000	*RMB'000*	*(%)*
PRC	**413,369**	546,586	(24.4)
Overseas	**403,895**	407,192	(0.8)
Total	**817,264**	953,778	(14.3)

For the Reporting Year, the drilling segment realised revenue amounting to RMB817,264,253, representing a decrease of 14.3% from the previous year. The revenue recognised in PRC was RMB413,369,335, representing a decrease of 24.4%, while the revenue recognised in overseas was RMB403,894,918, representing a decrease of 0.8% from the previous year. Part of the services of drilling segment is provided to the clients for their exploration and development work, for which the oil companies have significantly cut the spending due to the plunging oil price. As such, this part of services revenue has dwindled as well. However, the other part of services is related to the oil companies' existing wells such as workover. Accordingly so this part of services revenue was less affected.

The Group has always been focusing on becoming the integrated drilling services provider and it has done a lot of work to achieve the objective. As a reward, the Group is the first independent oil-field services provider who has ever provided the integrated project to the clients, which indicates the Group's technology and management ability. The Group's drilling segment mainly provides drilling rig services, workover rig services, vertical drilling technology, horizontal drilling technology, side tracking technology, under balance drilling technology, fine managed pressure drilling (FMPD) technology, cementing services and drilling fluid services.

During the Reporting Year, despite suffering heavy pressure from the shrinking market, the Group still achieved the following:

1. Following the good performance in previous year, the Group successfully completed 8 wells drilling work in China's Erdos basin, comprising 6 vertical wells and 2 horizontal wells in the Reporting Year. These drilling works were highly recognised by the clients.

2. Winning an integrated project in Anyue oilfield of China's Sichuan basin. This is the second time that the Group has won an integrated project from these clients. The Group will provide services from the geological research and plan design to well completion and gas testing, covering the whole process from exploration and development to production. Together with the first provision of integrated project in Tarim oilfield, the continuing integrated projects are the signs of the Group's integrated services ability and the clients' recognition.

3. Winning a continuous project in Tuha oilfield. The Group has entered into an agreement with Tuha Oilfield Company pursuant to which the Group will provide continuing workover services with 6 workover rigs in next year. This represents the Group's success in entering this market and the Group expects to take this opportunity to introduce more services to the client and get more revenue from the Tuha market.

4. Participating in shale-gas development. During the Reporting Year, the Group has provided drilling fluid for 7 shale-gas wells in China's Sichuan basin. In addition, the Group and Halliburton have jointly won a tender from China Shenhua Group pursuant to which the Group will provide fracturing services to Baoye-1 shale-gas well. In the past few years, the Group has already got involved in over 30 shale-gas wells exploration and development work and accumulated much experience. In order to provide better services to the clients, the Group's Unconventional Oil and Gas Department and the Institute of Geology Engineering Technology have done a lot of fruitful work to technically support the development of shale-gas wells. The Group believes that all these works have made the Group well prepared for the shale-gas development. When the large-scale shale-gas development takes off, the Group will be very well ready to explore the huge market.

MARKET ENVIRONMENT

During the Reporting Year, the whole Oil and Gas industry experienced a very hard time. From late 2013, driven by the change in operational strategy from "Pursuing Productivity" to "Efficiency Orientation", the oil giants in China began to cut spending in their major oil-fields. In addition, from the second half of the Reporting Year, initiated by the market concerns of the oil glut, the oil prices kept falling by nearly 50 percent from its peak in June. International oil companies in turn began to significantly reduce their exploration and development work. As a result of these two factors, the oil-field services providers, both in domestic market and in overseas market, faced the issues of dwindling workload, declining price and intensifying competitiveness.

Despite the difficult market environment, the Group remained cautiously optimistic to the oilfield services market, especially from the long-term perspective, due to the following considerations:

1. The oil price will eventually rebound after a period of volatility. The low oil price has pushed oil companies to cut spending. Although the spending shrinkage concentrates on the exploration and development activities for current stage, it will ultimately bring down the output. The market will be adjusted and the demand and supply will become re-balanced. The low oil price will go back to normal and the oil-field services market will resume as well.

2. The oil and gas demands in China market will keep rising, driven by the continuing economic growth. The rising demands will be resolved partially by import and partially by self-production. Following the strengthening of the environment protection consciousness and the China's central government's commitment to improve the environment, the demand for natural gas will grow faster than the demands for oil. In addition, the central government of China has promised to develop shale-gas and set up the development strategy and goals. Although there are some technical and economic issues in the shale-gas development, we can still see obvious progress. The shale-gas output in China has reached 13 billion cubic meters during the Reporting Year, 5 times of the output in the previous year.

3. The change to "Efficiency-orientation" strategy requires qualified oil-field services providers who can address the cost-saving concern of the oil companies by providing more efficient work and a shorter work cycle. Independent oil-field services providers including SPT can meet the oil companies' requirements better than those in-house services providers who usually own too much heavy equipment and have to support too many employees. As such, independent oil-field services providers including SPT will have broader scope of development.

4. The central government of China has promised to break monopoly and promote market openness, transparency and fairness. From a long-term perspective, the Group believes the market will eventually become market-oriented and the services providers with sophisticated technology, integrated operation ability and good track records, such as SPT, will have more opportunities to grow fast. It is noticed that China National Petroleum Corporation ("CNPC") has begun its mixed ownership reform in Xinjiang Autonomous Region. Future shareholding structure of oil companies will become more diversified and market-orientation will prevail.

5. Xinjiang Autonomous Region, where the Group has significant operation, will have a more brilliant future. Apart from the aforementioned mixed shareholder reform, other positive factors that will prompt economic development in the area can be observed as well. The West Region Development Policy states that the central government of China will give extra policies support to the west region to stimulate the west region's economy and promote its social progress. The investment in this area will surge and the Oil and Gas industry, being one of the most competitive industries in the area, will benefit from the policies. In addition, the concept of the "One Belt And One Road" strategy also indicates that Xinjiang Autonomous Region will have brilliant future economic development opportunities.

R&D AND MANUFACTURING

Over the years, the Group's research and development ("R&D") team has been striving towards the goals of strengthening the R&D of engineering technology and giving strong support to integrated technology services for oil and gas field development projects. During the Reporting Year, the Group signed a strategic alliance agreement with China University of Geosciences (Beijing) and established a joint R&D center. With the support of core technology research, the R&D and manufacturing capabilities of the Group located in PPS R&D and manufacturing base in North America, ENECAL R&D and manufacturing center in Singapore and well completion tool manufacturer in Tanggu Tianjin, were greatly enhanced, forming a comprehensive engineering technology support system consisting of R&D, manufacturing and integrated engineering services.

With the aim of engaging in conventional and unconventional oil and gas engineering projects, the Group set up 12 core R&D projects including high temperature logging while drilling (LWD) tools and mechanical-water swellable composite packer series, which cover oil and gas reservoir, drilling, logging, completion, stimulation, testing and waste disposed in 2014. Most of the technologies have undergone field experiment or have been completed. Among which, the high temperature LWD tools completed two kinds of prototype and carried out the downhole test. The oil base drilling fluid debris harmless processing technology and fishable inner pipe gas lift negative pressure pump technology were applied on the site. These technologies provided strong technological support for tight oil and gas engineering, horizontal well development and old oilfield technology modification with the view to become the leading technology in the technological services market locally and abroad.

During the Reporting Year, the Group completed the development of oil, water swellable and composite packer series and its products were widely applied in the Oil and Gas engineering market in Central Asia. The Group focuses on high temperature and pressure high-end completion tool. Currently, the Group has obtained key qualifications including API Q1, API 11D1 and API 14A, providing customers with a range of reliable well completion tools including high-end packers, safety valves and fracturing sleeves.

In 2015, the Group will focus its efforts in the marketing of a number of advanced engineering service technologies including high temperature LWD tools. The Group's leading superiority in technologies including horizontal well directional drilling, high-end completion and stimulation engineering, drilling waste mud treatment and oil/gas well testing, will provide strong technological support for the Group to stabilize the domestic market and expand the overseas markets.

HUMAN RESOURCES

To ensure sustainable and speedy growth of our business, the Group continued to recruit various professional talents to build a "professionalism leading" technology team and optimized the talent structure in various regions to facilitate a rationalized layout of our global business on the one hand. On the other hand, leverage on its internal training system, the Group pushed ahead the development of technology and service capabilities of each business line, and strengthened the nurturing of internal talents and enhancement of integrated quality. As at 31 December 2014, there were a total of 4,084 employees registered with the Group, of which 1,457 were expatriate employees.

During the reporting period, to enhance the leading technology position in each business segment, the Group actively recruited the "elite leaders" in various business areas and successfully recruited more than 20 renowned experts of different profession in the industry and experienced marketing officers. At the same time, through recruiting foreign employees with exchange student background in China and literacy in Chinese language and culture back to work in China, the Group continued to improve the "localization" human resources development strategy in overseas areas.

Facing intensifying competition, the Group, through exploring potential capacity, has gathered a talent pool with a range of strengths. Upon assessment on the capacity and quality of more than 100 core personnel, a tailored training program was formulated for outstanding employees. As at 31 December 2014, dozens of young employees with technical experience, marketing background and management ability were promoted to core management positions successively and made even proactive and effective achievements in the area of market expansion, operational management, technical support and HSE. At the same time, at the group level, various departments were approved to rationalize existing positions and carry out self-appraisal on staff performance in order to immediately optimize the performance of the company and personnel to avoid redundancy.

Adhering to the principle of "Internal Training Based on Business Needs" (人才培養契合業務需求), during the reporting period, fully capitalizing on its own professional resources, the Group encouraged knowledge and experience sharing and identified internal trainer of 63 for the first time among which there are more than 20 competent experts in various technical fields. Meanwhile, an integrated talent training system was established to formulate tailored training system for each level of employees. In 2014, more than 100 integrated capacity building trainings of technology as well as management were held across the Group and more than 3,000 employees received trainings.

OUR PLANS

We remain optimistic about the Oil and Gas industry development from a long-term perspective, while we should seriously take care of the present depressed market. Implementing an appropriate policy so as to balance our short-term efforts on fighting the current difficulties and our long-term commitment to develop the business will be our strategy in the coming year.

1. Continue the efforts to penetrate new markets and new business lines, as well as maintain our shares in existing markets and business lines; keep a close eye on our clients' needs and provide quick services; upgrade our services rendered and become problem-solving specialist.

2. Promote liquidity, improve our receivables turnover rates and control our payables turnover rates so as to improve our operating cash flow; insist on our asset-light strategy and strengthen our external financing ability; remain prudent financial structure.

3. Focus on R&D work and build core technologies, develop our ability to provide integrated services to our clients; improve risk control and quality management.

FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the Reporting Year (2013: HKD0.064 per share).

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, 10 June 2015, the register of members of the Company will be closed from Monday, 8 June 2015 to Wednesday, 10 June 2015 (both dates inclusive). All transfer forms accompanied by the relevant share certificates 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 Friday, 5 June 2015.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance. Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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 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. 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 2014. 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 to all the directors and each of the directors has confirmed that he/she has complied with the Model Code for the year ended 31 December 2014.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the year ended 31 December 2014, 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 consolidated financial statements for the year.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2014 ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and on the websites of the Company (www.spt.cn), and the 2014 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, 23 March 2015

As at 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, the independent non-executive directors are Ms. Zhang Yujuan, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming.

* *For identification purpose only*