SPT Energy Group Inc.

華油能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1251)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

INTERIM RESULTS HIGHLIGHTS

For the six months ended 30 June 2018, the Group's revenue was RMB540.6 million, representing an increase of RMB121.8 million, or 29.1%, from RMB418.8 million for the comparative period of the previous year.

The profit attributable to equity owners of the Company for the six months ended 30 June 2018 was RMB19.7 million, while the loss attributable to equity owners of the Company for the same period of the previous year was RMB35.0 million.

No interim dividend for the six months ended 30 June 2018 was proposed to the shareholders of the Company by the Board (for the six months ended 30 June 2017: nil).

The board (the "Board") of directors (the "Directors") of SPT Energy Group Inc. (the "Company") announces the unaudited interim condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 (the "Period"), together with the comparative figures for the same period of the previous year as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2018	2017
		RMB'000	*RMB'000*
	Note	**Unaudited**	Unaudited
Revenue		**540,562**	418,755
Other (losses)/gains, net		**(5,291)**	35,042
Operating costs			
Material costs		**(129,211)**	(104,580)
Employee benefit expenses		**(186,682)**	(165,517)
Operating lease expenses		**(33,090)**	(34,848)
Transportation costs		**(6,067)**	(6,193)
Depreciation and amortisation		**(39,448)**	(45,897)
Technical service expenses		**(40,422)**	(31,643)
Impairment loss of assets		**(771)**	(17,671)
Others		**(58,223)**	(56,363)
		(493,914)	(462,712)
Operating profit/(loss)		**41,357**	(8,915)
Finance income		**326**	40
Finance costs		**(17,336)**	(15,262)
Finance costs, net	*13*	**(17,010)**	(15,222)
Profit/(loss) before income tax		**24,347**	(24,137)
Income tax expense	*14*	**(6,789)**	(15,842)
Profit/(loss) from continuing operations		**17,558**	(39,979)
Profit/(loss) for the period		**17,558**	(39,979)
Profit/(loss) is attributable to:			
Equity owners of the Company		**19,684**	(35,001)
Non-controlling interests		**(2,126)**	(4,978)
		17,558	(39,979)
Earnings/(loss) per share for the profit/(loss) from continuing operations attributable to the equity owners of the Company			
Basic earnings/(loss) per share *(RMB Yuan)*	*16*	**0.0121**	(0.0228)
Diluted earnings/(loss) per share *(RMB Yuan)*	*16*	**0.0117**	(0.0228)
Earnings/(loss) per share for the profit/(loss) attributable to the equity owners of the Company			
Basic earnings/(loss) per share *(RMB Yuan)*	*16*	**0.0121**	(0.0228)
Diluted earnings/(loss) per share *(RMB Yuan)*	*16*	**0.0117**	(0.0228)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2018	2017
		RMB'000	*RMB'000*
	Note	**Unaudited**	Unaudited
Profit/(loss) for the period		**17,558**	(39,979)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(12,552)**	(9,140)
Items that will not be reclassified to profit or loss:			
Currency translation differences		**13,155**	(14,387)
Other comprehensive income for the period, net of tax		**603**	(23,527)
Total comprehensive income for the period		**18,161**	(63,506)
Total comprehensive income for the period is attributable to:			
Equity owners of the Company		**20,273**	(58,613)
Non-controlling interests		**(2,112)**	(4,893)
		18,161	(63,506)
Total comprehensive income for the period arises from:			
Continuing operations		**18,161**	(63,506)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**30 June 2018** *RMB'000* **Unaudited**	31 December 2017 *RMB'000* Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**314,422**	348,626
Land use rights		**21,034**	21,275
Intangible assets		**17,284**	23,219
Investment in associates		**1,570**	1,570
Deferred income tax assets		**137,602**	141,899
Prepayments		**22,197**	22,339
		514,109	558,928
Current assets			
Inventories		**387,444**	337,033
Contract assets		**4,296**	–
Trade and note receivables	*7*	**716,387**	682,644
Prepayments and other receivables	*8*	**320,197**	261,644
Restricted bank deposits		**1,864**	2,552
Cash and cash equivalents		**271,487**	147,022
		1,701,675	1,430,895
Total assets		**2,215,784**	1,989,823

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**30 June 2018** *RMB'000* **Unaudited**	31 December 2017 *RMB'000* Audited
EQUITY			
Equity attributable to the Company's equity owners			
Share capital	*9*	**1,171**	975
Share premium		**781,040**	591,991
Other reserves		**349,336**	346,624
Currency translation differences		**(456,392)**	(456,981)
Retained earnings		**412,743**	397,373
		1,087,898	879,982
Non-controlling interests		**96,004**	98,116
Total equity		**1,183,902**	978,098
LIABILITIES			
Non-Current liabilities			
Borrowings		**117,492**	18,343
Deferred income tax liabilities		**20,506**	20,957
		137,998	39,300
Current liabilities			
Borrowings		**88,572**	159,021
Current portion of long-term borrowings		**121,258**	104,194
Contract liabilities		**15,094**	–
Trade payables	*10*	**505,038**	516,973
Accruals and other payables	*11*	**122,737**	143,878
Current income tax liabilities		**41,185**	48,359
		893,884	972,425
Total liabilities		**1,031,882**	1,011,725
Total equity and liabilities		**2,215,784**	1,989,823

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Equity attributable to owners of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 1 January 2017	974	591,651	333,874	(403,382)	392,184	915,301	97,033	1,012,334
Comprehensive income								
Loss for the period	–	–	–	–	(35,001)	(35,001)	(4,978)	(39,979)
Other comprehensive income	–	–	–	(23,612)	–	(23,612)	85	(23,527)
Total comprehensive income	–	–	–	(23,612)	(35,001)	(58,613)	(4,893)	(63,506)
Transactions with owners in their capacity as owners								
Share-based payments	–	–	7,752	–	–	7,752	–	7,752
Capital injection of subsidiaries	–	–	–	–	–	–	3,273	3,273
Appropriation	–	–	224	–	(224)	–	–	–
Total transactions with owners in their capacity as owners	–	–	7,976	–	(224)	7,752	3,273	11,025
Balance as at 30 June 2017	974	591,651	341,850	(426,994)	356,959	864,440	95,413	959,853

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Unaudited							
	Equity attributable to owners of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 31 December 2017	**975**	**591,991**	**346,624**	**(456,981)**	**397,373**	**879,982**	**98,116**	**978,098**
Change in accounting policy	–	–	–	–	(4,314)	(4,314)	–	(4,314)
Restated total equity at 1 January 2018	**975**	**591,991**	**346,624**	**(456,981)**	**393,059**	**875,668**	**98,116**	**973,784**
Comprehensive income								
Profit for the period	–	–	–	–	19,684	19,684	(2,126)	17,558
Other comprehensive income	–	–	–	589	–	589	14	603
Total comprehensive income	**–**	**–**	**–**	**589**	**19,684**	**20,273**	**(2,112)**	**18,161**
Transactions with owners in their capacity as owners								
Issue of ordinary shares	195	187,934	–	–	–	188,129	–	188,129
Share-based payments	–	–	3,031	–	–	3,031	–	3,031
Share options exercised	1	1,115	(319)	–	–	797	–	797
Total transactions with owners in their capacity as owners	**196**	**189,049**	**2,712**	**–**	**–**	**191,957**	**–**	**191,957**
Balance as at 30 June 2018	**1,171**	**781,040**	**349,336**	**(456,392)**	**412,743**	**1,087,898**	**96,004**	**1,183,902**

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Cash flows from operating activities		
Cash (used in)/generated from operations	**(67,511)**	55,487
Interest paid	**(15,571)**	(11,673)
Interest received	**64**	40
Income tax paid	**(8,696)**	(5,811)
Net cash (used in)/generated from operating activities	**(91,714)**	38,043
Cash flows from investing activities		
Purchases of property, plant and equipment	**(12,481)**	(9,294)
Proceeds from disposal of property, plant and equipment	**2,663**	60
Purchases of intangible assets	**–**	(359)
Investment in an associate	**–**	(1,070)
Increase/(decrease) in restricted bank deposits	**688**	(10,275)
Net cash used in investing activities	**(9,130)**	(20,938)
Cash flows from financing activities		
Proceeds from borrowings	**212,817**	118,599
Repayments of borrowings	**(174,680)**	(257,095)
Contributions from non-controlling interests	**–**	3,273
Net proceeds from placing of new shares	**188,129**	–
Proceeds from share option exercised	**797**	–
Net cash generated from/(used in) financing activities	**227,063**	(135,223)
Net increase/(decrease) in cash and cash equivalents	**126,219**	(118,118)
Cash and cash equivalents at beginning of the period	**147,022**	245,903
Exchange losses on cash and cash equivalents	**(1,754)**	(1,431)
Cash and cash equivalents at end of the period	**271,487**	126,354

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

SPT Energy Group Inc. 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 had its shares listed on The Stock Exchange of Hong Kong Limited on 23 December 2011 through a global offering ("Global Offering").

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"), Turkmenistan, 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 interim condensed consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These interim condensed consolidated financial statements were approved for issue on 29 August 2018.

These interim condensed consolidated financial statements have been reviewed, not audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial report for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting". The interim condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and any public announcements made by the Company during the interim reporting period.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2017, except for the adoption of new and amended standards as set out blow.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- *IFRS 9 Financial Instruments, and*
- *IFRS 15 Revenue from Contracts with Customers.*

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4 below. The other standards did not have any impact on the Group's accounting policies.

3. ACCOUNTING POLICIES (CONTINUED)

(b) Impact of standards issued but not yet applied by the Group

(i) IFRS 16 Leases

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.

The standard will affect primarily the accounting for the Group's operating leases. As at 30 June 2018, the Group has non-cancellable operating lease commitments of RMB60,085,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

4. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

For IFRS 9, as explained in Note 4(b) below, the new standard was generally adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

For IFRS 15, as explained in Note 4(d) below, the Group elected to adopt the new standard by using the modified retrospective application approach. Therefore, the cumulative effect of initially applying the revenue standard was recognised as an adjustment to the opening balance of this interim period. Comparative prior periods are not restated.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Impact on the financial statements (Continued)

Balance sheet (extract)	31 Dec 2017 As originally presented *RMB'000*	IFRS 9 *RMB'000*	IFRS 15 *RMB'000*	1 January 2018 Restated *RMB'000*
Non-current assets				
Deferred tax assets	141,899	1,438	–	143,337
Current assets				
Trade and note receivables	682,644	(4,537)	(7,032)	671,075
Contract assets	–	(1,215)	7,032	5,817
Total assets	1,989,823	(4,314)	–	1,985,509
Current liabilities				
Accruals and other payables	143,878	–	(20,166)	123,712
Contract liabilities	–	–	20,166	20,166
Total liabilities	1,011,725	–	–	1,011,725
Net assets	978,098	(4,314)	–	973,784
Other reserves	346,624	–	–	346,624
Retained earnings	397,373	(4,314)	–	393,059
Total equity	978,098	(4,314)	–	973,784

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 4(c) below. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The adoption of IFRS 9 does not have any impact on the Group's recognition, classification and measurement of financial instruments, except for the revision of impairment methodology for certain financial assets as described below. For this interim period, the Group has not been involved in hedge transactions which may be affected by IFRS 9.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Notes	**2018** ***RMB'000***
Closing retained earnings 31 December 2017 – IAS 39/IAS 18		**397,373**
Increase in provision for trade receivables and contract assets	*(i)*	**(5,752)**
Increase in deferred tax assets relating to impairment provisions	*(i)*	**1,438**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018		**(4,314)**
Opening retained earnings 1 January 2018 – IFRS 9 (before restatement for IFRS 15)		**393,059**

(i) Impairment of financial assets

The Group has five types of financial assets that are subject to IFRS 9's new expected credit loss model:

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

4. **CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

(b) **IFRS 9 Financial Instruments – Impact of adoption (Continued)**

(i) Impairment of financial assets (Continued)

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 4(b) above.

While cash and cash equivalents and restricted bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and notes receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

On that basis, the loss allowance as at 1 January 2018 was determined as follows for both trade receivables and contract assets:

1 January 2018	Up to 6 months	6 months – 1 year	1 – 2 years	2 – 3 years	Over 3 years	Total
Expected loss rate	0.70%	0.90%	1.40%	45%	70%	
Gross carrying amount	539,550	36,817	59,930	23,058	109,533	768,888
Loss allowance	3,777	331	839	10,376	76,673	91,996

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 9 Financial Instruments – Impact of adoption (Continued)

(i) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

The loss allowances for trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Contract assets	**Trade receivables**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2017 – calculated under IAS 39	–	86,244	86,244
Amounts restated through opening retained earnings	1,215	4,537	5,752
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	1,215	90,781	91,996

The loss allowances increased by a further RMB2,123,000 to RMB92,904,000 for trade receivables and decreased by RMB1,101,000 to RMB114,000 for contract assets during the six months to 30 June 2018. The increase would have been RMB1,022,000 lower under the incurred loss model of IAS 39.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Note receivables and other receivables

Based on management's assessment by taking into account default history and forward looking factors, the expected credit loss for notes receivable is immaterial, and therefore no provisions for impairment are recognised for note receivables under IFRS 9. The expected credit loss for other receivables are not significantly different with the impairment provision that had been made under IAS 39, therefore no additional provision is considered necessary under IFRS 9.

Significant estimates and judgements

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the table above.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. As at 1 January 2018 and 30 June 2018, the Group only has the finance assets of the category to be measured at amortised cost.

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(d) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules by using the modified retrospective application approach and therefore the comparatives of previous periods are not restated. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	IAS 18 carrying amount* 31 Dec 2017 *RMB'000*	**Reclassification** *RMB'000*	**IFRS 15 carrying amount 1 January 2018** *RMB'000*
Trade and note receivables	682,644	(7,032)	675,612
Contract assets	–	7,032	7,032
Contract liabilities	–	20,166	20,166
Accruals and other payables	143,878	(20,166)	123,712

* The amounts in this column are before the adjustments from the adoption of IFRS 9, including increases in the impairment loss allowance for trade receivables and contract assets, see Note 4(b) above.

Based on management's assessment, there is no material impact on recognition and measurement of revenue for the adoption of IFRS 15.

The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15:

- Contract assets recognised in relation to provision of services and sales of goods were previously presented as part of trade receivables (RMB5,817,000 as at 1 January 2018, net of impairment allowance).

- Contract liabilities in relation to provision of services and sales of goods were previously included in accrual and other payables (RMB20,166,000 as at 1 January 2018).

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(e) IFRS 15 Revenue from Contracts with Customers – Accounting policies

(i) Provision of services

The Group provides well drilling services, well completion services and reservoir services to its customers. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the workload confirmed by customers relative to total expected workload.

Some service contracts include delivery of goods by the Group to the customer during the provision of service. It is accounted for as a separate performance obligation and the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. If contracts include the delivery of goods, revenue for the goods is recognised at a point in time when the goods is delivered and the customer has accepted the goods.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

(ii) Sales of goods

Revenue associated with sales of pressure gauges, packers and other goods is recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the use or sale of the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

5. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, except for those changes from adoption of IFRS 9 as disclosed in Note 4.

6. 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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Drilling	**221,768**	147,223
Well completion	**91,238**	50,936
Reservoir	**227,556**	220,596
	540,562	418,755

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, finance income, finance costs and certain unallocated expenses ("EBITDA").

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

(i) The segment information on EBITDA is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
EBITDA		
Drilling	**45,199**	24,893
Well completion	**18,838**	(21,812)
Reservoir	**60,585**	55,637
	124,622	58,718

(ii) The segment information on total assets is as follows:

	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Audited
Total assets		
Drilling	**538,093**	441,900
Well completion	**733,639**	696,276
Reservoir	**423,989**	452,460
	1,695,721	1,590,636

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
EBITDA for reportable segments	**124,622**	58,718
Unallocated expenses		
– Share-based payments	**(3,031)**	(7,752)
– Other (losses)/gains, net	**(5,291)**	35,042
– Unallocated overhead expenses	**(35,495)**	(49,026)
	(43,817)	(21,736)
	80,805	36,982
Depreciation and amortisation	**(39,448)**	(45,897)
Finance income	**326**	40
Finance costs	**(17,336)**	(15,262)
Profit/(loss) before income tax	**24,347**	(24,137)

6. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment

The following table shows revenue by geographical segment based on the location of main operation of the entities in the Group:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Revenue		
PRC	**322,082**	210,642
Kazakhstan	**143,199**	124,392
Turkmenistan	**29,972**	25,140
Canada	**21,864**	27,259
Indonesia	**14,894**	16,346
Middle East	**8,544**	14,297
Others	**7**	679
	540,562	418,755

The following table shows the non-current assets other than financial assets and deferred tax assets by geographical segment based on location of main operation of the entities in the Group:

	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Audited
Non-current assets (other than deferred income tax assets)		
PRC	**245,829**	270,651
Kazakhstan	**66,413**	73,558
Turkmenistan	**23,326**	25,602
Canada	**9,948**	13,065
Indonesia	**7,135**	8,912
Middle East	**42**	69
Others	**23,814**	25,172
	376,507	417,029

7. TRADE AND NOTE RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables	**776,004**	756,385
Less: impairment of trade receivables	**(92,904)**	(86,244)
Trade receivables – net	**683,100**	670,141
Note receivables	**33,287**	12,503
	716,387	682,644

Ageing analysis of gross trade and note receivables as at the respective balance sheet date based on invoice date is as follows:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	Unaudited	Audited
Up to 6 months	**489,055**	539,550
6 months – 1 year	**133,597**	36,817
1 – 2 years	**53,757**	59,930
2 – 3 years	**21,969**	23,058
Over 3 years	**110,913**	109,533
Trade and note receivables, gross	**809,291**	768,888
Less: impairment of trade receivables	**(92,904)**	(86,244)
Trade and note receivables, net	**716,387**	682,644

8. PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2018 *RMB'000* **Unaudited**	31 December 2017 *RMB'000* Audited
Current		
Advances to suppliers	**136,259**	92,739
Prepayment for taxes	**18,569**	23,238
Total non-financial assets	**154,828**	115,977
Deposits and other receivables	**78,623**	63,908
Receivable relating to disposal of certain equipment	**91,613**	86,976
Less: impairment of other receivables	**(4,867)**	(5,217)
Total financial assets	**165,369**	145,667
	320,197	261,644
Non-current		
Advances to suppliers	**6,708**	6,708
Prepayment for operating lease	**15,489**	15,631
	22,197	22,339
Total	**342,394**	283,983

9. SHARE CAPITAL

	Number of share *(Thousands)*	**Value** *RMB'000*
Authorised:		
Ordinary shares of USD0.0001 each as at 31 December 2017	2,000,000	1,295
Add: new authorised share capital approved during the period *(a)*	3,000,000	1,924
Ordinary shares of USD0.0001 each as at 30 June 2018	5,000,000	3,219

9. SHARE CAPITAL (CONTINUED)

(a) On 12 June 2018, the shareholders of the Company approved the resolution to increase the authorised share capital of the Company from USD200,000 divided into 2,000,000,000 shares of par value USD0.0001 each to USD500,000 divided into 5,000,000,000 shares of par value USD0.0001 each, which rank in pari passu in all respect with shares as at date of the resolution.

	Number of share *(Thousands)*	**Value** *RMB'000*
Issued and fully paid:		
As at 31 December 2017	1,535,192	975
Add: issuance of ordinary shares *(a)*	306,958	195
share options exercised	1,998	1
As at 30 June 2018	**1,844,148**	**1,171**

(b) On 7 May 2018, 306,958,000 placing shares were allotted and issued to certain placees at the price of HKD0.78 per share.

10. TRADE PAYABLES

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

	30 June 2018 *RMB'000* **Unaudited**	31 December 2017 *RMB'000* Audited
Up to 6 months	**238,262**	253,763
6 months to 1 year	**83,504**	43,535
1 – 2 years	**33,306**	59,227
2 – 3 years	**42,468**	64,560
Over 3 years	**107,498**	95,888
	505,038	516,973

11. ACCRUALS AND OTHER PAYABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	Unaudited	Audited
Interest payable	**4,711**	4,529
Rental payable	**2,686**	3,381
Others	**32,766**	38,027
Total financial liabilities	**40,163**	45,937
Customer deposits and receipts in advance	**–**	20,166
Payroll and welfare payable	**28,381**	37,775
Taxes other than income tax payable	**54,193**	40,000
Total non-financial liabilities	**82,574**	97,941
	122,737	143,878

12. EXPENSE BY NATURE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
(Gains)/losses on disposal of property, plant and equipment	**(821)**	1,161
Sales tax and surcharges	**2,062**	1,807
Depreciation	**33,556**	39,102
Amortisation of land use rights and intangible assets	**5,892**	6,795

13. FINANCE COSTS, NET

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Finance income:		
– Interest income on short-term bank deposits	**197**	40
Net foreign exchange gains on financing activities	**129**	–
Finance income	**326**	40
Net foreign exchange losses on financing activities	**–**	(334)
Interest expense:		
– Bank borrowings	**(8,158)**	(6,593)
– Liability component of convertible bonds	**(7,595)**	(7,171)
– Bank charges	**(1,583)**	(1,164)
Finance costs	**(17,336)**	(15,262)
Finance costs, net	**(17,010)**	(15,222)

14. INCOME TAX EXPENSE

The Group operates mainly in the PRC, Kazakhstan, Turkmenistan, Singapore, Canada and Indonesia. During the six months ended 30 June 2018, the Company expected the profit before tax in these countries was subject to the statutory income tax rate of 25%, 20%, 15%, 10%, 25% and 25% respectively.

PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in Mainland China for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the six months ended 30 June 2018, certain subsidiaries established in 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%.

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current income tax		
– PRC	**21**	1,409
– Kazakhstan	**1,435**	5,868
– Others	**66**	2,523
Deferred income tax	**5,267**	6,042
Income tax expense	**6,789**	15,842

15. DIVIDEND

The Board did not propose interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

16. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the loss attributable to equity owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Profit/(loss) attributable to equity owners of the Company *(RMB'000)*	**19,684**	(35,001)
Weighted average number of ordinary shares in issue *(thousands)*	**1,628,227**	1,534,790
Basic earnings/(loss) per share *(RMB Yuan)*	**0.0121**	(0.0228)

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding by assuming conversion of all dilutive potential ordinary shares. The Company's share options and convertible bonds comprised the potential ordinary shares. However, when calculating the dilutive earnings per share for the six months ended 30 June 2018, the convertible bonds factor was excluded as it has an anti-dilutive effect for the period. As such, only share options factor was considered by comparing the number of shares that could has 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 issues assuming the exercise of the share options.

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Earnings/(Losses)		
Profit/(loss) attributable to equity owners of the Company	**19,684**	(35,001)
Interest expense on convertible bonds	**Anti-dilutive**	Anti-dilutive
	19,684	(292,346)
Weighted average number of ordinary shares in issue (thousands)	**1,628,227**	1,534,790
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**47,966**	Anti-dilutive
	1,676,193	1,534,790
Diluted earnings/(losses) per share *(RMB Yuan)*	**0.0117**	(0.0228)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Period, the international crude oil market sustained the upside trend in the second half of 2017 and revealed an overall rising trend with small fluctuations. In the first quarter of 2018, oil prices steadily increased, but were suppressed temporarily due to the agreement entered into between members of Organization of Petroleum Exporting Countries ("OPEC") and Russia to increase oil production in mid-May. In late June, oil prices experienced a turnaround where the prices of London Brent ("Brent") and West Texas Intermediate ("WTI") spiked to the level above US$70 per barrel. Given the rise in oil prices, the oil-field service market locally and abroad became more active. Oil companies increased their expenditures on exploration and development. These would drive the structural growth of the oil-field service industry in terms of workload. Despite the overall positive trend, it has to be noted that the cost-saving measures taken by the oil companies during the period of low oil prices are still being implemented and price competition remains fierce.

The continued market recovery and steady growth in international oil prices led to more promising industry sentiments. The Group remained optimistic in the medium and long term about the oil-field service market. The Group's number of orders in West China and Kazakhstan in central Asia substantially increased as compared with the same period of last year, and workload volume was effectively increased. In the second half of 2018, the Group will further seize the market recovery opportunities to expand the business channels and accelerate the introduction and development of new technologies, while strengthening its own competitiveness in an effort to satisfy the new demand from customers.

During the Period, the Group continued to fully implement the measures to reduce costs and increase efficiencies, execute the growth strategy of "Change amid Stability" and greatly expand into new business areas so as to maintain and extend the solid growth momentum gained since last year. First, the Group optimised the structure and rationalised the processes through function adjustments to increase the efficiency of internal management. Second, the Group closely monitored the customer needs as guided by the market while actively seeking and expanding into new projects in new areas to facilitate diversified operations. In addition to consolidating business at China's Tarim Oilfield, China's Southwest Oil and Gas Field and other conventional oil and gas business in Kazakhstan and Caspian Sea area, etc., the expansion of the new energy business including coal-bed gas and geothermal energy made significant breakthroughs. Third, the Group pushed ahead project management, especially the objective management, institutionalised management, refined management, module management of key projects. At the same time, the Group reduced inventory and maintained strict cost control while safeguarding the customer satisfaction and high-quality operations. Fourth, the Group strengthened the horizontal strategic cooperation and established a joint venture with Xinjiang Energy (Group) Petroleum & Natural Gas Co., Ltd. to push ahead the integrated turnkey business of the Group through such platform. The Group also consolidated the existing strategic partnership with Halliburton China Company and built a closer working mechanism to achieve a win-win outcome by capitalising on complementary strengths.

Revenue Analysis

During the Period, the Group realised revenue of RMB540.6 million, representing an increase of RMB121.8 million or 29.1% over the previous year. The analysis of the Group's revenue by business segment is as follows:

Revenue	For the six months ended 30 June 2018 RMB'000	2017 RMB'000	Change (%)
Reservoir	**227,556**	220,596	3.2%
Drilling	**221,768**	147,223	50.6%
Well Completion	**91,238**	50,936	79.1%
Total	**540,562**	418,755	29.1%

During the Period, international crude oil prices maintained an upward trend despite minor turbulence. Market sentiments were positive in general. Various oil companies and oil-field service providers gradually increased their investment in exploration and development. Business volume increased as a result.

Faced with the above market landscape, the Group followed closely the market changes and customers' needs to further explore market potential, enhance operational efficiency and explore new business segments. Revenue grew substantially by RMB121.8 million or 29.1% as compared with that in the same period of last year. Among which, the revenue from reservoir segment accounted for 42.1%, up by 3.2% as compared with that in the same period of last year, and the revenue contribution from drilling segment and well completion segment to total revenue increased considerably; the revenue from drilling segment accounted for 41.0% of the total revenue, up by RMB74.5 million or 50.6% as compared with that in the same period of last year; and the revenue from well completion segment accounted for 16.9% of the total revenue, up by RMB40.3 million or 79.1% as compared with that in the same period of last year.

RESERVOIR SERVICE SEGMENT

Revenue from reservoir services	For the six months ended 30 June 2018 RMB'000	2017 RMB'000	Change (%)
Overseas	**117,988**	130,319	(9.5%)
PRC	**109,568**	90,277	21.4%
Total	**227,556**	220,596	3.2%

The reservoir service segment of the Group provides geology research and oil reservoir research services, dynamic monitoring service, oil testing service, oil recovery technology service, coiled tubing service and repair service of surface production devices.

During the Period, the Group's reservoir service business grew steadily as a whole and recorded revenue of RMB227.6 million, up by RMB7.0 million or 3.2% as compared with that in the same period of last year. As to the PRC market, the Group continued to consolidate and expand market share. During the Period, the revenue from reservoir service of the PRC market increased by RMB19.3 million or 21.4% as compared with that in the same period of last year. As to the overseas markets, due to the slowdown in implementation of workload in some oilfields, the reservoir service revenue from the overseas markets during the Period decreased by RMB12.3 million or 9.5% as compared with that in the same period of last year.

DRILLING SERVICE SEGMENT

Revenue from drilling services	For the six months ended 30 June **2018** *RMB'000*	2017 *RMB'000*	Change *(%)*
Overseas	**66,330**	62,203	6.6%
PRC	**155,438**	85,020	82.8%
Total	**221,768**	147,223	50.6%

The drilling services of the Group include drilling rig service, workover rig service, complex well workover and fishing service, rotary geological steering service, vertical drilling technology service, horizontal drilling technology service, side tracking technology service, underbalance drilling technology service, fine managed pressure drilling (FMPD) technology service, cementing services and drilling fluid services.

During the Period, the revenue from drilling business amounted to RMB221.8 million, up by RMB74.5 million or 50.6% as compared with that in the same period of last year. Among which, the drilling revenue from the PRC market amounted to RMB155.4 million, representing a substantial increase of RMB70.4 million or 82.8% as compared with that in the same period of last year. The Group successively won contracts for an integrated turnkey service project for a shale gas platform in Changning, Sichuan; a high-performance water-based drilling fluid technical services project in Xinjiang; a coalbed gas drilling and fracturing service project in Shanxi; and a hot-dry-rock drilling and well completion project in Qinghai. As a result, the drilling workload and revenue both increased substantially. During the Period, the drilling revenue from the overseas markets increased by RMB4.1 million or 6.6% as compared with that in the same period of last year.

WELL COMPLETION SERVICE SEGMENT

Revenue from well completion services	For the six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Overseas	**34,162**	15,591	119.1%
PRC	**57,076**	35,345	61.5%
Total	**91,238**	50,936	79.1%

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

During the Period, while consolidating the existing strengths, the Group further enhanced the compatibility between the well completion process technique and the products and customers' demands and performed remarkably in both the PRC market and the overseas markets. During the Period, the revenue from well completion business amounted to RMB91.2 million, up by RMB40.3 million or 79.1% as compared with that in the same period of last year. Among which, the Group's well completion revenue from the PRC market amounted to RMB57.1 million, up by RMB21.7 million or 61.5% as compared with that in the same period of last year. The performance growth mainly benefited from the increase of workload of the well completion business in three-ultra gas wells in Xinjiang and the well completion business in the Southwest Oil and Gas Field, etc. During the Period, the well completion revenue from the overseas markets increased by RMB18.6 million or 119.1% as compared with that in the same period of last year. Among which, the well completion revenue from Kazakhstan, Turkmenistan and Indonesia grew steadily. In addition, the Group has stepped up the efforts to introduce new technologies of well completion and the size of well completion service segment is expected to further increase in the future.

MARKET ENVIRONMENT

Overseas Markets

During the Period, affected by the demand and supply, the international oil prices sustained the upside trend in the second half of 2017 and achieved a new steady state. The Group kept a close eye on the following:

1. The inventory data from the United States (the "US") performed well with declining crude oil inventory, pushing up oil prices. As at the end of the Period, the US crude oil inventory decreased substantially by 9.891 million barrels to 416.6 million barrels, representing a decline for the third consecutive week and the largest decrease since the week of 9 September 2016.

2. The US announced its withdrawal from the Iran Nuclear Deal in May 2018 and imposed strict sanctions against Iran. In July 2018, the United States Department of State took a rigid stand and unilaterally requested all countries to stop importing petroleum from Iran. Currently, Iran is the fifth largest oil producing country in the world with a daily production capacity of approximately 4.7 million barrels, accounting for approximately 5% of the world's total production. If other countries follow the US's request to stop importing crude oil from Iran, the supply gap may reach 1.5 million barrels per day.

3. On 23 June 2018, members of the OPEC and non-OPEC unanimously agreed after negotiation to appropriately raise the output of crude oil since July. However, the size of production increase was below market expectation and the crude oil supply in Libya, Venezuela and Canada revealed a decline. The market generally believed that the newly signed output increase agreement by members of the OPEC may be unable to provide sufficient petroleum to relieve the imminent shortage.

Looking ahead, despite the plan of members of OPEC and non-OPEC to increase output will continue to exert a negative pressure on the oil market, the US's radical foreign policies, especially the economic and energy sanctions against Iran and Venezuela, will, to a certain extent, reduce the effect of the oil producing countries' plan to contain the oil market through output increase, which may drive up oil prices. The Group considers that the prevailing oil market is rebalancing and the oil market supply for the third quarter may probably tighten. Given the uncertainties over global trade war and other geopolitical risks, coupled with both push and pull factors, it is expected that the international oil market will rationalise in the second half of the year and it is highly likely that the international oil prices will remain firm amid volatilities.

The Group's major overseas markets mainly cover Central Asia such as Kazakhstan and Turkmenistan, Indonesia, Singapore, the Middle East and Canada. During the Period, the Group took proactive measures, seized the upside trend of the international oil prices and further consolidated and expanded the operations in the overseas business regions. In Central Asia, the revenue from the Kazakhstan market amounted to RMB143.2 million, representing 65.5% of the revenue from the overseas markets of the Group. Accordingly, the Kazakhstan market remains the largest overseas market in terms of revenue contribution to the Group. In Turkmenistan, the Group successfully won the largest number of well completion tool contracts in recent years and entered into 19 well completion tool projects. The Group set a firm foothold in the Middle East market. In the second half of last year, the Group won a two-year service project for the workover machine in Maysan, Iraq. By now it has started the relocation of the workover machine and is preparing to commence operation. At the same time, the Group also expanded into overseas markets including Africa and other countries in the Middle East and Central Asia, etc. to capture opportunities of demand turnaround and explore new market space.

PRC Market

During the Period, the oil and gas reform continued to take root and China officially launched its crude oil futures trading where the pricing of crude oil is denominated in Renminbi.

The three major oil giants in China sustained the turnaround in performance in 2017 with a year-on-year growth in revenue. During the first quarter of 2018, the operating profit from exploration and production segment of PetroChina Company Limited ("PetroChina") recorded RMB9,741 million, representing a substantial increase of RMB7,825 million as compared with the same period of last year; whereas the operating loss from exploration and production segment of China Petroleum & Chemical Corporation ("Sinopec") decreased substantially by RMB5,446 million as compared with the same period of last year.

Given the recovery of the oil market and performance improvement, all of the three major oil giants increased the capital expenditure budget on exploration and development. PetroChina's capital expenditure budget on petroleum exploration and production amounted to RMB167.6 billion in 2018, representing an increase of 3.46% as compared with the actual capital expenditure of 2017. As to the development in the PRC market, focus was placed on a stable output of oil and growth of output of natural gas and the development of oil and gas fields in Daqing, Changqing, Liaohe, Xinjiang, Tarim and the Southwest, etc. was strengthened; and greater efforts were devoted to the development of non-conventional resources including shale gas. Sinopec's capital expenditure budget on exploration and development amounted to RMB48.5 billion in 2018, representing an increase of 54.7% as compared with the actual capital expenditure of 2017, with key emphasis on building the production capacity of shale gas in Southwest China, natural gas in North China and crude oil in the Northwest as well as driving the development of natural gas pipeline and gas reservoir and overseas oil and gas projects. CNOOC's capital expenditure budget on exploration and development ranged from RMB58.1 billion to RMB66.4 billion in 2018, representing an increase of 36.4% to 55.9% over the actual capital expenditure of 2017.

With the increasing capital expenditure of the three oil giants, the oil-field service market in China would see more opportunities. At the same time, business volume of privately-owned oil-field service companies revealed an increase with a turnaround in business performance. Growth of total business volume in the PRC market far exceeded that of the overseas markets.

During the Period, the PRC government continued to step up efforts to support clean energy development including natural gas and geothermal energy:

1. The natural gas consumption maintained fast growth. From March to May 2018, the ministries and commissions of the PRC intensively promulgated the tax reduction policy for shale gas resources, the circular on accelerating the gas reservoir development and the price-guiding documents in relation to gas stations for residents to rationalise the natural gas pricing mechanism. The PRC government's intentions to encourage natural gas development and utilisation were obvious. Based on PetroChina's "three-step process" strategy, PetroChina will strive to build the first shale gas field of ten billion square metres in Southwest China by 2020. Sinopec will tackle the key issues in the exploration and development of deep and new layer shale gas fields at atmospheric pressure; new discovery was made in the shale gas field exploration in Weirong, Sichuan, marking another output point following the shale gas field in Fuling, and 500 million cubic metres of natural gas production capacity from the Hanggin banner block in North China was added in 2018.

2. The development of geothermal energy accelerated. In August 2017, a high-temperature hot-dry-rock belt was discovered in great depth at Gonghe Basin in Qinghai through drilling, marking a significant breakthrough in hot-dry-rock exploration. According to the "Thirteenth Five-Year Plan – Geothermal Energy Development and Utilisation", by 2020, the gross utilisation of geothermal energy in China will reach 70 million tonnes of standard coal and the utilisation of geothermal heating will be 40 million tonnes of standard coal per annum.

During the Period, the Group seized the market recovery opportunities to activate the existing market. The Group performed considerably well in the areas of traditional service segments with comparative strengths, integrated turnkey and new energy business expansion.

- In the Southwest China market, the Group won an integrated turnkey service project for the shale gas in 14 wells in Changning, Sichuan after careful planning. Currently, the project is operating smoothly.

- In the Northwest China market, the Group successfully won a tender for a high-performance water-based drilling fluid technical services project in Tarim Oilfield, which enriched the Group's drilling liquid product series and represented the pioneer in the application of environmental friendly water-based drilling fluid in high-temperature high-pressure gas wells. Given that China further stressed the environmental friendly oilfield policies, such process technique has a promising market going forward. The Group also won a contract for a well completion tools project in three-ultra gas wells in Tarim Oilfield, Xinjiang and continued to maintain its leading position in the high-temperature high-pressure well completion market in China.

- Forming major alliances to achieve a win-win situation. A subsidiary of the Group and Xinjiang Energy (Group) Petroleum & Natural Gas Co., Ltd. entered into an agreement to establish a cooperative company positioned to carry out engineering technology services and oilfield operation and maintenance services covering geotherm, coalbed gas and oil and gas field, which can fully realise advantages complement and resources integration, thus promoting the rapid development of engineering technology service turnkey business of the Group in the PRC market.

- The Group devoted great efforts to expand new businesses including geotherm and coalbed gas and the new business segment has initially taken shape. The Group successfully obtained a coalbed gas fracturing project in Dabancheng and overcame a number of technical bottlenecks including high temperature and hard drilling. The Group also won a hot-dry-rock drilling and well completion project in Qinghai, China and made a significant breakthrough in the hot-dry-rock area.

Research and Development ("R&D") and Manufacturing

The R&D centre of the Group centred around enhancing the oil and gas reservoir recovery process technique and strengthened the development of oil reservoir service and recovery process capability, while increasing the technology competitiveness of oil and gas reservoir drilling efficiency enhancement by focusing on the non-conventional drilling efficiency enhancement process technique. Through ongoing technological innovation, the Group adjusted the technology mix where the low-cost and high-efficiency new technology is gaining its market share.

During the Period, the ultrasound stimulation process technique completed the trial run successfully at an oilfield in Kazakhstan and an oilfield in South China Sea. The stimulation results were good and received high recognition from customers. The Group entered into an annual service contract with an oilfield in South China Sea with the application of such process in conventional operations in an attempt to open the South China Sea market and drive further development of other businesses.

During the Period, the technology ancillary to the water plugging process achieved a significant breakthrough in Kazakhstan's southwestern region. The R&D centre of the Group carried out a comprehensive range of analyses on such technology in areas of well selection, plugging agent selection, construction design and construction results. The results of the analyses showed that the effect of operations was significant. Currently, such technology has enabled the Group to secure many operation contracts.

During the Period, the HyperLCasing plugging process was successfully applied in Chongqing, China for the first time. The process has a high success rate with simple operation. Currently, the Group has identified three wells for the proposed application of such technology. Next, large-scale application is expected in the drilling projects in Southwest and Northwest of China.

The R&D centre of the Group carried out integration and R&D of the optic fibre monitoring technology, slim-hole short radius sidetrack horizontal well technology, old well potential layer logging process technology and drilling efficiency enhancement technology, and had multiple exchanges with customers. In the second half of 2018, the Group will devote its resources to the marketing of these technologies for greater market prospects.

HUMAN RESOURCES

Based on the business growth needs, the Group continued to adopt the following human resources measures by centring around the objectives of "streamlining and efficiency":

In response to the changes in the external market environment, coupled with the strategic growth needs, during the Period, the Group further optimised the organisational structure, clearly defined reporting line functions and reduced the number of management positions. At the same time, the Group streamlined the operating entities, reduced the management hierarchy and moved forward the management support functions to achieve fast response as well as flexible and efficient operations.

During the Period, the Group stepped up the human resources efforts in new market expansion. Now, these efforts have begun to bear fruit. Meanwhile, the Group continued to incline to support its key projects by adjusting organisational design and allocation of professionals so as to ensure the smooth operation of the key projects.

The actual costs of the Group's human resources for the first half of 2018 were controlled within the budget amount set at the beginning of the year. With the further recovery of the business volume of the Group, as at 30 June 2018, the Group had a total of 3,677 employees, up by 266 employees from 3,411 employees as at 31 December 2017.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, revenue of the Group was RMB540.6 million, representing an increase of RMB121.8 million, or 29.1% from RMB418.8 million for the comparative period of last year. The increase in revenue was mainly due to the recovery of the oil-field services market and the growth of business volume of the Group as a result of the rising international crude oil price and increase in industry investments.

Other (losses)/gains, net

For the six months ended 30 June 2018, other losses, net of the Group were RMB5.3 million, as compared with other gains, net of RMB35.0 million for the comparative period of last year. It was mainly due to exchange loss in USD denominated liabilities held by the Group as a result of strengthening of USD against RMB.

Material costs

For the six months ended 30 June 2018, material costs of the Group amounted to RMB129.2 million, representing an increase of RMB24.6 million, or 23.5% from RMB104.6 million for the comparative period of last year. The increase in material costs was mainly due to the growth in business volume of the Group.

Employee benefit expenses

For the six months ended 30 June 2018, employee benefit expenses of the Group were RMB186.7 million, representing an increase of RMB21.2 million, or 12.8% from RMB165.5 million for the comparative period of last year. The increase in employee benefit expenses was mainly due to the recruitment of employees as a result of the growth of business volume of the Group.

Operating lease expenses

For the six months ended 30 June 2018, operating lease expenses of the Group were RMB33.1 million, representing a decrease of RMB1.7 million, or 4.9% from RMB34.8 million for the comparative period of last year. The decrease in operating lease expenses was mainly due to the increase in its utilisation rate as the Group further exercised control over the relevant equipment and warehouse leasing costs.

Transportation costs

For the six months ended 30 June 2018, transportation costs of the Group amounted to RMB6.1 million, representing a decrease of RMB0.1 million, or 1.6% from RMB6.2 million for the comparative period of last year. The decrease in transportation costs was mainly due to the cost reduction efforts of the Group.

Depreciation and Amortisation

For the six months ended 30 June 2018, depreciation and amortisation of the Group was RMB39.4 million, representing a decrease of RMB6.5 million, or 14.2% from RMB45.9 million for the comparative period of last year. The decrease in depreciation and amortisation was mainly due to certain fixed assets becoming fully depreciated.

Technical service expenses

For the six months ended 30 June 2018, technical service expenses of the Group were RMB40.4 million, representing an increase of RMB8.8 million, or 27.8% from RMB31.6 million for the comparative period of last year. The increase in technical service expenses was mainly due to the growth of business volume of the Group.

Impairment loss of assets

For the six months ended 30 June 2018, impairment loss of assets of the Group was RMB0.8 million, representing a decrease of RMB16.9 million, or 95.5% from RMB17.7 million for the comparative period of last year. The decrease in impairment loss of assets was mainly due to the decrease in risks associated with asset impairment as the oil-field service industry recovered.

Others

For the six months ended 30 June 2018, other operating costs of the Group were RMB58.2 million, representing an increase of RMB1.8 million, or 3.2% from RMB56.4 million for the comparative period of last year.

Operating profit/(loss)

During the Period, the Group's operating profit was RMB41.4 million, as compared with operating loss of RMB8.9 million for the comparative period of last year.

Finance costs, net

For the six months ended 30 June 2018, the Group's finance costs, net were RMB17.0 million, representing an increase of RMB1.8 million, or 11.8% from RMB15.2 million for the comparative period. The increase in finance costs, net was mainly due to the increase in external borrowings.

Income tax expense

For the six months ended 30 June 2018, income tax expense was RMB6.8 million, representing a decrease of RMB9.0 million or 57.0% from RMB15.8 million for the comparative period of last year.

Profit/(loss) for the period

The Group's profit for the period was RMB17.6 million, as compared with a loss of RMB40.0 million for the comparative period of last year.

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

For the six months ended 30 June 2018, profit attributable to equity owners of the Company was RMB19.7 million, as compared with loss attributable to equity owners of the Company of RMB35.0 million for the comparative period of last year.

Property, plant and equipment

As at 30 June 2018, property, plant and equipment were RMB314.4 million, representing a decrease of RMB34.2 million, or 9.8%, from RMB348.6 million as at 31 December 2017.

Inventories

As at 30 June 2018, inventories were RMB387.4 million, representing an increase of RMB50.4 million, or 15.0%, from RMB337.0 million as at 31 December 2017. The increase in inventories was mainly due to the growth of business volume of the Group.

Trade and note receivables/Trade payables

As at 30 June 2018, trade and note receivables were RMB716.4 million, representing an increase of RMB33.8 million, or 5.0%, from RMB682.6 million as at 31 December 2017. The increase was mainly due to the growth of revenue of the Group.

As at 30 June 2018, trade payables were RMB505.0 million, representing a decrease of RMB12.0 million, or 2.3%, from RMB517.0 million as at 31 December 2017. The decrease was mainly due to the repayment of some long aging trade payables during the Period.

Liquidity and capital resources

As at 30 June 2018, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB273.4 million, representing an increase of RMB123.8 million, or 82.8%, from RMB149.6 million as at 31 December 2017. The increase was mainly due to the funds raised from the issue of shares by the Group.

As at 30 June 2018, the Group's short-term borrowings and current portion of long-term borrowings were RMB209.8 million while the long-term borrowings were RMB117.5 million. As at 31 December 2017, the Group's short-term bank borrowings and current portion of long-term bank borrowings were RMB263.2 million while the long-term borrowings were RMB18.3 million.

As at 30 June 2018, the Group's gearing ratio was 27.6%, representing a decrease of 1.2% as compared with 28.8% as at 31 December 2017.

Capital structure

The capital of the Company comprises only ordinary shares. As at 30 June 2018, the total number of ordinary shares of the Company in issue was 1,844,147,665 shares (31 December 2017: 1,535,192,332 shares). As at 30 June 2018, equity attributable to the equity owners of the Company was RMB1,087.9 million, representing an increase of RMB207.9 million, or 23.6%, as compared with RMB880.0 million as at 31 December 2017. This was mainly due to the completion of placing of 306,958,000 shares by the Company on 7 May 2018.

Significant investment held

As at 30 June 2018, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

For the six months ended 30 June 2018, the Group had no material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 30 June 2018, the Group pledged parts of its 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 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Long-term prepayments	**6,217**	6,565
Trade and note receivables	**181,500**	73,200

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 30 June 2018, the Group had no off-balance sheet arrangements.

Contractual obligations

The Group's contractual commitments mainly included capital expenditure commitments and repayments under operating lease commitments.

Subsequent event

On 20 August 2018, the convertible bonds in the principal amount of USD15,000,000 of the Group were matured and fully repaid. No convertible bonds were converted to shares.

SUBSEQUENT WORK PLANS

Based on the work plans of the Group formulated at the beginning of 2018, the Group will continue to focus on the following areas in the second half of 2018:

1. Continue to rationalise the Group's business structure in various regions, strengthen the management of key projects, optimise the overall business layout and safeguard the achievement of annual target.

2. Strengthen the connection with key customers, thoroughly understand customers' needs, expand the business scale and core market of the Group.

3. Continue to strengthen team building, focus on introducing high-end talents, nurture a management team possessing market experience, management capabilities and innovation to better satisfy the needs for business development of the Group.

4. Deepen strategic cooperation, promote win-win development, step up the development of turnkey engineering technology service business and new business areas.

5. Accelerate the turnover of existing assets to further reduce operating costs and enhance efficiency.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2018 to the shareholders of the Company (for the six months ended 30 June 2017: nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 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 conduct regarding Directors' securities transactions.

Having made a specific enquiry to all Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules 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. During the period from 1 January 2018 to 11 May 2018, Mr. Wang Guoqiang was the chairman of the Board and chief executive officer of the Company. The Board believed that Mr. Wang Guoqiang's extensive experience in the oil industry would be beneficial to the business prospects and management of the Group. The Board and the senior management, which comprises experienced and high calibre individuals, could ensure the balance of power and authority.

To be in line with the development of the Company and for the enhancement of corporate governance of the Company, the Board has approved the appointment of Mr. Ethan Wu, the executive Director of the Company, as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 11 May 2018. Upon such appointment, the Company has re-complied with the code provision A.2.1 of the CG Code.

Save as disclosed above, the Company was in compliance with the code provisions set out in the CG Code during the six months ended 30 June 2018. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

ISSUE OF SHARES

On 26 April 2018, the Company entered into a placing agreement with Shenwan Hongyuan Securities (H.K.) Limited (the "Placing Agent") whereby the Company agreed to place, through the Placing Agent, on a best effort basis, a maximum of 306,958,000 placing shares to not less than six placees at a price of HKD0.78 per placing share (the "Placing"). The completion of the Placing took place on 7 May 2018.

The net proceeds from the Placing are intended to be used for general working capital of the Group or to finance any future opportunities to be identified by the Company or to repay existing debts or borrowings.

Please refer to the announcements of the Company dated 26 April 2018 and 7 May 2018 for details.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as otherwise disclosed in this announcement, during the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the unaudited interim results for the six months ended 30 June 2018 of the Group with the auditor of the Company.

PUBLICATION

The interim results announcement for the six months ended 30 June 2018 of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sptenergygroup.com) respectively. The 2018 interim report will be despatched 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, 29 August 2018

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

* *For identification purpose only*