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 2018

ANNUAL RESULTS HIGHLIGHTS

The Group's revenue for the year ended 31 December 2018 was RMB1,471.6 million, representing an increase of RMB371.0 million, or 33.7%, from RMB1,100.6 million for the previous year. The profit attributable to equity owners of the Company was RMB81.8 million, representing an increase of RMB76.3 million, or 1,387.3%, from RMB5.5 million for the previous year.

No final dividend for the year ended 31 December 2018 was proposed by the Board to the shareholders of the Company (for the year ended 31 December 2017: 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 2018 (the "**Reporting Year**"), together with the comparative figures for the previous year as follows:

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**333,590**	348,626
Land use rights		**20,792**	21,275
Intangible assets		**13,734**	23,219
Investments in associates		**5,440**	1,570
Deferred income tax assets		**131,380**	141,899
Prepayments and other receivables	*6*	**16,145**	22,339
		521,081	558,928
Current assets			
Inventories		**373,057**	337,033
Contract assets		**24,581**	–
Trade and note receivables	*5*	**891,218**	682,644
Prepayments and other receivables	*6*	**289,195**	261,644
Restricted bank deposits		**7,227**	2,552
Cash and cash equivalents		**353,638**	147,022
		1,938,916	1,430,895
Total assets		**2,459,997**	1,989,823

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Equity			
Equity attributable to the Company's equity owners			
Share capital	*7*	**1,175**	975
Share premium		**845,246**	591,991
Other reserves		**298,510**	346,624
Currency translation differences		**(455,398)**	(456,981)
Retained earnings		**468,476**	397,373
		1,158,009	879,982
Non-controlling interests		**93,403**	98,116
Total equity		**1,251,412**	978,098
Liabilities			
Non-current liabilities			
Borrowings		**142,990**	18,343
Deferred income tax liabilities		**18,642**	20,957
		161,632	39,300
Current liabilities			
Borrowings		**123,274**	159,021
Current portion of long-term borrowings		**31,258**	104,194
Contract liabilities		**13,956**	–
Trade and note payables	*8*	**702,489**	516,973
Accruals and other payables	*9*	**120,475**	143,878
Current income tax liabilities		**55,501**	48,359
		1,046,953	972,425
Total liabilities		**1,208,585**	1,011,725
Total equity and liabilities		**2,459,997**	1,989,823

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**1,471,649**	1,100,642
Other (losses)/gains, net		**(28,947)**	36,618
Operating costs			
Material costs		**(303,544)**	(234,966)
Employee benefit expenses		**(409,118)**	(366,974)
Operating lease expenses		**(88,400)**	(69,413)
Transportation costs		**(27,806)**	(18,955)
Depreciation and amortisation		**(71,439)**	(92,176)
Technical service expenses		**(219,319)**	(188,299)
(Impairment losses)/reversal of impairment losses of assets		**(18,162)**	22,880
Net impairment losses of financial and contract assets		**(1,481)**	–
Others		**(176,522)**	(142,545)
		(1,315,791)	(1,090,448)
Operating profit		**126,911**	46,812
Finance income	*10*	**1,153**	643
Finance expenses	*10*	**(31,957)**	(30,320)
Finance costs, net	*10*	**(30,804)**	(29,677)
Profit before income tax		**96,107**	17,135
Income tax expense	*11*	**(19,468)**	(13,875)
Profit from continuing operations		**76,639**	3,260
Profit for the year		**76,639**	3,260
Attributable to:			
Equity owners of the Company		**81,798**	5,541
Non-controlling interests		**(5,159)**	(2,281)
		76,639	3,260

	Note	Year ended 31 December **2018** ***RMB'000***	 2017 *RMB'000*
Earnings per share for the profit from continuing operations attributable to the equity owners of the Company			
Basic earnings per share	*13*	**0.047**	0.004
Diluted earnings per share	*13*	**0.046**	0.004
Earnings per share for the profit attributable to the equity owners of the Company			
Basic earnings per share	*13*	**0.047**	0.004
Diluted earnings per share	*13*	**0.046**	0.004

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit for the year		**76,639**	3,260
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**(34,394)**	(17,284)
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**36,423**	(35,880)
Total comprehensive income for the year		**78,668**	(49,904)
Total comprehensive income for the year attributable to:			
Equity owners of the Company		**83,381**	(48,058)
Non-controlling interests		**(4,713)**	(1,846)
		78,668	(49,904)
Total comprehensive income for the year arising from:			
Continuing operations		**78,668**	(49,904)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

SPT Energy Group Inc. (the "Company") was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 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 Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 December 2011 through a global offering ("Global Offering").

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

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1.2 Historical cost convention

The financial statements have been prepared on a historical cost basis.

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 2018:

- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts with Customers*
- *Annual Improvements 2014-2016 cycle*
- *Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The adoption of IFRS 9 and IFRS 15 resulted in change in accounting policies of the Group.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly 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 2018 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 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 by lessees, 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.

Impact

The group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB97 million. Of these commitments, approximately RMB7 million relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the group expects to recognise right-of-use assets of approximately RMB88 million on 1 January 2019, and lease liabilities of RMB72 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). The Group expects that net profit after tax will decrease by approximately RMB2 million for 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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

2.2 Changes in accounting polices

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 2.2(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 2.2(c) 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 on 1 January 2018. 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.

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 income 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**

(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. 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 year, 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:

	2018 ***RMB'000***
Closing retained earnings 31 December 2017- IAS 39/IAS 18	**397,373**
Increase in provision for trade receivables and contract assets	**(5,752)**
Increase in deferred tax assets relating to impairment provisions	**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**

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 of services
- contract assets relating to service contracts
- other receivables
- cash and cash equivalents
- restricted bank deposits

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 2.2(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 receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB4,537,000 for trade receivables and RMB1,215,000 for contract assets.

The loss allowance decreased by RMB2,951,000 to RMB87,830,000 for trade receivables and increased by RMB486,000 to RMB1,701,000 for contract assets during the current reporting period.

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.

(c) 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 December 2017	**Reclassification**	**IFRS 15 carrying amount 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade and note receivables	682,644	(7,032)	675,612
Current 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 2.2(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 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).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of property, plant and equipment, intangible assets, and other non-current assets

The Group tests whether property, plant and equipment, intangible assets and other non-current assets have suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on higher of value-in-use and fair value less cost of disposal. These calculations require the use of estimates and assumptions. If future events do not correspond to such assumptions, the value in use amount will need to be revised, and this may have an impact on the Group's results of operation or balance sheet.

(b) Impairment of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and result in write-downs of inventories in the period which estimate has been changed.

(c) 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.

4. 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 2018 and 2017 are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue		
Drilling	**540,711**	320,489
Well completion	**309,147**	165,463
Reservoir	**621,791**	614,690
	1,471,649	1,100,642

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

Revenue amounting to RMB1,161,493,000 (2017: RMB760,092,000) are derived from CNPC 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 2018 and 2017 are as follows:

	Drilling	**Well completion**	**Reservoir**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
As at/Year ended 31 December 2018				
Revenue from external customers	**540,711**	**309,147**	**621,791**	**1,471,649**
Time of revenue recognition				
– At a point in time	**11,108**	**223,136**	**86,831**	**321,075**
– Over time	**529,603**	**86,011**	**534,960**	**1,150,574**
EBITDA	**82,628**	**96,652**	**149,382**	**328,662**
Total assets	**627,214**	**785,458**	**420,754**	**1,833,426**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**26,632**	**36,945**	**2,559**	**66,136**

	Drilling	Well completion	Reservoir	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at/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

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
EBITDA for reportable segments	**328,662**	223,782
Unallocated expenses		
– Share-based payments	**(7,931)**	(12,572)
– Other (losses)/gains, net	**(28,947)**	36,618
– Unallocated overhead expenses	**(93,434)**	(108,840)
	(130,312)	(84,794)
	198,350	138,988
Depreciation and amortisation	**(71,439)**	(92,176)
Finance expenses	**(31,957)**	(30,320)
Finance income	**1,153**	643
Profit before income tax	**96,107**	17,135

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,833,426**	1,590,636
Unallocated assets		
– Deferred income tax assets	**131,380**	141,899
– Unallocated inventories	**9,577**	8,803
– Unallocated prepayment and other receivables	**119,309**	97,341
– Restricted bank deposits	**7,227**	2,552
– Cash and cash equivalents	**353,638**	147,022
– Investments in associates	**5,440**	1,570
	626,571	399,187
Total assets per balance sheet	**2,459,997**	1,989,823

(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	
	2018	2017
	RMB'000	*RMB'000*
PRC	**922,694**	634,517
Kazakhstan	**351,141**	298,831
Turkmenistan	**79,195**	43,966
Canada	**54,329**	58,533
Indonesia	**35,371**	33,401
Middle East	**28,184**	30,200
Others	**735**	1,194
	1,471,649	1,100,642

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	
	2018	2017
	RMB'000	*RMB'000*
PRC	**221,402**	270,651
Kazakhstan	**60,151**	73,558
Middle East	**45,675**	69
Turkmenistan	**21,068**	25,602
Canada	**9,558**	13,065
Indonesia	**4,866**	8,912
Others	**21,541**	25,172
	384,261	417,029

(d) Assets and liabilities related to contracts with customers

The group has recognised the following assets and liabilities related to contracts with customers:

	31 December 2018	1 January 2018
	RMB'000	*RMB'000*
Current contract assets	**26,282**	7,032
Loss allowance	**(1,701)**	(1,215)
Total contract assets	**24,581**	5,817
Current contract liabilities	**13,956**	20,166
Total current contract liabilities	**13,956**	20,166

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract.

	Year ended 31 December 2018 *RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year	
– Drilling	**7,560**
– Well completion	**818**
– Reservoir	**221**
Total	**8,599**

5. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables *(a)*	**882,925**	756,385
Less: loss allowance	**(87,830)**	(86,244)
Trade receivables – net	**795,095**	670,141
Note receivables *(a)*	**96,123**	12,503
	891,218	682,644

Notes

(a) Fair values of trade and note receivables

Trade and note receivables are financial assets classified as "financial assets at amortised cost". The fair value of trade and note receivables approximated their carrying values.

(b) The ageing analysis of the trade and note receivables based on invoice date were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 6 months	**711,376**	539,550
6 months – 1 year	**94,411**	36,817
1 – 2 years	**51,409**	59,930
2 – 3 years	**18,314**	23,058
Over 3 years	**103,538**	109,533
Trade receivables, gross	**979,048**	768,888
Less: loss allowance	**(87,830)**	(86,244)
Trade and note receivables, net	**891,218**	682,644

(c) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB4,537,000 for trade receivables.

(d) Certain trade and note receivables have been pledged for the Group's bank borrowings.

6. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**95,789**	92,739
Prepayment for taxes	**26,857**	23,238
Less: loss allowance	**(1,739)**	(1,851)
Total non-financial assets	**120,907**	114,126
Deposits and other receivables	**77,411**	63,908
Receivable relating to disposal of equipment	**93,225**	86,976
Less: loss allowance	**(2,348)**	(3,366)
Total financial assets	**168,288**	147,518
	289,195	261,644
Non-current		
Advances to suppliers (Non-financial assets)	**419**	6,708
Prepayment for operating lease (Non-financial assets)	**15,726**	15,631
	16,145	22,339
Total	**305,340**	283,983

Notes

(a) Deposits and other receivables are financial assets classified under "other financial assets at amortised cost". The fair values of other receivables approximated their carrying values.

(b) Movements in impairment of prepayments representing those that were part due are as follows:

	2018	2017
	RMB'000	*RMB'000*
As at 1 January	**(1,851)**	(1,881)
Reversal	**112**	–
Written off	**–**	30
As at 31 December	**(1,739)**	(1,851)

7. SHARE CAPITAL

	Number of shares *(Thousands)*	Share capital *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 year *(a)*	3,000,000	1,924
Ordinary shares of USD0.0001 each as at 31 December 2018	5,000,000	3,219

(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 existing shares.

Issued and fully paid:

	Number of shares *(Thousands)*	Share capital *RMB'000*
Issued shares:		
As at 31 December 2017	1,535,192	975
Add:		
Issuance of ordinary shares *(b)*	306,958	195
Share options exercised	6,872	5
As at 31 December 2018	1,849,022	1,175

(b) On 7 May 2018, 306,958,000 placing shares were allotted and issued at HK$0.78 per share.

8. TRADE AND NOTE PAYABLES

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 6 months	**452,733**	253,763
6 months to 1 year	**37,750**	43,535
1 – 2 years	**62,170**	59,227
2 – 3 years	**49,834**	64,560
Over 3 years	**100,002**	95,888
	702,489	516,973

9. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest payable	**2,184**	4,529
Rental fee payable	**2,686**	3,381
Other payables	**23,843**	38,027
Total financial liabilities	**28,713**	45,937
Customer deposits and receipts in advance	**–**	20,166
Payroll and welfare payable	**43,599**	37,775
Taxes other than income taxes payable	**48,163**	40,000
Total non-financial liabilities	**91,762**	97,941
	120,475	143,878

10. FINANCE COSTS, NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange gains on financing activities	**149**	–
Interest income on short-term bank deposits	**1,004**	643
Total finance income	**1,153**	643
Net foreign exchange losses on financing activities	**–**	(1,018)
Interest expense:		
– Bank borrowings	**(16,721)**	(10,527)
– Liability component of convertible bonds	**(10,235)**	(14,576)
– Bank charges and others	**(3,780)**	(3,952)
– Secured loans from a third party institution	**(1,221)**	(247)
Total finance costs	**(31,957)**	(30,320)
Net finance costs	**(30,804)**	(29,677)

11. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**11,182**	19,617
Deferred income tax	**8,286**	(5,742)
Income tax expense	**19,468**	13,875

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 17% (2017: 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 2018 and 2017, 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 income 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	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**96,107**	17,135
Tax calculated at domestic tax rates applicable to profits in the respective countries	**14,749**	(4,539)
Expenses not deductible for taxation purposes	**6,171**	6,202
Utilisation of previously unrecognised tax losses	**(10,061)**	(12,944)
Losses not recognised as deferred income tax assets	**8,609**	25,156
Income tax expense	**19,468**	13,875

12. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2018 and 2017.

13. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to equity owners of the Company	**81,798**	5,541
Weighted average number of ordinary shares in issue (thousands)	**1,738,527**	1,534,838
Basic earnings per share (RMB per share)	**0.047**	0.004

(b) Diluted

Diluted earnings 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 earnings per share for the year ended 31 December 2018, the convertible bonds factor was excluded as it has an anti-dilutive effect for the year. As such only share options 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 issued assuming the exercise of the share potions.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to equity owners of the Company	**81,798**	5,541
Interest expense on convertible bonds	**Anti-dilutive**	Anti-dilutive
	81,798	5,541
Weighted average number of ordinary shares in issue (thousands)	**1,738,527**	1,534,838
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**36,973**	3,823
	1,775,500	1,538,661
Diluted earnings per share	**0.046**	0.004

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the Reporting Year, the average annual international oil price was significantly higher than last year. However, as a result of economic and geopolitical factors, the international oil price remained highly volatile throughout the year with an initial increase followed by a downward trend. Oil and gas companies gradually increased the expenditure on exploration and development and expanded production in response to the trend of rising oil price during the Reporting Year. Driven by the growth in investment in exploration and development, the global oil-field service market revealed a growing trend in 2018 in general and the growth rate of workload increased from last year. It was the second year since bottoming out of the oil price in 2016 to attain an overall growth of the market. However, as the oil-field service price remained relatively weak, the industry concept and business strategy of cost reduction and efficiency enhancement as well as innovation for change and maintaining steady development accumulated by the oil-field service companies over the past few years did not have any fundamental changes.

During the Reporting Year, the Group closely followed the market direction and seized the opportunities arising from the industry recovery in prior period. On the one hand, it endeavoured to consolidate the existing market share. On the other hand, it actively expanded new markets and new businesses. Thus, the Group maintained sound growth momentum in general. Firstly, it deeply penetrated into the regions and projects with traditional strengths, captured new growth areas and new opportunities and accelerated technological innovation to quickly respond to customer demands. In addition to providing customers with professional and comprehensive service, it consolidated the conventional oil and gas business segments in the northwest region of China and Central Asia to achieve steady growth in orders. Secondly, it expanded the industry layout and continued to step up its investment in new energy markets including non-conventional natural gas to gradually expand the proportion of new energy business. Thirdly, it strengthened horizontal cooperation. The Group established a joint venture with Xinjiang Energy (Group) Oil and Gas Co., Ltd., as a platform to greatly push ahead the Group's one-stop turnkey business. The long-term strategic partnership with Halliburton China Company was further strengthened where both parties established a tighter working mechanism and carried out widespread cooperation in areas including horizontal well drilling, optic fibre monitoring and high temperature logging. Fourthly, it continued to enhance the internal management efficiency, accelerated the optimisation of the Group's structure, rationalised the business flow, reduced redundant inventory, optimised the information system and built a more effective employee incentive system.

Based on the foregoing, the Group seized the opportunities in 2018 and quickly completed the self-transformation in the course of market turn and recorded steady increase in revenue and profits, thus laying a solid foundation for the market growth in 2019.

REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,471.6 million, representing an increase of RMB371.0 million or 33.7% over the previous year. The analysis of the Group's revenue by business segment is as follows:

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue			
Reservoir	**621,791**	614,690	1.2%
Drilling	**540,711**	320,489	68.7%
Well Completion	**309,147**	165,463	86.8%
Total	**1,471,649**	1,100,642	33.7%

The increase in revenue of the Group in 2018 was mainly due to market recovery, rising oil price, the Group's proactive market expansion efforts and enhancement of overall service standard and operating efficiency. Among which, the revenue contribution from reservoir segment accounted for 42.3%, up by 1.2% as compared with that of last year; the revenue contribution from drilling segment accounted for 36.7%, up by 68.7% as compared with that of last year; and the revenue contribution from well completion segment accounted for 21.0%, up by 86.8% as compared with that of last year. The oil reservoir services segment remained the largest contributor to revenue. In addition, benefiting from the oil companies' increased expenditure on exploration and development of well construction, revenue from the drilling segment and well completion segment grew considerably.

Oil Reservoir Service Segment

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from reservoir services			
Overseas	**284,084**	292,002	-2.7%
PRC	**337,707**	322,688	4.7%
Total	**621,791**	614,690	1.2%

The Group's oil reservoir service segment comprises geology research and oil reservoir research services, dynamic monitoring service, oil testing and oil recovery service, oil extraction process service, coiled tubing service and repair service of surface production devices.

During the Reporting Year, revenue from the oil reservoir services segment amounted to RMB621.8 million, representing an increase of RMB7.1 million or 1.2% as compared with that in the previous year, among which, revenue from the overseas markets decreased by 2.7% year-on-year to RMB284.1 million, accounting for 45.7% of the total revenue from oil reservoir services, mainly due to the depreciation of Kazakhstan Tenge; and revenue from the PRC market slightly increased by 4.7% year-on-year to RMB337.7 million, accounting for 54.3% of the total revenue of oil reservoir services.

During the Reporting Year, the Group's oil reservoir service segment further satisfied the demand for cost reduction and drilling efficiency enhancement of oil fields at current stage through enhancing the oil and gas reservoir extraction process technique. Various new oil and gas reservoir process techniques, including the technology of ultrasound production increase and injection increase, the negative pressure pump drainage and gas production technology and the matching technology of profile control and water shutoff technique, were successfully applied in certain markets. These technologies are expected to be widely applied in more regions.

Drilling Service Segment

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from drilling services			
Overseas	**162,082**	118,618	36.6%
PRC	**378,629**	201,871	87.6%
Total	**540,711**	320,489	68.7%

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, underbalanced drilling technology service, fine managed pressure drilling technology service, cementing services and drilling fluid services. The Group has carried out research and development (the "**R&D**") and integration of the slim-hole short radius sidetrack horizontal well technology, the old well potential layer logging process technology and the drilling efficiency enhancement technology to better cater for the demand of oilfields for drilling efficiency enhancement.

During the Reporting Year, revenue from drilling services segment amounted to RMB540.7 million, representing a substantial increase of RMB220.2 million or 68.7% as compared with that of the previous year, among which, revenue from the overseas market amounted to RMB162.1 million, up by 36.6% year-on-year and accounting for 30.0% of the total revenue from drilling services; and revenue from the PRC market amounted to RMB378.6 million, up by 87.6% year-on-year and accounting for 70.0% of the total revenue from drilling services.

As to the PRC market, the Group fully capitalised on the favourable conditions of growing business volume, stepped up the efforts to strengthen technological aspects, and voluntarily and actively expanded the business segments of shale gas, coal-bed gas and high performance environmentally friendly water-based slurry. The Group successively won the tender for the one-stop turnkey project of shale gas drilling and oil testing in Sichuan, the turnkey technical service project of high-performance water-based drilling fluid in Xinjiang and the coal-bed gas drilling service project in Shanxi. The drilling workload and revenue recorded substantial growth as a result. As to the overseas markets, the workload of workover business in both Iraq and Kazakhstan grew.

Well Completion Service Segment

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from well completion services			
Overseas	**102,789**	55,505	85.2%
PRC	**206,358**	109,958	87.7%
Total	**309,147**	165,463	86.8%

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

During the Reporting Year, revenue from well completion services segment amounted to RMB309.1 million, representing an increase of RMB143.7 million or 86.8% as compared with that of the previous year, among which, revenue from the overseas market increased by 85.2% as compared with that of last year to RMB102.8 million, accounting for 33.2% of the total revenue from well completion services; and revenue from the PRC market increased by 87.7% as compared with that of last year to RMB206.4 million, accounting for 66.8% of the total revenue from well completion services.

Through optimising the well completion market layout and increasing the compatibility between the well completion process and products and customer demand, the Group's well completion business strengths were consolidated and such business performed remarkably well in both the PRC and overseas markets. As to the PRC market, benefiting from the significant increase in well completion workload in Xinjiang and Southwest China, revenue from the well completion service of the Group in the PRC market grew substantially. During the Reporting Year, the Group secured the three-year sales contract for ultra-deep, ultra-high pressure and ultra-high temperature gas well completion in Xinjiang, thus laying a solid foundation for steadily pushing ahead the business of high-end well completion. The growth in revenue from well completion service in the overseas markets was mainly due to the growth in revenue from well completion and fracturing business in Central Asia.

MARKET ENVIRONMENT

During the Reporting Year, the average annual international oil price was higher than last year in general. The international oil price was volatile during the first quarter and rising in the second and third quarters. Until early October, the crude oil futures price of Brent and WTI marked a four-year high before plunging down in the fourth quarter.

The Group noted that the market trend during the Reporting Year was mainly due to the following factors:

1. The United States (the "**US**") resumed sanctions on Iran and caused changes in the fundamentals of the related markets. This affected the oil price throughout the year. The surge in oil price in the second and third quarters was mainly due to the estimated shortage that may arise due to the US's resumption of sanctions on Iran. However, in November, the US issued a 180-day crude oil import wavier to eight countries and regions, resulting in a significant decrease in international oil price at the end of the year.

2. During the Reporting Year, the market was dominated by three major parties, namely, the US, Russia and Organization of Petroleum Exporting Countries ("**OPEC**"). As the US production expanded, it surpassed Russia and became the largest crude oil producer in the world in November, thus gradually increasing its influence on the international oil market. On the other hand, the influence of the alliance formed by OPEC and other non-OPEC oil producing countries to cut production shrank.

3. Weakening global economic outlook, tightening financial environment, tense geopolitical conditions, trade friction and rising cost of petroleum imports increased the pressure on economic downturn of the emerging economies, and the growth in demand for petroleum worldwide was affected.

During the Reporting Year, as the international oil and gas market sustained the upside in 2017 and grew in the first three quarters, major oil and gas producers globally performed fairly well. In 2019, the international oil and gas market trend will remain to be driven by a combination of factors including fundamental factors and political factors. It is expected to remain highly volatile with an upward trend.

Overseas Markets

The Group's overseas markets mainly cover Central Asia such as Kazakhstan and Turkmenistan, Indonesia, Singapore, the Middle East and Canada. During the Reporting Year, the Group took proactive measures and further consolidated and expanded the operations in the overseas markets. Among which, the revenue from Kazakhstan amounted to RMB351.1 million, representing 64% of the revenue from the overseas markets of the Group. Accordingly, Kazakhstan remains the largest overseas market in terms of revenue contribution to the Group. The Group successively won the tender for the scientific research project, risk fracturing service project and workover project in Kazakhstan; won the tender for the well completion tool project and coiled tubing project in Turkmenistan; and won a two-year service project for the workover machine in Iraq, which has commenced operation. At the same time, the Group also concentrated on expanding into overseas markets including Africa and other countries in the Middle East and Central Asia.

PRC Market

During the Reporting Year, China's degree of dependence on foreign trade of oil and gas continued to increase. Among which, its dependence on foreign trade of petroleum was around 70% and its dependence on foreign trade of natural gas exceeded 40%. To enhance energy safety, the central government successively promulgated policies to strongly support the development and utilisation of clean energy including natural gas , and the oil and gas reform in China continued to deepen. Oil companies in China gradually stepped up the efforts in oil and gas exploration and development while pushing ahead both conventional oil and gas and non-conventional oil and gas development.

The petroleum exploration segment of PetroChina Company Limited ("**PetroChina**") identified a batch of quality reserves in the Junggar basin and Ordos basin. Its natural gas exploration made new progress in Tarim, whereas its exploration of deep shale gas in Sichuan basin made new breakthrough. China Petroleum & Chemical Corporation ("**Sinopec**") made new discoveries in the oil and gas exploration in the Sichuan basin and Tarim basin.

In 2018, business volume of privately-owned oil-field service companies increased in general amid intensifying competition. In 2019, the expansion of quality reserves will be the top priority of the three PRC oil giants and the workload of oil-field service companies in China will continue to grow, thus generating many opportunities for oil-field service companies in China. During the Reporting Year, the Group closely followed the market direction and participated actively in the existing markets and performed well in the development of service segments with traditional strengths, one-stop turnkey business and new energy business.

1. One-stop turnkey service gradually progressed: The one-stop turnkey oil-field service project of the shale gas platform in Sichuan smoothly operated with increasingly established big project management system. The Group's subsidiary and Xinjiang Energy (Group) Oil and Gas Co., Ltd. established a joint venture, which is intended to be positioned to engage in the provision of engineering technology service and oil-field operation and maintenance service covering coal-bed gas and oil and gas fields, to drive the rapid development of the one-stop turnkey engineering technology service in the PRC market of the Group through complementary strengths and resource integration. Currently, the joint venture has obtained relevant market qualifications and is expanding the business.

2. Accelerating the introduction of new products and new technologies and securing new profit points in traditional markets: It won a tender for a high-performance water-based drilling fluid technical services project in Xinjiang which filled the gap in the application of environmentally-friendly water-based drilling fluid in high-temperature and high-pressure wells in China. It entered into a three-year framework agreement for well completion tools in Xinjiang to steadily push forward the sales of high-end well completion tools. It won a tender worth of approximately US$10 million for coiled tubing service project in Turkmenistan.

3. Greatly expanding the new green businesses including coal-bed gas and oily sludge treatment to initially shape the industry value of the new green business: It won a tender for the coal-bed gas fracturing project and the oily sludge biotreatment project in Xinjiang.

R&D AND MANUFACTURING

During the Reporting Year, the R&D and manufacturing key works identified by the Group were as follows: On the one hand, it endeavoured to strengthen the development of oil reservoir services and oil extraction process technique capabilities by enhancing the process technique of oil and gas reservoir recovery. On the other hand, it centred around the non-conventional drilling efficiency enhancement process technique to increase the technological competitiveness of oil and gas reservoir drilling efficiency enhancement. Through new technology introduction, incubation and innovation, the Group's technological structure was adjusted with an increasing percentage of low-cost and high-efficiency new technologies.

The technology of ultrasound production increase and injection increase 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. In 2019, the Group will further expand the business volume of such technology.

The matching technology of profile control and water shutoff technique commenced operation in Kazakhstan and achieved a significant breakthrough. The R&D centre of the Group carried out a comprehensive range of analysis on such technology in areas of well selection, plugging agent selection, construction design and construction results. The results of the analysis showed that the effect of operations was significant. The technology created an industry value of over RMB10 million. In 2019, the Group will continue to enter into a number of service contracts to further promote such technology.

The negative pressure pump drainage and gas production technology was successfully applied for the first time in Xinjiang. This marks a significant milestone of the Group with respect to the application of such service in the region and will become a major breakthrough as one of the Group's profit generating production units.

The Group stepped up its efforts on the R&D of equipment. The innovative application of the integrated tool for casing damage has reduced more than 30 days of the overall contract period and allowed the Group to secure several fishing service contracts.

The dragging sectional sand blasting perforation and sand fracturing as well as new technology of double sealing and single staged sand fracturing were successfully applied in the horizontal wells in Kazakhstan and received high recognition from customers, creating an industry value of close to RMB10 million. In 2019, the Group expects to enter into a number of service contracts with respect to such technology.

The R&D centre of the Group carried out technological integration and resource allocation of the optic fibre monitoring technology, drilling efficiency enhancement technology, thick oil recovery enhancement technology, Internet of things and artificial intelligence, and had multiple technological exchanges with customers. In 2019, the Group will devote more resources to the R&D and application in the above areas for greater market prospects.

HUMAN RESOURCES

To cope with the changes in the external market and to satisfy the needs of its strategic development, the Group has adopted the following key measures on human resources:

During the Reporting Year, the Group continued to optimise the organisational structure to further define the reporting line functions and rationalise the management hierarchies. At the same time, it strengthened the integration of quality resources of various business entities to facilitate the effective concentration of various regional markets, operations and management resources. The Group refined the performance assessment indicators of various operating entities in a targeted manner so that the assessment not only covers the operating efficiencies and results but also takes into account the process of growth and development. In addition, the Group pushed ahead the incentive system across all employees with positive incentive effects, thus laying a solid foundation for the development for 2019.

In 2019, the Group will further develop and improve the authorisation and incentive system, and will attach great importance to the introduction of quality talents while strengthening the team building to better satisfy the development needs of the Group.

As at 31 December 2018, the Group had a total of 3,625 employees, up by 214 employees from 3,411 employees as at 31 December 2017. In 2018, the actual costs of human resources of the Group were controlled within the budget amount set at the beginning of the year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, revenue of the Group was RMB1,471.6 million, representing an increase of RMB371.0 million, or 33.7%, as compared with that of RMB1,100.6 million for the previous year. The increase was mainly due to the growth of the Group's overall business.

Other (losses)/gains, net

For the year ended 31 December 2018, other losses, net of the Group were RMB28.9 million, while other gains, net for the previous year were RMB36.6 million. The net losses were mainly due to exchange loss in USD denominated liabilities held by a PRC subsidiary as a result of weakening of RMB against USD.

Material costs

For the year ended 31 December 2018, material costs of the Group were RMB303.5 million, representing an increase of RMB68.5 million, or 29.1%, as compared with that of RMB235.0 million for the previous year. The increase of material costs was mainly due to the growth of operating activities of the Group.

Employee benefits expenses

For the year ended 31 December 2018, employee benefit expenses of the Group were RMB409.1 million, representing an increase of RMB42.1 million, or 11.5%, as compared with that of RMB367.0 million for the previous year. The increase was mainly due to the headcount growth due to the growth of operating activities of the Group.

Operating lease expenses

For the year ended 31 December 2018, operating lease expenses of the Group were RMB88.4 million, representing an increase of RMB19.0 million, or 27.4%, as compared with that of RMB69.4 million for the previous year. It was mainly due to the growth of operating activities of the Group.

Transportation costs

For the year ended 31 December 2018, transportation costs of the Group were RMB27.8 million, representing an increase of RMB8.8 million, or 46.3%, as compared with that of RMB19.0 million for the previous year. The increase was mainly due to the growth of operating activities of the Group.

Depreciation and amortisation

For the year ended 31 December 2018, depreciation and amortisation of the Group was RMB71.4 million, representing a decrease of RMB20.8 million, or 22.6%, as compared with that of RMB92.2 million for the previous year. The decrease was mainly because some of the fixed assets were fully depreciated.

Technical service expenses

For the year ended 31 December 2018, technical service expenses of the Group were RMB219.3 million, representing an increase of RMB31.0 million, or 16.5%, as compared with that of RMB188.3 million for the previous year. The increase was mainly due to the increase in operating activities of the Group.

(Impairment losses)/reversal of impairment losses of assets

For the year ended 31 December 2018, impairment losses of assets of the Group were RMB18.2 million while reversal of impairment loss of assets was RMB22.9 million in the previous year. The impairment losses of assets were mainly due to inventory impairment.

Others

For the year ended 31 December 2018, other operating costs of the Group were RMB176.5 million, representing an increase of RMB34.0 million, or 23.9%, as compared with that of RMB142.5 million for the previous year. The increase was mainly due to the growth of operating activities of the Group.

Operating profit

As a result of the aforementioned changes, the Group's operating profit during the Reporting Year was RMB126.9 million, compared with the operating profit of RMB46.8 million for the previous year.

Finance costs, net

For the year ended 31 December 2018, the Group's finance costs, net were RMB30.8 million, representing an increase of RMB1.1 million, or 3.7%, as compared with that of RMB29.7 million for the previous year. The increase was mainly due to the increase in financing of the Group.

Income tax expense

For the year ended 31 December 2018, income tax expense was RMB19.5 million, compared with the income tax expense of RMB13.9 million for the previous year. The increase in income tax expense was as a result of the growth of the operating activities of the Group.

Profit for the year

As a result of the explanations above, the Group's profit for the Reporting Year was RMB76.6 million, while profit for the prior year amounted to RMB3.3 million.

Profit attributable to equity owners of the Company

For the year ended 31 December 2018, profit attributable to equity owners of the Company was RMB81.8 million, while profit attributable to equity owners of the Company amounted to RMB5.5 million for the previous year.

Property, plant and equipment

As at 31 December 2018, property, plant and equipment was RMB333.6 million, representing a decrease of RMB15.0 million, or 4.3%, from RMB348.6 million as at 31 December 2017. The change was mainly due to the disposal of certain equipment and continuing depreciation of existing equipment.

Land use rights

As at 31 December 2018, the carrying value of land use right was RMB20.8 million, representing a decrease of RMB0.5 million, or 2.3%, from RMB21.3 million as at 31 December 2017. This was mainly due to the continuing amortisation of existing land use rights.

Intangible assets

As at 31 December 2018, intangible assets were RMB13.7 million, representing a decrease of RMB9.5 million, or 40.9%, from RMB23.2 million as at 31 December 2017. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2018, deferred income tax assets were RMB131.4 million, representing a decrease of RMB10.5 million, or 7.4%, from RMB141.9 million as at 31 December 2017. The decrease was mainly due to the utilisation of deferred income tax assets related to tax loss carried forward.

Prepayments and other receivables

As at 31 December 2018, non-current portion of prepayments and other receivables was RMB16.1 million, representing a decrease of RMB6.2 million, or 27.8%, from RMB22.3 million as at 31 December 2017, while current portion of prepayments and other receivables was RMB289.2 million, representing an increase of RMB27.6 million, or 10.6%, from RMB261.6 million as at 31 December 2017. The increase was mainly due to growth of operating activities of the Group.

Inventories

As at 31 December 2018, inventories were RMB373.1 million, representing an increase of RMB36.1 million, or 10.7%, from RMB337.0 million as at 31 December 2017. The increase was mainly due to the growth of operating activities of the Group.

Trade and note receivables/trade and note payables

As at 31 December 2018, trade and note receivables amounted to RMB891.2 million, representing an increase of RMB208.6 million, or 30.6%, from RMB682.6 million as at 31 December 2017. The increase was mainly due to the increase of revenue realised during the Reporting Year. As at 31 December 2018, trade and note payables amounted to RMB702.5 million, representing an increase of RMB185.5 million, or 35.9%, from RMB517.0 million as at 31 December 2017. The increase was mainly due to the growth of operating activities of the Group.

Liquidity and capital resources

As at 31 December 2018, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB360.9 million, representing an increase of RMB211.3 million, or 141.2%, from RMB149.6 million as at 31 December 2017. The increase was mainly due to the growth of operating activities of the Group.

As at 31 December 2018, the Group's short-term borrowings and current portion of long-term borrowings were RMB154.6 million while the long-term borrowings were RMB143.0 million. 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 2018, the Group's gearing ratio was 23.8%, representing a decrease of 5.0% as compared with 28.8% as at 31 December 2017. 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 2018, the total number of ordinary shares of the Company in issue was 1,849,021,665 shares (31 December 2017: 1,535,192,332 shares). As at 31 December 2018, equity attributable to the equity owners of the Company was RMB1,158.0 million, representing an increase of RMB278.0 million, or 31.6%, as compared with RMB880.0 million as at 31 December 2017.

Significant investment held

As at 31 December 2018, 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 to secure the Group's bank borrowings

As at 31 December 2018, the Group pledged parts of its long-term prepayments and trade and note receivables to secure the Group's bank borrowings. The carrying values of the assets pledged are as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Long-term prepayments	**6,130**	6,565
Trade and note receivables	**218,516**	73,200

Convertible bonds

The Bonds recognised in the balance sheet was calculated as follows:

	2018
	RMB'000
Liability component as at 31 December 2017	**89,786**
Add: Interest expense in 2018	**10,235**
Less: Interest paid and payable	**(1,973)**
Less: Repaid	**(102,948)**
Add: Exchange difference	**4,900**
Liability component as at 31 December 2018	**–**

Contingent liabilities

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2018, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2018, the Group had no capital expenditure commitments, while operating lease commitments were mainly lease of offices, warehouses and equipment with the amount of RMB97.4 million.

OUR PLANS

As the pressure of global economic downturn increases in 2019, it is expected that the growth of petroleum demand will slow down with many uncertainties in the oil and gas market. The size of oil-field technology service market worldwide is expected to further expand but the pace of growth may slow down. In the PRC market, due to the very high level of dependence on oil and gas imports over a long period of time, the oil and gas field enterprises in China will significantly increase the investment in exploration and development in 2019 to vigorously push ahead the development of the oil-field service market in China. Accordingly, compared with the overseas markets, the PRC market presents more opportunities and room for development in 2019. The Group will closely follow the market demand and continue to focus its efforts on the following areas in 2019:

1. The Group will take a market-oriented approach with focus on satisfying customers' needs while endeavouring to expand the existing businesses. In addition to expediting the extension to the high-end market, the Group will accelerate the high-end and integrated business transformation, and gradually shape the development of turnkey business.

2. The Group will strengthen the development of technological power by introducing and developing new technologies that meet customers' pressing needs, seek new profit growth points and expand into new areas and new businesses in a planned manner while exploring a new business model.

3. Following the state's strategic planning for overseas business, the Group endeavours to promote customer diversification and internationalisation to actively expand the overseas markets including the Middle East and Africa. At the same time, the Group focuses on the development of business in regions with fast-growing investments in the PRC market including Xinjiang, Sichuan and the Bohai region.

4. The Group will further establish and improve the three major systems of authorisation, risk management and incentives to build a sustainable and efficient management platform.

5. The Group will strengthen team building and attach great importance to introducing high-end talents while nurturing a management team with market experience, management capabilities, innovation and creativity.

6. The Group will accelerate the turnover of existing assets to further reduce the operating costs and enhance the operating efficiency.

FINAL DIVIDEND

The Board did not propose a final dividend for the year ended 31 December 2018 (2017: 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 13 June 2019, the register of members of the Company will be closed from 10 June 2019 to 13 June 2019 (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 2019.

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 year ended 31 December 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 10 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 year ended 31 December 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 HK$0.78 per placing share (the "**Placing**"). The completion of the Placing took place on 7 May 2018.

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

The net proceeds from the Placing (after deducting the placing commission, professional expenses and all related expenses borne by the Company) amounted to approximately HK$232,226,000, which were used to repay the convertible bonds due and as general working capital. During the Reporting Year, details of the use of net proceeds from the Placing were stated as follows:

Use of the net proceeds	Amount *(HK$'000)*
Repayment of convertible bonds due	120,207
General working capital	112,019
Total	**232,226**

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

Save as otherwise disclosed in this announcement, during the year ended 31 December 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 final results for the year ended 31 December 2018 of the Group with the auditor of the Company.

PUBLICATION

The annual results announcement for the year ended 31 December 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 annual 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, 26 March 2019

As of the date of this announcement, the executive Directors are Mr. Wang Guoqiang, Mr. Ethan Wu, Mr. Li Qiang and Mr. Wu Jiwei; the non-executive Director is 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*