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 2017

ANNUAL RESULTS HIGHLIGHTS

The Group's revenue for the year ended 31 December 2017 was RMB1,100.6 million, representing an increase of RMB252.5 million, or 29.8%, from RMB848.1 million for the previous year. The profit attributable to equity owners of the Company was RMB5.5 million, while the loss attributable to equity owners of the Company amounted to RMB292.3 million for the previous year.

No final dividend for the year ended 31 December 2017 was proposed by the Board to the shareholders of the Company (2016: Nil).

RESULTS

The board of directors (the "Board") of SPT Energy Group Inc. (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 (the "Reporting Year"), together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December **2017** *RMB'000*	2016 *RMB'000*
Revenue	*3*	**1,100,642**	848,131
Other gains/(losses), net		**36,618**	(30,015)
Operating costs			
Material costs		**(234,966)**	(177,672)
Employee benefit expenses		**(366,974)**	(376,230)
Operating lease expenses		**(69,413)**	(52,818)
Transportation costs		**(18,955)**	(22,660)
Depreciation and amortisation		**(92,176)**	(117,860)
Technical service expenses		**(188,299)**	(107,226)
Reversal/(impairment losses) of assets		**22,880**	(82,580)
Others		**(142,545)**	(149,153)
		(1,090,448)	(1,086,199)
Operating profit/(loss)		**46,812**	(268,083)
Finance income	*9*	**643**	1,772
Finance expenses	*9*	**(30,320)**	(32,073)
Finance expenses, net		**(29,677)**	(30,301)
Share of post-tax results of an associate		**–**	(5,000)
Profit/(loss) before income tax	*10*	**17,135**	(303,384)
Income tax expense	*10*	**(13,875)**	(11,270)
Profit/(loss) from continuing operations		**3,260**	(314,654)
Profit/(loss) for the year		**3,260**	(314,654)
Attributable to:			
Equity owners of the Company		**5,541**	(292,346)
Non-controlling interests		**(2,281)**	(22,308)
		3,260	(314,654)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Earnings/(losses) per share for the profit/(loss) from continuing operations attributable to the equity owners of the Company			
Basic earnings/(losses) per share	*12*	**0.004**	(0.190)
Diluted earnings/(losses) per share	*12*	**0.004**	(0.190)
Earnings/(losses) per share for the profit/(loss) attributable to the equity owners of the Company			
Basic earnings/(losses) per share		**0.004**	(0.190)
Diluted earnings/(losses) per share		**0.004**	(0.190)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

		Year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Profit/(loss) for the year		**3,260**	(314,654)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**(17,284)**	32,015
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**(35,880)**	41,112
Total comprehensive income for the year		**(49,904)**	(241,527)
Total comprehensive income for the year attributable to:			
Equity owners of the Company		**(48,058)**	(218,592)
Non-controlling interests		**(1,846)**	(22,935)
		(49,904)	(241,527)
Total comprehensive income for the year attributable to owners of the Company arises from:			
Continuing operations		**(49,904)**	(241,527)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**348,626**	392,852
Land use rights		**21,275**	21,758
Intangible assets		**23,219**	35,727
Investments in associates		**1,570**	–
Deferred income tax assets		**141,899**	138,842
Prepayments	*5*	**22,339**	23,685
		558,928	612,864
Current assets			
Inventories		**337,033**	371,631
Trade and note receivables	*4*	**682,644**	563,744
Prepayments and other receivables	*5*	**261,644**	248,532
Restricted bank deposits		**2,552**	17,619
Cash and cash equivalents		**147,022**	245,903
		1,430,895	1,447,429
Total assets		**1,989,823**	2,060,293

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Equity			
Equity attributable to the Company's equity owners			
Share capital	*6*	**975**	974
Share premium		**591,991**	591,651
Other reserves		**346,624**	333,874
Currency translation differences		**(456,981)**	(403,382)
Retained earnings		**397,373**	392,184
		879,982	915,301
Non-controlling interests		**98,116**	97,033
Total equity		**978,098**	1,012,334
Liabilities			
Non-current liabilities			
Borrowings		**18,343**	103,093
Deferred income tax liabilities		**20,957**	22,141
		39,300	125,234
Current liabilities			
Borrowings		**159,021**	263,687
Current portion of long-term borrowings		**104,194**	15,504
Trade payables	*7*	**516,973**	492,923
Accruals and other payables	*8*	**143,878**	110,089
Current income tax liabilities		**48,359**	40,522
		972,425	922,725
Total liabilities		**1,011,725**	1,047,959
Total equity and liabilities		**1,989,823**	2,060,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(Amounts expressed in RMB unless otherwise stated)

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is P. O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Compliance with IFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622 ("HKCO").

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1.2 Historical cost convention

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities, which are measured at fair value.

2.1.3 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and*
- *Disclosure initiative – amendments to IAS 7.*

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

2.1.4 *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 Financial Instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect a significant impact on the loss allowance compared with current practice.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

IFRS 15 Revenue from Contracts with Customers

Nature of change

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Based on management assessement, the effects of applying the new standard on the Group's financial statements will not be material.

Date of adoption by Group

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFIRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB57,585,000. The Group estimates that approximately 13% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date/Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

3. SEGMENT INFORMATION

The chief operating decision-maker ("CODM") has been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on this financial information.

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

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

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

(a) Revenue

Revenue recognised during the years ended 31 December 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Drilling	**320,489**	182,099
Well completion	**165,463**	120,606
Reservoir	**614,690**	545,426
	1,100,642	848,131

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 RMB760,092,000 (2016: RMB732,178,000) are derived from China National Petroleum Corporation 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 2017 and 2016 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Revenue from external customers	**320,489**	**165,463**	**614,690**	**1,100,642**
EBITDA	**49,792**	**24,647**	**149,343**	**223,782**
Total assets	**441,900**	**696,276**	**452,460**	**1,590,636**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**9,913**	**27,755**	**6,539**	**44,207**

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *RMB'000*
Year ended 31 December 2016				
Revenue from external customers	182,099	120,606	545,426	848,131
EBITDA	(35,001)	(86,196)	93,008	(28,189)
Total assets	392,688	644,831	481,416	1,518,935
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	17,000	27,702	5,018	49,720

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
EBITDA for reportable segments	**223,782**	(28,189)
Unallocated expenses		
– Share-based payments	**(12,572)**	(6,598)
– Other gains/(losses), net	**36,618**	(30,015)
– Unallocated overhead expenses	**(108,840)**	(90,421)
	(84,794)	(127,034)
	138,988	(155,223)
Depreciation and amortisation	**(92,176)**	(117,860)
Finance expenses	**(30,320)**	(32,073)
Finance income	**643**	1,772
Gain/(Loss) before income tax	**17,135**	(303,384)

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,590,636**	1,518,935
Unallocated assets		
– Deferred income tax assets	**141,899**	138,842
– Unallocated inventories	**8,803**	15,579
– Unallocated prepayment and other receivables	**97,341**	123,415
– Restricted bank deposits	**2,552**	17,619
– Cash and cash equivalents	**147,022**	245,903
– Investments in associates	**1,570**	–
	399,187	541,358
Total assets per balance sheet	**1,989,823**	2,060,293

(c) Geographical segment

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC	**634,517**	480,316
Kazakhstan	**298,831**	196,439
Middle East	**30,200**	46,065
Turkmenistan	**43,966**	50,579
Canada	**58,533**	48,213
Indonesia	**33,401**	21,414
Others	**1,194**	5,105
	1,100,642	848,131

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC	**270,651**	290,308
Kazakhstan	**73,558**	91,746
Middle East	**69**	8
Turkmenistan	**25,602**	30,237
Canada	**13,065**	17,500
Indonesia	**8,912**	14,117
Others	**25,172**	30,106
	417,029	474,022

4. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables *(a)*	**756,385**	621,847
Less: provision for trade receivables	**(86,244)**	(84,198)
Trade receivables – net	**670,141**	537,649
Note receivables *(a)*	**12,503**	26,095
	682,644	563,744

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.

(b) Most of the trade receivables are with the expected credit terms of six months, except for retention deposit amounting to RMB7,032,000 (2016: RMB2,107,000). Except for those disclosed in (d) and (e) below, for trade receivables that are neither past due nor impaired, management considered that these were receivables from customers with long business relationship and no default history. Therefore the risk of impairment was low.

(c) Aging analysis of gross trade and note receivables is as follows:

At 31 December, the ageing analysis of the trade and note receivables based on invoice date were as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Up to 6 months	**539,550**	366,131
6 months – 1 year	**36,817**	67,962
1 – 2 years	**59,930**	76,529
2 – 3 years	**23,058**	59,445
Over 3 years	**109,533**	77,875
Trade receivables, gross	**768,888**	647,942
Less: provision for trade receivables	**(86,244)**	(84,198)
Trade receivables, net	**682,644**	563,744

(d) Trade and note receivables – past due but not impaired.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
6 months to 1 year	**36,686**	67,270
1 to 2 years	**56,359**	76,069
2 to 3 years	**22,372**	53,046
Over 3 years	**22,080**	–
	137,497	196,385

These receivables relate to a number of independent customers for whom there were no recent history of default.

(e) Movements of provision for trade receivables are as follows:

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**(84,198)**	(56,825)
Provision	**(11,695)**	(27,373)
Reversal	**5,165**	–
Written off	**4,484**	–
As at 31 December	**(86,244)**	(84,198)

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 Group considered difficult to recover.

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

	As at 31 December	
	2017	2016
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**523,633**	383,817
KZT	**93,930**	79,184
USD	**56,363**	91,181
Others	**8,718**	9,562
	682,644	563,744

(g) Trade receivables of RMB58,700,000 (2016: RMB56,027,000) have been pledged for the Group's borrowings.

5. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**92,739**	66,893
Prepayment for taxes	**23,238**	43,370
Total non-financial assets	**115,977**	110,263
Deposits and other receivables	**63,908**	61,461
Receivable relating to disposal of certain equipment	**86,976**	84,401
Less: provision for other receivables	**(5,217)**	(7,593)
Total financial assets	**145,667**	138,269
	261,644	248,532
Non-current		
Advances to suppliers (Non-financial assets)	**6,708**	6,708
Prepayment for operating lease (Non-financial assets)	**15,631**	16,977
	22,339	23,685
Total	**283,983**	272,217

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

	As at 31 December	
	2017	2016
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**119,529**	117,841
KZT	**5,993**	7,666
SGD	**196**	381
USD	**18,528**	11,651
Others	**1,421**	730
	145,667	138,269

(b) Deposits and other receivables are financial assets classified under "loans and receivables". The fair values of other receivables approximated their carrying values.

(c) Movements in impairment of other receivables representing those that were part due are as follows:

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**(7,593)**	(7,441)
Provision	**–**	(152)
Reversal	**372**	–
Written off	**2,004**	–
As at 31 December	**(5,217)**	(7,593)

(d) As at 31 December 2017, non-current prepayments amounting to RMB6,565,000 (2016: RMB7,040,000) has been pledged for the Group's borrowings.

6. SHARE CAPITAL

	Number of shares	**Share capital**
	(Thousands)	***RMB'000***
Authorised shares:		
Ordinary shares of USD0.0002 each as at 31 December 2017 and 2016	2,000,000	1,295
Issued and fully paid		
Issued shares:		
As at 31 December 2015	1,534,790	974
As at 31 December 2016	1,534,790	974
Add: share options exercised	402	1
As at 31 December 2017	**1,535,192**	**975**

7. TRADE PAYABLES

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Up to 6 months	**253,763**	209,606
6 months to 1 year	**43,535**	66,274
1 – 2 years	**59,227**	100,124
2 – 3 years	**64,560**	89,033
Over 3 years	**95,888**	27,886
	516,973	492,923

8. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest payable	**4,529**	4,742
Rental fee payable	**3,381**	4,470
Others	**38,027**	20,620
Total financial liabilities	**45,937**	29,832
Customer deposits and receipts in advance	**20,166**	4,134
Payroll and welfare payable	**37,775**	43,347
Taxes other than income taxes payable	**40,000**	32,776
Total non-financial liabilities	**97,941**	80,257
	143,878	110,089

9. FINANCE EXPENSES, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest income on short-term bank deposits	**643**	1,772
Total finance income	**643**	1,772
Net foreign exchange losses on financing activities	**(1,018)**	(47)
Interest expense:		
– Bank borrowings	**(10,774)**	(13,410)
– Bank charges and others	**(3,952)**	(6,025)
– Liability component of convertible bonds	**(14,576)**	(12,591)
Total finance expenses	**(30,320)**	(32,073)
Net finance expenses	**(29,677)**	(30,301)

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**19,617**	14,180
Deferred income tax	**(5,742)**	(2,910)
Income tax expense	**13,875**	11,270

Notes:

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

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

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

d. The subsidiaries established in Singapore are subject to Singapore profits tax rate of 10%.

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 2017 and 2016, certain subsidiaries established in the western area of the PRC were subject to a preferential tax rate of 15% while other subsidiaries established in the PRC are subject to income tax rate of 25%.

f. The corporate income tax rate for subsidiaries established in Turkmenistan, Kazakhstan, Canada, Indonesia, Russia, America and the United Arab Emirates are 20%, 20%, 25%, 25%, 30%, 35% and 0% respectively.

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) before income tax	**17,135**	(303,384)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(4,539)**	(51,052)
Expenses not deductible for taxation purposes	**6,202**	2,738
Utilisation of previously unrecognised tax losses	**(12,944)**	(1,580)
Losses not recognised as deferred tax assets	**25,156**	51,283
Withholding tax paid in foreign jurisdiction	**–**	9,881
Income tax expense	**13,875**	11,270

11. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2017 and 2016.

12. EARNINGS/(LOSSES) PER SHARE

(a) Basic

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Gain/(loss) attributable to equity owners of the Company	**5,541**	(292,346)
Weighted average number of ordinary shares in issue (thousands)	**1,534,838**	1,534,790
Basic earnings/(losses) per share (RMB per share)	**0.004**	(0.190)

(b) Diluted

Diluted losses per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. However, when calculating the dilutive losses per share for the year ended 31 December 2017, both of the convertible bonds and share options were excluded as anti-dilutive factors for the period.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Earnings/(Losses)		
Gain/(loss) attributable to equity owners of the Company	**5,541**	(292,346)
Interest expense on convertible bonds	**Anti-dilutive**	Anti-dilutive
	5,541	(292,346)
Weighted average number of ordinary shares in issue (thousands)	**1,534,838**	1,534,790
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**3,823**	Anti-dilutive
	1,538,661	1,534,790
Diluted earnings/(losses) per share	**0.004**	(0.190)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

During the Reporting Year, the global crude oil market initially declined and gradually picked up throughout the year and revealed an upward trend in general despite the volatility. In spite of the phasing effects brought by the uncertainties, given the profound adjustments in the past three years, the overall demand and supply have almost reached an equilibrium. The international oil and gas market has bottomed out and continued to pick up. It is expected that this trend will be further strengthened in 2018. In pace with the trend of the global oil price, the oil companies gradually increased their exploration and development expenditures in 2017, but the extent and momentum of growth was limited and varied market performance was recorded in different regions. In particular, after surviving more than two years of low oil price, oil companies have generally introduced the business philosophy of cost saving and continued to implement it. Not only did they have higher requirements on quality of service regarding external tender projects, the pricing of oil-field service remained relatively low. However, significant improvement was seen in terms of workload.

During the Reporting Year, the Group seized the favourable timing when oil companies resumed their capital expenditures to actively penetrate into the traditional markets and greatly expand into new business segments so as to generate good growth momentum following the bottoming out of the Group's overall business. First, the Group strengthened the relationship with its customers in the traditional market to pay closer attention to customer needs and timely grasped the latest market information on policies, technologies and competitors. By taking a pioneer move and responding quickly, the Group sought and seized the market opportunities in the course of embracing changes on its own initiatives. In the PRC market such as Tarim Oilfield and Sichuan Oilfield and the Caspian Sea Region in Kazakhstan, the workload of traditional projects including drilling services and well completion significantly increased. Second, the Group streamlined the organisation and reduced the management hierarchy level, placing the focus of management on the market and quality of service. While the cost of management was reduced, the quality of service, customer satisfaction and project efficiency remained unchanged. Third, the Group strove to expand into new markets and explore new business segments in pursuit of new markets and new opportunities. In 2017, in addition to securing new trade orders from regions like Russia and Turkmenistan, the Group made a breakthrough and secured the workover service contract at Maysan Oilfield in Iraq. Not only is it conducive to rationalising the Group's business layout, it also helps lay a solid foundation for future development. Fourth, the Group continued to implement cost control unswervingly and optimised the organisational structure to fully and continuously implement "cost reduction and efficiency improvement" on a top-down management approach with a view to enhancing the operational and management standard of the Group.

During the Reporting Year, the Group realised revenue of RMB1,100.6 million, representing an increase of RMB252.5 million or 29.8% as compared with that in the previous year. Revenue from both the PRC market and overseas markets revealed significant growth, among which, revenue from the PRC market amounted to RMB634.5 million, representing an increase of RMB154.2 million or 32.1% as compared with that in the previous year; and revenue from the overseas markets amounted to RMB466.1 million, representing an increase of RMB98.3 million or 26.7% as compared with that in the previous year. As to business segments, revenue from oil reservoir services amounted to RMB614.7 million, representing an increase of RMB69.3 million or 12.7% as compared with that in the previous year; revenue from drilling services amounted to RMB320.5 million, representing an increase of RMB138.4 million or 76.0% as compared with that in the previous year; revenue from well completion services amounted to RMB165.5 million, representing an increase of RMB44.9 million or 37.2% as compared with that in the previous year.

Revenue Analysis

During the Reporting Year, the Group realised revenue of RMB1,100.6 million, representing an increase of RMB252.5 million or 29.8% as compared with that in the previous year. The increase in revenue was attributable to the recovery of the oil-field service industry, the Group's active market expansion efforts and the improvement of overall quality of service and efficiency. Accordingly, revenue from the three major business segments grew significantly, among which, percentage of revenue from oil reservoir services, drilling services and well completion services was 55.9%, 29.1% and 15.0% respectively, up by 12.7%, 76.0% and 37.2% as compared with those in the previous year respectively. As a traditional principal business of the Group, the oil reservoir services segment remained the largest contributor to revenue. However, revenue from well completion and drilling services also grew significantly. In particular, as the oil companies increased the capital expenditures on exploration and development of well construction, the Group's revenue from drilling services revealed significant growth. The analysis of the Group's revenue by business segment is as follows:

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*(%)*
Reservoir	**614,690**	545,426	12.7%
Drilling	**320,489**	182,099	76.0%
Well Completion	**165,463**	120,606	37.2%
Total	**1,100,642**	848,131	29.8%

Reservoir Services Segment

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*(%)*
Revenue			
Overseas	**292,002**	254,459	14.8%
PRC	**322,688**	290,967	10.9%
Total	**614,690**	545,426	12.7%

During the Reporting Year, revenue from the oil reservoir services segment amounted to RMB614.7 million, representing an increase of RMB69.3 million or 12.7% as compared with that in the previous year, among which, revenue from the overseas markets amounted to RMB292.0 million, accounting for 47.5% of the total revenue from oil reservoir services; and revenue from the PRC market amounted to RMB322.7 million, accounting for 52.5% of the total revenue of oil reservoir services. The Group's oil reservoir services comprise oil reservoir research services, dynamic monitoring service, oil testing and oil recovery service, oil and gas operations maintenance service and oil extraction process service. The reservoir services segment aims to maximise the economic benefits of customers by providing quality solutions and systematic oil recovery services which are well recognised by customers.

During the Reporting Year, the oil-field service segment of the Group focused on enhancing oil recovery and solving the problems of customers in the course of production and development of existing oilfields. As a result, the Group successfully made the following achievements in certain markets.

1. The Group successfully introduced the ultrasound plug removal technology to South China Sea regional market and Kazakhstan market. As a new green and environmentally friendly oil stimulation process, the ultrasound plug removal technology can be widely applied in the water well stimulation, oil well stimulation and green areas at low cost with significant stimulation results and no damage to the reservoir layers upon multiple applications. Upon implementation of the plug removal process in South China Sea, daily oil stimulation per single well increased to 49 barrels and liquid stimulation of the target plug removal layer increased by 38.2%, representing growth of 8.7 times, thus generating good economic benefits to customers.

2. The Group attained initial success at Tarim Oilfield for the implementation of the optic fibre plus electric cable integrated monitoring process, which is able to collect the pressure and temperature of the target layer and monitor the cross-sectional well casing temperature at the same time. One well, upon implementation of the process, has been operating steadily for four months and the data accuracy completely meets the designed requirements. The process is set to be widely promoted and applied at Tarim Oilfield.

3. The Group introduced, for the first time, the water discharge/gas recovery compressor and gas lifting process to a gas field in China. Reservoirs in the region are faced with rising bottom water level and descending output or even total suspension of production. This process can effectively increase gas well output, slow down output lapse and eventually extend the development cycle of the gas field.

4. The Group implemented, for the first time, the deep oil well plugging process at an oilfield in Kazakhstan. The oilfield is in the process of development with fast rising level of water in the reservoir and a fairly high output lapse rate. The cement plugging used by customers in the past could only achieve certain effects in the near well zone but was unable to solve the issue of water covering the surface of the reservoir. The Group applied the process in three wells at the oilfield. Initial oil stimulation upon completion reached 1,460 barrels, thus generating direct economic benefits to customers.

The application of these processes and techniques that target at the difficulty in oil recovery in the course of subsequent development of oilfields has greatly enriched the contents of the products and technologies of the Group's oil reservoir services segment. It has also strengthened the Group's competitiveness in satisfying oil fields' demand for control of development costs and higher oil recovery. Looking ahead, these processes and techniques will be applied in more regions, thus generating greater economic benefits.

Drilling Services Segment

	For the year ended 31 December 2017 RMB'000	2016 RMB'000	Change (%)
Revenue from Drilling Services			
Overseas	**118,618**	56,176	111.2%
PRC	**201,871**	125,923	60.3%
Total	**320,489**	182,099	76.0%

During the Reporting Year, revenue from drilling services segment amounted to RMB320.5 million, representing an increase of RMB138.4 million or 76.0% as compared with that of the previous year, among which, revenue from the overseas market amounted to RMB118.6 million, up by 111.2% year-on-year and accounting for 37.0% of the total revenue from drilling services; and revenue from the PRC market amounted to RMB201.9 million, up by 60.3% year-on-year and accounting for 63.0% of the total revenue from drilling services. The Group's drilling services comprise drilling rig service, work over rig service, vertical drilling technology service, horizontal drilling technology service, side tracking technology service, under balance drilling technology service, fine managed pressure drilling (FMPD) technology service, cementing services and drilling fluid services.

During the Reporting Year, benefiting from oil companies' increased investment in well construction, the drilling services business of the Group recovered rapidly. In particular, the drilling business at Tarim Oilfield in China and the workover business in Kazakhstan resumed the quickest. In addition, given the increasing workload, the Group made material breakthroughs in a number of areas.

1. The testing centre of Xinjiang SPT Engineering Service Co., Ltd. of the Group was granted an approval certificate by China National Accreditation Service for Conformity Assessment ("CNAS"), signifying that the testing centre has become a standard inspection laboratory recognised by the State where its hardware facilities, management standards and testing capabilities meet the internationally recognised standard requirements and its testing reports issued are internationally recognised. Occupying a site area of approximately 1,000 square metres, the laboratory testing centre has a range of high-quality and high-performance testing apparatuses and equipment, which meet the standards set by American Petroleum Institute including Fann75 high temperature high pressure rheometer, OFITE high temperature high pressure filter press and gradiometer. The areas recognised by CNAS are the five major testing projects namely crude oil, drilling liquid, oilfield chemicals, water and chemical reagents. Not only do these facilitate the Company's response to customer demand, they can also expand the business and strengthen the Group's market competitiveness. Currently, the testing centre has secured a three-year contract for drilling liquid testing at Tarim Oilfield.

2. The plugging technology developed by the engineering and technology centre of the Group was applied successfully in the Chongqing region. The target well experienced significant leakage of drilling fluid in the course of drilling with oil-based slurry leaking of more than 200 cubic metres. More than 60 tonnes of local slurry plugging materials were used to tackle the problem but the effect was minimal. The HyperLCasing technology of the Group uses high temperature resistant and high pressure resistant natural materials as the materials for leakage treatment. In particular, it can be directly added to the slurry via bottom hole assembly without tripping, placing bare drill rods and bypass valves which is simple and easy to operate without impeding the performance of slurry. Once it enters the leakage layer, it will quickly form an effective and strong film to prevent leakage, which significantly increases the completeness and stability of borehole, thus enjoying a series of advantages such as reducing one layer of technology casing and enhancing the potential of well cementing quality. Under the guidance of the Group's experts, successful plugging was achieved at the target well using the Group's process and was recognised and praised by customers.

3. The Group increased drilling workload at Ordos by 283%. The Group shared its production process and management experience at several service provider conferences upon the request of customers, and completed drilling for 23 wells during the year, representing a significant increase as compared with the workload last year.

4. The Group made material breakthroughs in securing orders from the drilling turnkey project in Sichuan's shale gas market and workover services at Maysan Oilfield in Iraq.

Well Completion Services Segment

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from Well Completion Services			
Overseas	**55,505**	57,180	(2.9%)
PRC	**109,958**	63,426	73.4%
Total	**165,463**	120,606	37.2%

During the Reporting Year, revenue from well completion services segment amounted to RMB165.5 million, representing an increase of RMB44.9 million or 37.2% as compared with that of the previous year, among which, revenue from the overseas market amounted to RMB55.5 million, accounting for 33.5% of the total revenue from well completion services; and revenue from the PRC market amounted to RMB110.0 million, accounting for 66.5% of the total revenue from well completion services. The Group's well completion services comprise trading and relevant service of well completion tools and stimulation and fracturing service.

During the Reporting Year, in addition to seizing the opportunities arising from the market recovery, the well completion services segment of the Group endeavoured to guarantee the success rate for market orders in its core regions. While stepping efforts in developing its own R&D tools and products, the Group further enhanced the diversification of the well completion tools and achieved success in certain markets. For instance, at the factory in Singapore, the 5"10K and 5"15K large-bore PHS packers were delivered to the customers in Sichuan, China for their application; 2 7/8"10k Inc718 material safety valves were sold to Afghanistan; and North factory's SLIP ON oil swellable packers were sold to Baker Hughes, Malaysia. With continued R&D efforts and improvement, the annular pressure control 3E technology system was applied in five other wells at the Daqing Oilfield this year following its application in two wells last year, which demonstrated promising results.

Market Analysis

During the Reporting Year, the global oil market revealed a V-shaped trend. In the first half of the year, the global crude oil price zigzagged downwards where the price of Brent crude oil futures fell from its highest of US$58.37 per barrel to its lowest of US$44.35 per barrel. The global oil market experienced a turnaround in the second half of the year. The crude oil market picked up with less volatilities. Since November, the oil price has resumed to the level at the beginning of the year and continued to zigzag upwards. Since mid-December, the oil price has surged and continued to go up. Market sentiments began to pick up substantively with the strong performance of oil price. As at the end of the Reporting Period, the Brent global crude oil prices rallied to its highest of US$66.62 per barrel.

The rise in the global oil price was mainly attributable to the improvement in the demand and supply of crude oil, which was primarily due to: 1) the OPEC's ongoing execution of the Output Reduction Agreement; 2) the slower pace of production of shale gas in the United States; 3) the decreasing inventory of crude oil in the United States; and 4) the geopolitical factors such as the referendum in Iraq and possible sanction of Iran. The steady growth in the global oil price contributed to the recovery of the oil-field service industry, resulting in a rally in investment in oil and gas exploration and development. However, during the Reporting Year, the extent of rally was limited. In addition, faced with the changes in the competition in the global oil-field service market, there was a marked differentiation in regional market development with intensifying competition.

Overseas Markets

The Group's major overseas markets mainly cover Central Asia, Southeast Asia and the Middle East where oil resources are abundant and exploration activities are active. During the Reporting Year, driven by the recovery of oil price, customers in the overseas markets slowly resumed their investments and the exploration and development workload increased. Couple with the rally and gradual stability in the exchange rate of Tenge ("KZT") against USD, the overall scale of the Group's operations in the Central Asia region picked up considerably in 2017. In addition, as the operations in the Middle East and Southeast Asia regions are settled in USD in general, the revenue in these regions basically maintained a relatively stable level as compared with the level in the same period of last year, and the market scale expanded from 2016.

During the Reporting Year, as for the overseas markets, the Group took proactive measures to seize the opportunities arising from the global price rally and resumption of market demand so as to stabilise the production and operation conditions. First, it continued to strengthen its business expansion through cost reduction and efficiency enhancement of oil field development. The Group focused on developing high recovery rate related businesses and successfully introduced the application of the ultrasound plugging technology to the Kazakhstan market. Second, the Group stepped up efforts in exploring the opportunities in the existing markets to actively secure projects. The Kazakhstan market outperformed the annual target with a growth rate of 52.1% in revenue as compared with that of 2016; the Indonesia and Canada markets achieved growth of varying degrees as compared to 2016. Third, the Group actively expanded into new markets and new businesses. At the beginning of the year, the Group obtained the market access approval issued by the Petroleum Administration Bureau of Maysan, Iraq. In the second half of the year, the Group officially won the bid for the two-year service contract regarding the workover rig of Iraq's Maysan project. Currently, the project is under preparation and will commence operation in 2018. In May 2017, the Group secured the monitoring service contract from Sierra Oil and Gas and the liner hanger and stage collar contract from Mingbulak Company in Uzbekistan, and initially entered into a long-term letter of intent with customers, marking a milestone achievement of the Group in market expansion within the region. The Group also made some breakthroughs in the Russia market and initially tapped into the environment business.

PRC Market

The sluggish oil price since 2014 has dampened the upstream operations of the three PRC oil giants namely PetroChina Company Limited ("PetroChina"), China Petroleum & Chemical Corporation ("Sinopec") and China National Offshore Oil Corporation ("CNOOC") with decreasing production. At the same time, oil imports continued to grow. In 2017, the degree of reliance on imports of crude oil of China increased by 3 percentage points to 67.4%. Given the rebound in oil price, on the one hand, the increase in the reliance on imports forced oil companies to increase capital expenditures to stabilise the scale of production. On the other hand, as the operating results of the three PRC oil giants namely PetroChina, Sinopec and CNOOC improved significantly in 2017, oil companies were more willing to increase capital expenditures. According to the 2017 interim report of PetroChina, the capital expenditures for the exploration and production segment of PetroChina amounted to RMB45,303 million for the first half of 2017, representing an increase of 14.5% compared with the first half of 2016. According to the 2017 interim report of Sinopec, the capital expenditures for the exploration and production segment of Sinopec amounted to RMB6,870 million for the first half of 2017, representing an increase of 32.9% compared with the first half of 2016.

In 2017, the natural gas related exploration and development in the PRC saw a pickup in its speed. According to the Strategic Action Plan for Energy Development (2014-2020) published by the State, by 2020, the natural gas consumption in the PRC will reach 360.0 billion cubic metres, representing an increase of 41.7% as compared to 2016 and accounting for 10% of the primary energy. PetroChina made significant breakthroughs in natural gas exploration in Tarim and Tsaidam, while gradually pushed ahead the non-conventional oil and gas exploration. Sinopec accelerated the shale gas capacity expansion in Fuling and the natural gas capacity expansion in Hangjin County, Northern China.

During the Reporting Year, while seizing favourable opportunities arising from the gradual pickup of the global oil price and market recovery, the Group actively extended the existing markets in the PRC and expanded into the new markets. The Group also stepped up efforts in the following areas and made remarkable results.

- Ensure the recovery of workload regarding the existing products and technologies: During the Reporting Year, the Group's well completion tool manufacturing capabilities and service level in the PRC market were further enhanced. The well completion business in Tarim Oilfield and Sichuan Oilfield rapidly recovered. The well completion services in the PRC market grew by 73.4% year-on-year; drilling workload in Changqing Oilfield grew by 283%; and there were 23 wells which completed drilling during the year. In addition, the Group closely monitored the opportunities arising from the strong growth of the non-conventional natural gas market in the PRC market. At the shale gas block in Changning, Sichuan, the Group successfully expanded and completed the rotary steerable service for 10 wells. Another breakthrough and milestone achievement was that, after one year of project tracking, the Group successfully landed the shale gas turnkey drilling project in February 2018.

- Accelerate the marketing of new featured products and technologies to satisfy the customers' demand for cost reduction and efficiency enhancement in the slow recovery of the industry. The Group attained initial success at Tarim Basin for the implementation of the optic fibre plus electric cable integrated monitoring process, which is able to collect the pressure and temperature of the target layer and monitor the cross-sectional well casing temperature at the same time. The Group introduced, for the first time, the water discharge/gas recovery compressor and gas lifting process to a gas field in Xinjiang. In early December 2017, SPT's HyperLCasing drilling and plugging technology was successfully applied for the first time at a shale gas block of Sinopec in Chongqing where the technology was proved to have a promising future. In December 2017, the ultrasound removal technology was applied at an oilfield in South China Sea. As a result, daily oil stimulation per single well increased to 49 barrels and liquid stimulation of the target plug removal layer increased by 38.2%, representing growth of 8.7 times. It was a huge success. In 2018, CNOOC will widely promote the use the such technology in other blocks.

Based on the foregoing, after a year's effort, we have survived the toughest industry cycle and gradually displayed our competitiveness and further established the direction of our future development under the condition of survival of the fittest. We are confident that, in 2018, while seizing the industry opportunities, we will enhance the organic capabilities of our products through satisfying customers' demand and focus on developing core technologies to turn opportunities into business achievements so as to maintain sustainable growth of our business and profitability.

R&D and Manufacturing

During the Reporting Year, the scientific and research division of the Group tackled the new technology challenges through independent innovation and incubation based on specific projects. In addition to the enhanced R&D and market application of the submersible direct-drive screw pump oil recovery process, FulconFrac™ full-length diversion fracturing technology and new well completion tools in the first half of the year, new breakthrough was made by the Group in areas of ultrasound stimulation, drilling plugging and drilling/well completion process.

Following the successful application of the submersible direct-drive screw pump oil recovery process and FulconFrac™ full-length diversion fracturing technology in the Kazakhstan market at the beginning of the year, the project technology centre successfully introduced the ultrasound stimulation technology to Kazakhstan market and China's Changqing market and South China Sea market, and smoothly completed the trial run of eight mines, demonstrating significant stimulation effects. For instance, a well at an oilfield in Kazakhstan recorded oil production of only 0.9 tonnes as at the end of August 2017. Following the implementation of ultrasound stimulation, the daily oil production increased to 5.2 tonnes. As at the end of December 2017, the net increase in crude oil amounted to 508 tonnes. At an oilfield in South China Sea, daily oil production of a well increased from 5 barrels to 54 barrels after the implementation of ultrasound stimulation, representing a net increase of 49 barrels of crude oil. In addition, the drilling slurry plugging technology attained initial success at a shale gas block in Chongqing. The technology brought an initial victory as compared to the traditional process which was unable to achieve plugging in the 20-day period and was thus named the most effective plugging technology by customers.

The well completion manufacturing centre focused on developing low-cost and sustainable new tools ancillary to well completion with high market demand, and filed the application for two invention patents and six utility model patents, among which, some scientific and research achievements have been launched to the market, generating significant economic benefits. For instance, at the factory in Singapore, 5"10K and 5"15K large-bore packers were delivered to the clients in Sichuan for their application; 2 7/8"10k Inc718 material safety valves, SLIP ON oil swellable packers and the 5.5" fully soluble bridge plugs passed the third-party testing as well as a contract was secured. With the further enhancement of the annular pressure control 3E technology system, it was applied in five wells at the Daqing Oilfield in 2017 as compared to two wells last year, which further demonstrated the advanced level, applicability and effectiveness of the technology. Full-scale market launch of the technology is expected in 2018.

After three years of efforts, Xinjiang SPT Engineering Service Co., Ltd., a subsidiary within the Group, has developed a high performance environmentally friendly water-based drilling fluid/well completion fluid system that can satisfy the requirements of piedmont drilling project at the Tarim Oilfield at the end of 2017, among which, the highest density of drilling fluid is 2.60g/cm^3 and the maximum temperature resistance is 200℃ with stronger resistance to cuttings, cement and brine pollution, which offers better protection to the reservoir; the highest density of well completion fluid is 2.00g/cm^3 and the maximum temperature resistance is 180℃ with good stability in terms of hot soak 15-day subsidence. Currently, the system has passed the testing of Tarim Oilfield Branch Company's quality testing centre. All the parameters outperformed its peer products available in the market and surpassed the Requirements on DB 65/T 3997-2017 Drilling Solid Waste Integrated Utilisation Pollution Control at Oil and Gas Fields.

Human Resources

Based on the business growth needs, the Group has adopted the following human resources measures:

In response to the changes in the external market environment, coupled with the strategic growth needs, during the year, the Group further optimised the organisational structure and reduced the management hierarchy to achieve fast response, flexible and efficient operations. At the same time, the Group redefined and clarified its structure and reporting line functions, stated the duties and responsibilities of each department and each unit under the Group, and supervised and evaluated the specific implementations.

To further enhance the management capabilities of the senior management, during the year, the Group pushed ahead the implementation of the comprehensive appraisal of the senior management team.

To enhance the core technology capabilities, the Group optimised the talent structure and continued to introduce elite talents with high qualifications. At the same time, through introducing reasonable scientific selection standards, internal scientific talent training programme and other training programmes tailored for employees of different levels and different positions, the Group offered more possibilities to the development of its internal key personnel.

In 2017, the Group stepped up the human resources efforts in new market expansion. Now, these efforts have begun to bear fruit. Meanwhile, the Group inclined to support its key projects by adjusting organisational design and allocation of professionals so as to help determine relevant responsibilities and ensure the smooth operation of the key projects.

The actual costs of the Group's human resources for the year were controlled within the budget amount set at the beginning of the year. As at 31 December 2017, the Group had a total of 3,411 employees, up by 398 employees from 3,013 employees as at 31 December 2016.

Our Plans

The Group considers that, as the market environment further improves, the investment in oilfield exploration will continue to pick up. After almost three years of correction, oil price began to zigzag upwards since the second half of 2017. The weak oil-field service providers will be eliminated under the condition of survival of the fittest with marked differentiation in regional market development. Objectively speaking, it has provided room and opportunities for a new industry and market layout. In conclusion, the year 2018 will be a year of upside for the oil-field service industry. Performance of oil-field service companies will significantly improve as oil price further increases. In this regard, in addition to further consolidating and expanding the market share of its traditional markets and products, the Group plans to focus its efforts on the following areas:

- The Group will centralise its quality resources with focus on developing businesses with material market opportunities and allocate its limited resources to the big projects to achieve exponential growth of the Group.

- The Group will strengthen the market development and customer management efforts for core customers. Setting a firm foot in the market and better serving the customers, the Group endeavours to establish a new customer relationship through legal compliance, work safety, environmental protection and technology innovation.

- The Group will step up the investment and management efforts in the integrated turnkey project of shale gas and fully capitalises on its own strengths of strong technology and comprehensive business lines to successfully achieve systematic operation of projects as part of its core competitiveness.

- The Group will increase the investment in scientific research and technology innovation, grasp the core direction of technology advance and make breakthrough in innovation. Through introducing, integrating with and creating comprehensive technology capabilities, technologies are to be blended in with the actual operations effectively.

- The Group will accelerate growth of business through strengthening the teambuilding of talents. While introducing more high-end talents to its core team, the Group will offer a development platform and career ladder, and increase investment in training to greatly enhance the talent capabilities.

- The Group will continue to push ahead its efforts in the new business areas such as environmental protection, utilisation of natural gas and geothermal energy to develop new and sustainable profit growth areas for the Group.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, revenue of the Group was RMB1,100.6 million, representing an increase of RMB252.5 million, or 29.8%, as compared with that of RMB848.1 million for the previous year. The increase was mainly due to the slight increase in crude oil prices, which led to the recovery of the industry investment and the picking up of the oil-field services market.

Other gains/(losses), net

For the year ended 31 December 2017, other gains, net of the Group were RMB36.6 million, while other losses, net for the previous year were RMB30.0 million. The net gains were mainly due to exchange gain in USD denominated liabilities held by a PRC subsidiary as a result of strengthening of RMB against USD.

Material costs

For the year ended 31 December 2017, material costs of the Group were RMB235.0 million, representing an increase of RMB57.3 million, or 32.2%, as compared with that of RMB177.7 million for the previous year. The increase of material costs was mainly due to the picking up of operating activities of the Group.

Employee benefits expenses

For the year ended 31 December 2017, employee benefit expenses of the Group were RMB367.0 million, representing a decrease of RMB9.2 million, or 2.4%, as compared with that of RMB376.2 million for the previous year. The decrease reflected the efforts of the Group to cut labour costs by layoff of excessive employees and reduction of salary level.

Operating lease expenses

For the year ended 31 December 2017, operating lease expenses of the Group was RMB69.4 million, representing an increase of RMB16.6 million, or 31.4%, as compared with that of RMB52.8 million for the previous year. It was mainly due to the picking up of operating activities of the Group.

Transportation costs

For the year ended 31 December 2017, transportation costs of the Group were RMB19.0 million, representing a decrease of RMB3.7 million, or 16.3%, as compared with that of RMB22.7 million for the previous year. The decrease was mainly due to the efforts taken by the Group to cut costs.

Depreciation and amortisation

For the year ended 31 December 2017, depreciation and amortisation of the Group was RMB92.2 million, representing a decrease of RMB25.7 million, or 21.8%, as compared with that of RMB117.9 million for the previous year. The decrease was mainly because the equipment impaired and fully depreciated in 2016 was not depreciated in the Reporting Year.

Technical service expenses

For the year ended 31 December 2017, technical service expenses of the Group were RMB188.3 million, representing an increase of RMB81.1 million, or 75.7%, as compared with that of RMB107.2 million for the previous year. The increase was mainly due to the expansion of operating activities of the Group.

Reversal/(impairment losses) of assets

For the year ended 31 December 2017, reversal of impairment loss of assets of the Group was RMB22.9 million while impairment loss of assets was RMB82.6 million in the previous year. The reversal of impairment loss of assets was mainly due to the reversal of inventory impairment.

Others

For the year ended 31 December 2017, other operating costs of the Group were RMB142.5 million, representing a decrease of RMB6.7 million, or 4.5%, as compared with that of RMB149.2 million for the previous year. The decrease reflects the efforts taken by the Group to reduce the general administrative expenses.

Operating profit/(loss)

As a result of the aforementioned changes, the Group's operating income during the Reporting Year was RMB46.8 million, compared with the operating loss of RMB268.1 million for the previous year.

Finance expenses, net

For the Reporting Year, the Group's finance expenses (net) was RMB29.7 million, representing a decrease of RMB0.6 million, or 2.0%, as compared with that of RMB30.3 million for the previous year. The decrease was mainly due to the decline of interest rates.

Income tax expense

For the Reporting Year, income tax expense was RMB13.9 million, compared with the income tax expense of RMB11.3 million for the previous year. The income tax expense was as a result of the picking up of the operating activities of the Group.

Profit/(losses) for the year

As a result of the explanations above, the Group's profit for the Reporting Year was RMB3.3 million, while net loss amounted to RMB314.7 million for the previous year.

Profit/(loss) attributable to equity owners of the Company

For the Reporting Year, profit attributable to equity owners of the Company was RMB5.5 million, while loss attributable to equity owners of the Company amounted to RMB292.3 million for the previous year.

Property, plant and equipment

As at 31 December 2017, property, plant and equipment was RMB348.6 million, representing a decrease of RMB44.3 million, or 11.3%, from RMB392.9 million as at 31 December 2016. The change was mainly due to the disposal of certain equipment and continuing depreciation of existing equipment.

Land use rights

As at 31 December 2017, the carrying value of land use right was RMB21.3 million, representing a decrease of RMB0.5 million, or 2.3%, from RMB21.8 million as at 31 December 2016. This was mainly due to the continuing amortisation of existing land use rights.

Intangible assets

As at 31 December 2017, intangible assets were RMB23.2 million, representing a decrease of RMB12.5 million, or 35.0%, from RMB35.7 million as at 31 December 2016. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2017, deferred income tax assets were RMB141.9 million, representing an increase of RMB3.1 million, or 2.2%, from RMB138.8 million as at 31 December 2016. The increase was mainly due to the recognition of deferred income tax assets related to unutilised loss.

Prepayments and other receivables

As at 31 December 2017, non-current portion of prepayments and other receivables was RMB22.3 million, representing a decrease of RMB1.4 million, or 5.9%, from RMB23.7 million as at 31 December 2016, while current portion of prepayments and other receivables was RMB261.6 million, representing an increase of RMB13.1 million, or 5.3%, from RMB248.5 million as at 31 December 2016. The increase was mainly due to the disposal of certain equipment of the Group.

Inventories

As at 31 December 2017, inventories were RMB337.0 million, representing a decrease of RMB34.6 million, or 9.3%, from RMB371.6 million as at 31 December 2016. The decrease was mainly due to the better control in the management of inventories.

Trade and notes receivables/Trade payables

As at 31 December 2017, trade and notes receivables amounted to RMB682.6 million, representing an increase of RMB118.9 million, or 21.1%, from RMB563.7 million as at 31 December 2016. The increase was mainly due to the increase of revenue realised during the Reporting Year.

As at 31 December 2017, trade payables amounted to RMB517.0 million, representing an increase of RMB24.1 million, or 4.9%, from RMB492.9 million as at 31 December 2016. The increase was mainly due to the increase of materials purchases and subcontracting expenses.

Liquidity and capital resources

As at 31 December 2017, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB149.6 million, representing a decrease of RMB113.9 million, or 43.2%, from RMB263.5 million as at 31 December 2016. The decrease was mainly due to operating activities expansion of the Group, the repayment of bank borrowings and equipment purchases.

As at 31 December 2017, the Group's short-term borrowings and current portion of long-term borrowings were RMB263.2 million while the long-term borrowings were RMB18.3 million. As at 31 December 2016, the Group's short-term borrowings and current portion of long-term borrowings were RMB279.2 million while the long-term borrowings were RMB103.1 million.

As at 31 December 2017, the Group's gearing ratio was 28.8%, representing a decrease of 9% as compared with 37.8% as at 31 December 2016. Gearing ratio was calculated as total borrowings divided by total equity. Total borrowings included long-term borrowings, short-term borrowings and current portion of long-term borrowings.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2017, the total number of ordinary shares of the Company in issue was 1,535,192,332 shares (31 December 2016: 1,534,790,332 shares). As at 31 December 2017, equity attributable to the equity owners of the Company was RMB880.0 million, representing a decrease of RMB35.3 million, or 3.9%, as compared with RMB915.3 million as at 31 December 2016.

Significant investment held

As at 31 December 2017, 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 2017, 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 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Property, plant and equipment	**–**	107
Long-term prepayments	**6,565**	7,040
Trade and note receivables	**73,200**	56,027
Land use right	**–**	21,758
Restricted bank deposits	**–**	1,500

Convertible bonds

The movement of the convertible bonds during the Reporting Year is presented as below:

	2017 *RMB'000*
Liability component as at 31 December 2016	**83,466**
Add: Interest expense in 2017	**14,576**
Less: Interest paid and payable	**(2,940)**
Add: Exchange difference	**(5,316)**
Liability component as at 31 December 2017	**89,786**

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2017, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2017, the Group had no capital expenditure commitments, while operating lease commitments were mainly lease of offices, warehouses and equipment with the amount of RMB57.6 million.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the shareholders of the Company who are entitled to attend the forthcoming annual general meeting to be held on 12 June 2018, the register of members of the Company will be closed from 7 June 2018 to 12 June 2018 (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 6 June 2018.

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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 24 August 2017, the Board has approved the appointment of Mr. Wang Guoqiang as the chief executive officer of the Company in place of Mr. Jiang Qingsong with effect from 1 September 2017 and therefore Mr. Wang Guoqiang has been the chairman of the Board and chief executive officer of the Company since 1 September 2017. 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 above, the Company was in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2017. 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 2017.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the year ended 31 December 2017, 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 of the Company 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 Reporting Year.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2017 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.sptenergygroup.com), and the 2017 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, 20 March 2018

As at the date of this announcement, the executive directors are Mr. Wang Guoqiang, Mr. Ethan Wu, Mr. Liu Ruoyan and Mr. Li Qiang; 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*