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SPT Energy Group Inc.

華油能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1251)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

INTERIM RESULTS HIGHLIGHTS

For the six months ended 30 June 2019, the Group's revenue was RMB754.7 million, representing an increase of RMB214.1 million, or 39.6%, from RMB540.6 million for the comparative period of the previous year.

The profit attributable to equity holders of the Company for the six months ended 30 June 2019 was RMB75.2 million, representing an increase of RMB55.5 million, or 281.7%, from RMB19.7 million for the comparative period of the previous year.

No interim dividend for the six months ended 30 June 2019 was proposed to the shareholders of the Company by the Board (for the six months ended 30 June 2018: 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 2019 (the “**Period**”), together with the comparative figures for the same period of the previous year as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2019	31 December 2018
		RMB'000	RMB'000
	<i>Note</i>	Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment		334,705	333,590
Right-of-use assets	4	95,042	–
Land use rights		–	20,792
Intangible assets		9,871	13,734
Investments in associates		5,608	5,440
Deferred income tax assets		121,822	131,380
Prepayments and other receivables	8	48,918	16,145
		615,966	521,081
Current assets			
Inventories		421,079	373,057
Contract assets		37,324	24,581
Trade and note receivables	7	886,713	891,218
Prepayments and other receivables	8	301,264	289,195
Restricted bank deposits		22,658	7,227
Cash and cash equivalents		262,426	353,638
		1,931,464	1,938,916
Total assets		2,547,430	2,459,997
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	9	1,176	1,175
Share premium		846,507	845,246
Other reserves		310,030	298,510
Retained earnings		539,828	468,476
Currency translation differences		(446,907)	(455,398)
		1,250,634	1,158,009
Non-controlling interests		94,117	93,403
Total equity		1,344,751	1,251,412

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		30 June 2019 RMB'000 Unaudited	31 December 2018 RMB'000 Audited
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings		60,712	142,990
Lease liabilities	<i>4</i>	48,375	—
Deferred income tax liabilities		19,890	18,642
		128,977	161,632
Current liabilities			
Borrowings		163,543	123,274
Current portion of long-term borrowings		138,281	31,258
Contract liabilities		6,429	13,956
Trade and note payables	<i>10</i>	612,462	702,489
Accruals and other payables	<i>11</i>	83,465	120,475
Current income tax liabilities		55,392	55,501
Lease liabilities	<i>4</i>	14,130	—
		1,073,702	1,046,953
Total liabilities		1,202,679	1,208,585
Total equity and liabilities		2,547,430	2,459,997

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>	Unaudited	Unaudited
Revenue	6	<u>754,747</u>	<u>540,562</u>
Other gains/(losses), net		<u>3,422</u>	<u>(5,291)</u>
Operating costs			
Material costs		(179,205)	(129,211)
Employee benefit expenses		(223,747)	(186,682)
Operating lease expenses		(38,524)	(33,090)
Transportation costs		(16,990)	(6,067)
Depreciation and amortisation		(39,594)	(39,448)
Technical service expenses		(97,872)	(40,422)
Reversal of impairment of assets		706	578
Reversal of impairment/(impairment) of financial and contract assets		1,344	(1,349)
Others		<u>(60,704)</u>	<u>(58,223)</u>
		<u>(654,586)</u>	<u>(493,914)</u>
Operating profit		<u>103,583</u>	<u>41,357</u>
Finance income		1,013	326
Finance costs		<u>(13,728)</u>	<u>(17,336)</u>
Finance costs, net	12	<u>(12,715)</u>	<u>(17,010)</u>
Profit before income tax		<u>90,868</u>	<u>24,347</u>
Income tax expense	13	<u>(15,642)</u>	<u>(6,789)</u>
Profit for the period		<u><u>75,226</u></u>	<u><u>17,558</u></u>
Profit is attributable to:			
Owners of the Company		75,159	19,684
Non-controlling interests		<u>67</u>	<u>(2,126)</u>
		<u><u>75,226</u></u>	<u><u>17,558</u></u>
Earnings per share for the profit attributable to the equity holders of the Company			
Basic earnings per share (RMB)	15	0.0406	0.0121
Diluted earnings per share (RMB)	15	<u>0.0400</u>	<u>0.0117</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended 30 June	
		2019 <i>RMB'000</i> Unaudited	2018 <i>RMB'000</i> Unaudited
Profit for the period		75,226	17,558
Other comprehensive income:			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Currency translation differences		7,150	(12,552)
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Currency translation differences		1,290	13,155
Total comprehensive income for the period		83,666	18,161
Total comprehensive income for the period is attributable to:			
Owners of the Company		83,650	20,273
Non-controlling interests		16	(2,112)
		83,666	18,161
Total comprehensive income for the period		83,666	18,161

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	Six months ended 30 June	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
		Unaudited	Re-presented Unaudited
Cash flows from operating activities			
Cash used in operations		(46,447)	(67,511)
Income tax paid		(1,517)	(8,696)
Net cash used in operating activities		(47,964)	(76,207)
Cash flows from investing activities			
Purchases of property, plant and equipment		(76,931)	(12,481)
(Increase)/decrease in restricted bank deposits		(15,431)	688
Interest received		935	64
Proceeds from disposal of property, plant and equipment		82	2,663
Purchases of intangible assets		(9)	—
Net cash used in investing activities		(91,354)	(9,066)
Cash flows from financing activities			
Proceeds from borrowings		179,543	212,817
Repayments of borrowings		(107,572)	(174,680)
Interest paid		(12,987)	(15,571)
Principal elements of lease payments		(7,187)	—
Payments of financing fee and deposits		(4,080)	—
Proceeds from exercise of share options		889	797
Net proceeds from placing of new shares		—	188,129
Acquisition of non-controlling interests		(515)	—
Net cash generated from financing activities		48,091	211,492
Net (decrease)/increase in cash and cash equivalents		(91,227)	126,219
Cash and cash equivalents at beginning of the period		353,638	147,022
Exchange gains/(losses) on cash and cash equivalents		15	(1,754)
Cash and cash equivalents at end of the period		262,426	271,487

* In order to enhance the comparability of the cash flow statement of the Group, the Group classified interest paid and interest received from operating activities to financing activities and investing activities respectively in the current period. Prior period figures were also reclassified accordingly.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

SPT Energy Group Inc. (the “**Company**”) was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 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**”) and overseas. 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 26 August 2019.

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 2019 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 2018, 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 2018, except for the adoption of new and amended standards as set out below.

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 and make retrospective adjustments as a result of adopting IFRS 16 *Lease*.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 4 below. The other new or amended standards did not have any significant impact on the Group’s accounting policies and did not require retrospective adjustments.

4. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019, where it is different to those applied in prior periods.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. As such, the reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.4%.

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	97,362
Discounted using the lessee's incremental borrowing rate of at the date of initial application	82,229
(Less): short-term leases to be recognised on a straight-line basis as expense	(16,038)
(Less): low-value leases to be recognised on a straight-line basis as expense	(23)
(Less): contracts reassessed as service agreements	(503)
Lease liability recognised as at 1 January 2019	65,665
Of which are:	
Current lease liabilities	(13,665)
Non-current lease liabilities	(52,000)
	(65,665)

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 RMB'000	1 January 2019 RMB'000
Buildings	55,058	55,195
Land use rights	20,552	20,792
Machinery and equipment	16,377	20,458
Furniture, fixtures and others	3,055	3,078
Total right-of-use assets	95,042	99,523

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Adjustments recognised on adoption of IFRS 16 (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Land use rights – decrease by RMB20,792,000
- Right-of-use assets – increase by RMB99,523,000
- Accruals and other payables – decrease by RMB2,386,000
- Lease liabilities – increase by RMB65,665,000
- Prepayment – decrease by RMB15,452,000

(i) Impact on segment disclosures and earnings per share

Adjusted profit or loss before income tax expense, depreciation and amortisation, finance income, finance costs and certain unallocated expenses (“**EBITDA**”), segment assets and segment liabilities for June 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The following segments were affected by the change in policy:

	Adjusted EBITDA RMB'000	Segment assets RMB'000	Segment liabilities RMB'000
Drilling	4,120	33,027	(33,492)
Well completion	1,829	12,680	(12,827)
Reservoir	3,053	13,641	(13,798)
	<u>9,002</u>	<u>59,348</u>	<u>(60,117)</u>

Earnings per share decreased by RMB0.0003 per share for the six months ended 30 June 2019 as a result of the adoption of IFRS 16.

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) The Group's leasing activities and how these are accounted for

The Group leases buildings, machinery and equipment, furniture, fixtures and others as well as land. Rental contracts are typically made for fixed periods of 2 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise some small machinery and equipment and small items of office furniture.

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 2018.

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 are responsible for reviewing 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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Drilling	312,219	221,768
Well completion	196,356	91,238
Reservoir	246,172	227,556
	<u>754,747</u>	<u>540,562</u>

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 EBITDA.

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	Unaudited	Unaudited
EBITDA		
Drilling	69,486	45,199
Well completion	61,230	18,838
Reservoir	64,487	60,585
	195,203	124,622

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

	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	Unaudited	Audited
Total assets		
Drilling	714,495	627,214
Well completion	748,672	785,458
Reservoir	526,026	420,754
	1,989,193	1,833,426

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	Unaudited	Unaudited
EBITDA for reportable segments	195,203	124,622
Unallocated expenses		
– Share-based payments	(8,589)	(3,031)
– Other gains/(losses), net	3,422	(5,291)
– Unallocated overhead expenses	(46,859)	(35,495)
	(52,026)	(43,817)
	143,177	80,805
Depreciation and amortisation	(39,594)	(39,448)
Finance income	1,013	326
Finance costs	(13,728)	(17,336)
Profit before income tax	90,868	24,347

6. SEGMENT INFORMATION (CONTINUED)

(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:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	Unaudited	Unaudited
Revenue		
PRC	468,030	322,082
Kazakhstan	139,515	143,199
Turkmenistan	78,260	29,972
Canada	23,258	21,864
Indonesia	24,284	14,894
Middle East	20,170	8,544
Others	1,230	7
	754,747	540,562

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:

	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	Unaudited	Audited
Non-current assets (other than deferred income tax assets)		
PRC	313,050	221,402
Kazakhstan	60,785	60,151
Middle East	42,554	45,675
Turkmenistan	35,567	21,068
Singapore	21,448	21,529
Canada	9,576	9,558
Indonesia	4,924	4,866
Others	632	12
	488,536	384,261

7. TRADE AND NOTE RECEIVABLES

	30 June 2019 <i>RMB'000</i> Unaudited	31 December 2018 <i>RMB'000</i> Audited
Trade receivables	868,961	882,925
Less: loss allowance	(85,911)	(87,830)
Trade receivables – net	783,050	795,095
Note receivables	103,663	96,123
	886,713	891,218

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

	30 June 2019 <i>RMB'000</i> Unaudited	31 December 2018 <i>RMB'000</i> Audited
Up to 6 months	668,278	711,376
6 months – 1 year	138,285	94,411
1 – 2 years	50,514	51,409
2 – 3 years	15,452	18,314
Over 3 years	100,095	103,538
Trade and note receivables, gross	972,624	979,048
Less: loss allowance	(85,911)	(87,830)
Trade and note receivables, net	886,713	891,218

8. PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2019 RMB'000 Unaudited	31 December 2018 RMB'000 Audited
Current		
Advances to suppliers	107,476	95,789
Prepayment for taxes	18,762	26,857
Less: loss allowance	(1,543)	(1,739)
	<u>124,695</u>	<u>120,907</u>
Total non-financial assets		
Deposits and other receivables	97,234	77,411
Receivable relating to disposal of certain equipment	83,140	93,225
Less: loss allowance	(3,805)	(2,348)
	<u>176,569</u>	<u>168,288</u>
Total financial assets	<u>301,264</u>	<u>289,195</u>
Non-current		
Advances to suppliers	47,716	419
Deposit of other receivable	1,202	274
Prepayment for operating lease	–	15,452
	<u>48,918</u>	<u>16,145</u>
Total	<u><u>350,182</u></u>	<u><u>305,340</u></u>

9. SHARE CAPITAL

	Number of share (Thousands)	Share capital RMB'000
Authorised:		
Ordinary shares of USD0.0001 each as at 30 June 2019 and 31 December 2018	<u>5,000,000</u>	<u>3,219</u>
Issued and fully paid:		
Ordinary shares of USD0.0001 each		
As at 31 December 2018 (Audited)	1,849,022	1,175
Add: Share options exercised	<u>2,079</u>	<u>1</u>
As at 30 June 2019 (Unaudited)	<u><u>1,851,101</u></u>	<u><u>1,176</u></u>

10. TRADE AND NOTE PAYABLES

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

	30 June 2019 RMB'000 Unaudited	31 December 2018 RMB'000 Audited
Up to 6 months	407,784	452,733
6 months to 1 year	63,486	37,750
1 – 2 years	33,011	62,170
2 – 3 years	12,867	49,834
Over 3 years	95,314	100,002
	612,462	702,489

11. ACCRUALS AND OTHER PAYABLES

	30 June 2019 RMB'000 Unaudited	31 December 2018 RMB'000 Audited
Interest payable	3,022	2,184
Rental payable	–	2,686
Other payables	21,792	23,843
Total financial liabilities	24,814	28,713
Payroll and welfare payable	23,780	43,599
Taxes other than income tax payable	34,871	48,163
Total non-financial liabilities	58,651	91,762
	83,465	120,475

12. FINANCE COSTS, NET

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Finance income:		
– Interest income on short-term bank deposits	935	197
Net foreign exchange gains on financing activities	78	129
Finance income	1,013	326
Interest expense:		
– Bank borrowings	(8,090)	(8,158)
– Interest paid for lease liability	(1,813)	–
– Bank charges and others	(2,451)	(1,583)
– Secured loans from a third party institution	(1,374)	–
– Liability component of convertible bonds	–	(7,595)
Finance costs	(13,728)	(17,336)
Finance costs, net	(12,715)	(17,010)

13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Current income tax		
– PRC	949	21
– Kazakhstan	2,795	1,435
– Others	1,457	66
Deferred income tax	10,441	5,267
Income tax expense	15,642	6,789

The Group operates mainly in the PRC and overseas. The estimated income tax rates applicable to the Group entities (excluding group companies that are currently tax exempted) for the six months ended 30 June 2019 varies from 15% to 30%.

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 2019, 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 at a rate of 25%.

14. DIVIDEND

The Board did not propose interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

15. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Profit attributable to equity holders of the Company (RMB'000)	75,159	19,684
Weighted average number of ordinary shares in issue (thousands)	1,849,466	1,628,227
Basic earnings per share (RMB)	0.0406	0.0121

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by assuming conversion of all dilutive potential ordinary shares. The Company's share options comprised the potential ordinary shares. When calculating the dilutive earnings per share for the six months ended 30 June 2019, share options factor was considered by comparing the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options with those that would have been issues assuming the exercise of the share options.

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	Unaudited	Unaudited
Earnings		
Profit attributable to equity holders of the Company	75,159	19,684
Interest expense on convertible bonds	–	Anti-dilutive
	75,159	19,684
Weighted average number of ordinary shares in issue (thousands)	1,849,466	1,628,227
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	–	Anti-dilutive
– Share options (thousands)	27,415	47,966
	1,876,881	1,676,193
Diluted earnings per share (RMB)	0.0400	0.0117

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Period, affected by the changes in market demand and supply and geopolitical factors, international oil prices revealed a general trend of wide fluctuations with an initial increase followed by a downward trend. The improvement of fundamentals led to continuously steady growth of investment in oil and gas exploration and development. As a result, the oil-field service workload also sustained the growth trend of last year. In particular, major oil companies in China recorded greater year-on-year growth in overall investments in exploration and development, which drove the rapid growth of the Company's business in the PRC. However, the overall oil-field service industry remained under pressure due to the fluctuating international oil prices. Uncertainties including the slowdown in global economy could result in a decline in demand for crude oil. As the exploration of renewable energy was expedited, market competition was fierce. All these have made oil-field service companies eager to innovate and reform continuously.

During the Period, the Group continued to implement the business strategy of cost reduction, efficiency enhancement and seeking change amid steady growth. While actively adjusting the strategic layout and stepping up market expansion efforts, the Group's business volume and output value grew steadily. Details of the measures are as follows:

First, the Group closely followed the national strategy, optimised the industry layout and integrated manpower and materials resources. While deeply developing the non-conventional oil and gas development projects including the shale gas project in Sichuan and Chongqing and the shale oil project in Xinjiang, the Group consolidated the conventional oil and gas business in the Central Asia region and expanded into new regions of the overseas markets including Africa to gradually expand the market share in various regions.

Second, the Group strengthened the horizontal cooperation and laid out the smart oilfields. The joint venture established by the Group and Xinjiang Energy (Group) Petroleum & Natural Gas Co., Ltd. officially commenced operation and obtained initial order volume. Looking ahead, the joint venture will devote more resources to develop the integrated turnkey business. The long-term strategic partnership between the Group and Halliburton China Company was further enhanced where the area of cooperation between the parties continued to expand to include well completion tools, horizontal well drilling, optic fibre monitoring, high temperature logging, rotary geosteering etc. The Group and The Fourth Paradigm (Beijing) Technology Co., Ltd. entered into a letter of intent for strategic cooperation to integrate traditional oil-field service technology with emerging technologies such as artificial intelligence, big data to jointly develop smart oilfield business. Currently, both parties have commenced cooperation in Xinjiang regions to push ahead the intelligent construction of local oil and gas fields.

Third, the Group accelerated the internal management efficiency and optimised the training system and talent team development to build an efficient and professional management team.

Based on the foregoing, benefiting from the increase in market demand for oil-field service, increase in the order volume of the Group and the enhancement in operating efficiency, the Group recorded a fairly substantial growth in results in the first half of 2019 as compared with that for the corresponding period of last year, which laid a solid foundation for the Group's development in the second half of the year.

REVENUE ANALYSIS

During the Period, the Group revenue of RMB754.7 million, representing an increase of RMB214.1 million or 39.6% 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		
	2019 RMB'000	2018 RMB'000	Change (%)
Reservoir	246,172	227,556	8.2%
Drilling	312,219	221,768	40.8%
Well Completion	196,356	91,238	115.2%
Total	<u>754,747</u>	<u>540,562</u>	<u>39.6%</u>

For the six months ended 30 June 2019, international oil prices revealed a general trend of wide fluctuations with an initial increase followed by a downward trend and attaining a considerable increase since the end of last year. Benefiting from the supporting policies for shale gas development, the investments in exploration and development made by various major oil companies in China increased substantially as compared with the corresponding period of last year. Accordingly, business volume of oil-field service companies gradually increased.

In view of this, on the one hand, the Group continued to consolidate the business in existing regions, followed closely the customer demand and endeavoured to explore the potential of existing markets. On the other hand, the Group actively optimised the strategic layout and expanded into new businesses to increase new business growth points to the Group. During the first half of 2019, revenue of the Group grew by RMB214.1 million or 39.6% as compared with that in the same period of last year. Among which, revenue from reservoir service segment as a percentage of total revenue was 32.6%, up by RMB18.6 million or 8.2% as compared with that in the same period of last year; revenue from drilling service segment as a percentage of total revenue was 41.4%, up by RMB90.5 million or 40.8% as compared with that in the same period of last year; and revenue from well completion segment as a percentage of total revenue was 26.0%, up by RMB105.1 million or 115.2% as compared with that in the same period of last year. Overall speaking, during the Period, the substantial growth of revenue from drilling service segment and well completion segment contributed to the increase in total revenue.

RESERVOIR SERVICE SEGMENT

Revenue from reservoir services	For the six months ended 30 June		
	2019 RMB'000	2018 RMB'000	Change (%)
PRC	137,233	109,568	25.2%
Overseas	108,939	117,988	-7.7%
Total	<u>246,172</u>	<u>227,556</u>	<u>8.2%</u>

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, repair service of surface production devices, etc.

During the Period, the Group's reservoir service business grew steadily and recorded revenue of RMB246.2 million, up by RMB18.6 million or 8.2% 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, reservoir service revenue from the PRC market amounted to RMB137.2 million, up by RMB27.7 million or 25.2% as compared with that in the same period of last year. As to the overseas markets, reservoir service revenue during the Period decreased in general to RMB108.9 million, down by RMB9.0 million or 7.7% 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		
	2019 RMB'000	2018 RMB'000	Change (%)
PRC	190,877	155,438	22.8%
Overseas	121,342	66,330	82.9%
Total	<u>312,219</u>	<u>221,768</u>	<u>40.8%</u>

The drilling services of the Group include drilling rig service, workover rig service, complex well workover and fishing service, rotary geosteering technology 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, drilling fluid services, etc.

During the Period, revenue from drilling services segment amounted to RMB312.2 million, up by RMB90.5 million or 40.8% as compared with that in the same period of last year. During the Period, drilling revenue from the PRC market amounted to RMB190.9 million, representing an increase of RMB35.5 million or 22.8% as compared with that in the same period of last year; whereas drilling revenue from the overseas markets amounted to RMB121.3 million, representing a significant increase of RMB55.0 million or 82.9% as compared with that in the same period of last year. The growth of revenue from drilling services segment from the PRC and overseas markets was mainly benefited from the substantial business growth of Sichuan's shale gas market, Xinjiang's market and Turkmenistan's market.

WELL COMPLETION SERVICE SEGMENT

Revenue from well completion services	For the six months ended 30 June		
	2019 RMB'000	2018 RMB'000	Change (%)
PRC	139,920	57,076	145.1%
Overseas	56,436	34,162	65.2%
Total	<u>196,356</u>	<u>91,238</u>	<u>115.2%</u>

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, revenue from well completion segment amounted to RMB196.3 million, up by RMB105.1 million or 115.2% as compared with that in the same period of last year, mainly benefiting from the substantial growth of the well completion business in the PRC market. Among which, the Group's well completion revenue from the PRC market amounted to RMB139.9 million, accounting for 71.3% of the total revenue from well completion segment and up by RMB82.8 million or 145.1% as compared with that in the same period of last year. The growth mainly benefited from the growth of well completion business in Xinjiang's Tarim oilfield. In addition, well completion revenue from the overseas markets amounted to RMB56.4 million, accounting for 28.7% of the total revenue from well completion segment and increased by RMB22.3 million or 65.2% as compared with that in the same period of last year. Among which, well completion revenue from Turkmenistan and Indonesia recorded substantial growth.

MARKET ENVIRONMENT

During the Period, international oil prices rebounded as a whole from the end of last year. Yet, uncertainties still remain. In the first quarter of 2019, future prices of Brent crude oil and West Texas Intermediate light sweet crude oil fluctuated mildly upwards. Until April 2019, both the oil inventory and output in the U.S. saw a substantial increase. The oil prices fell immediately at the end of May 2019 before picking up slightly in June 2019.

The Group noted that the international oil price trend during the Period was mainly due to the combined effects of the ongoing output reduction agreement of the Organization of Petroleum Exporting Countries and other oil producing countries, changes in the US crude oil supply, global trade conditions and US dollar trend as well as geopolitical factors.

Over the past few years, the declining oil price has led to capacity adjustment and industry integration of the oil and gas industry. After a few years of correction, the oil-field service industry began to pick up again. In the second half of 2019, the above factors will continue to affect the international oil prices. It is expected that the international oil prices will remain under pressure.

Overseas Markets

The Group's overseas business is mainly located in the Central Asia area (such as Kazakhstan and Turkmenistan), Indonesia, Singapore, the Middle East and Canada area. During the Period, the Group took proactive measures and further consolidated and expanded the operations in the overseas markets. Among which, the revenue from Kazakhstan amounted to RMB139.5 million, representing 48.7% 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. In addition, the revenue from Turkmenistan amounted to RMB78.3 million, representing an increase of RMB48.3 million or 161.0% as compared with that in the same period of last year. The Group successively won the tender for the fracturing acidising project and a number of workover projects in Kazakhstan; obtained the drilling tool trading project, natural gas compressor maintenance project, etc. in Turkmenistan; made new breakthrough in the well completion tool market and secured a large-sum order in Indonesia; secured orders of workover rig service in the Middle East market and recorded growth in the drilling business; and the expansion of other overseas markets including Africa was well underway.

PRC Market

During the Period, in view of the tightening global trade conditions, in order to strengthen energy security, National Energy Administration mentioned in the "Seven-Year Action Plan 2019-2025" to provide policy protection on stepping up oil and gas exploration and development efforts in China. Under this background, reserve expansion and capacity increase would become the main mission of various major oil companies in the coming years, and the oil and gas exploration and development in China would escalate accordingly. Based on the statistics of National Energy Administration, in the first half of 2019, crude oil output across China was 95.4 million tonnes, up by 0.8% year-on-year, which represented a turnaround from the falling trend in the past three years; whereas natural gas output was 86.41 billion cubic metres, up by 10.3% year-on-year.

Overall speaking, the performance of the oil-field service industry will continue to pick up with increasing workload. Coupled with subsequent improvement in industry capacity utilisation, it is expected that the profitability of the oil-field service industry will increase.

During the Period, the Group closely followed the market dynamics in China and sought market opportunities to consolidate its services with traditional strengths while devoting more resources to expand the non-conventional oil and gas drilling and well completion turnkey business.

1. Projects enjoying comparative advantages in the traditional regions were consolidated. The Group acquired a new 5,000-metre drilling machine to kick off the drilling and workover business in the Xinjiang region and successively won a number of turnkey technology service contracts for drilling and well completion fluid. In the first half of the year, gross orders newly secured exceeded RMB80 million. Leverage on its leading performance and service capability in completion for gas storage, the Group obtained the contract for the sales of completion for gas storage tools in Hutubi, Xinjiang. At the same time, in Xinjiang, the Group obtained the service contract for fracturing equipment worth approximately RMB50 million.
2. In Sichuan and Chongqing, the Group obtained a new contract worth RMB200 million for drilling turnkey service in Changning. At the same time, the Group entered into contracts with respect to the special process technique of shale gas horizontal well drilling including horizontal well rotary steering tools and service, screw and water oscillator. In addition, the Group won the tender for drilling and workover engineering turnkey project in relation to the highly concentrated carbon dioxide capture and geological storage in Inner Mongolia with a contract amount exceeding RMB30 million.

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

During the Period, the major R&D efforts of the Group centred on enhancing the process technique of oil and gas reservoir recovery and strengthening the development of oil reservoir services and oil extraction process technique capabilities. At the same time, it centred around the new process technique of reservoir reformation of non-conventional oil and gas fields to expand the market share of fracturing business. Through continuous technology incubation and innovation, the Group actively adjusted the technological structure to strengthen the competitiveness of the Group’s core technologies.

During the Period, the matching process technique of profile control and water shutoff was widely applied in an oilfield in Kazakhstan. The stimulation results were good and received high recognition from customers. Accordingly, the Group also secured operation contracts with respect to a number of wells which provided full guarantee for its subsequent workload. The compressor dewatering gas recovery technology was successfully applied in the Tarim region, Xinjiang. Currently, the project is running smoothly and has successfully solved the problem of water invading into the well, thus laying a foundation for subsequent mass application. The well integration evaluation technology is applied in the South Sea region with high detection accuracy and good evaluation results, thus providing favourable assurance to the platform’s conventional application. In addition, high-temperature and high-pressure (pressure-volume-temperature) sampling technology, fracturing flowback fluid matching technology and online moisture ratio testing technology have also undergone field tests and will commence project launch soon, thus creating considerable industrial value.

The Group’s technology team carried out integration, R&D and incubation of the rotary geosteering technology, optic fibre monitoring technology, HyperLCasing leakproof plugging process technology, well integration evaluation technology, smart oilfield related technology, water control and stimulation technology, etc. Several exchanges with customers in various regional markets were conducted with sound feedbacks. In the second half of 2019, the Group will focus its resources on promoting these technologies for greater market prospects.

HUMAN RESOURCES

Based on the Group's five-year strategic plans and business objectives for 2019, the Group focused on building four major enhancement systems in the area of human resources:

1. Building a cultural enhancement system with consistent goal: The Group's five core values, namely, cultural identity, integrity, consistent goals, efficient execution and determined reform, were continuously promoted and implemented to form a cultural system with consistent goal.
2. Building an empowered organisational reform and enhancement system: In the first half of 2019, the Group continued to optimise its organisational structure, devoting its organisational resources to the frontline area and achieved flat operations to enhance efficiency. At the same time, the Group further integrated the advantageous resources of business entities including various regional markets, operations and management, which laid a solid foundation for the rapid development of the Group.
3. Creating capability building and efficiency enhancement system: Capacity building and efficiency enhancement were important tasks in the area of human resources of the Group. The focus was on the continuous introduction of external talents to rapidly improve the overall level of development of the Group. On the other hand, it aimed to build a global training centre to build an internal capability system.

To this end, in the first half of 2019, the Group organised and implemented multi-level and multi-content training events on employee cohesion and fundamental management as well as technical training. Through the above training, the Group deepened the cultural identity of employees, tapped into potentials and enhanced the existing employee capabilities. At the same time, the Group continued to optimise processes and optimise the authorisation of human resources in an effort to improve internal organisational efficiency.

4. Building a comprehensive incentive and performance enhancement system: In the first half of 2019, the Group systematically promoted the building of a comprehensive incentive system, and quickly established a three-dimensional incentive mechanism covering the organisational performance incentive system, employee performance incentive system and special incentive system. The establishment of the three major incentive systems stimulated the potential and vitality of organisations and individuals, and greatly promoted the overall competitiveness of the Group.

The actual costs of the Group's human resources for the first half of 2019 were controlled within the budget amount set at the beginning of the year. As at 30 June 2019, the Group had a total of 3,839 employees, up by 214 employees from 3,625 employees as at 31 December 2018.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, revenue of the Group was RMB754.7 million, representing an increase of RMB214.1 million, or 39.6% from RMB540.6 million for the comparative period of last year. The increase in revenue was mainly due to the continuing growth of the overall business volume of the Group.

Other gains/(losses), net

For the six months ended 30 June 2019, other gains, net of the Group were RMB3.4 million, as compared with other losses, net of RMB5.3 million for the comparative period of last year. The net gains were mainly due to exchange gain in USD denominated assets held by the PRC subsidiaries as a result of weakening of RMB against USD.

Material costs

For the six months ended 30 June 2019, material costs of the Group amounted to RMB179.2 million, representing an increase of RMB50.0 million, or 38.7% from RMB129.2 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 2019, employee benefit expenses of the Group were RMB223.7 million, representing an increase of RMB37.0 million, or 19.8% from RMB186.7 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 2019, operating lease expenses of the Group were RMB38.5 million, representing an increase of RMB5.4 million, or 16.3% from RMB33.1 million for the comparative period of last year. As a result of a change in accounting policy, instead of being accounted for as operating lease expenses, long-term leases are recognised as a right-of-use assets and are depreciated. During the period, depreciation of right-of-use assets amounted to RMB8.5 million. Notwithstanding the aforesaid change there was an overall increase in operating lease expenses. This was mainly due to the growth of operating activities of the Group.

Transportation costs

For the six months ended 30 June 2019, transportation costs of the Group amounted to RMB17.0 million, representing an increase of RMB10.9 million, or 178.7% from RMB6.1 million for the comparative period of last year. The increase in transportation costs was mainly due to the growth of operating activities of the Group.

Depreciation and Amortisation

For the six months ended 30 June 2019, depreciation and amortisation of the Group was RMB39.6 million, representing an increase of RMB0.2 million, or 0.5% from RMB39.4 million for the comparative period of last year. The increase in depreciation and amortisation was mainly due to the increase in depreciation of leased assets as a result of a change in accounting policy related to leases, offset by reduction in depreciation as certain fixed assets became fully depreciated.

Technical service expenses

For the six months ended 30 June 2019, technical service expenses of the Group were RMB97.9 million, representing an increase of RMB57.5 million, or 142.3% from RMB40.4 million for the comparative period of last year. The increase in technical service expenses was mainly due to the growth of operating activities of the Group.

Reversal of impairment loss/(impairment loss) of assets

For the six months ended 30 June 2019, reversal of impairment loss of assets of the Group was RMB2.1 million, as compared with impairment loss of assets was RMB0.8 million for the comparative period of last year. The reversal of 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 2019, other operating costs of the Group were RMB60.7 million, representing an increase of RMB2.5 million, or 4.3% from RMB58.2 million for the comparative period of last year. The increase was mainly due to the recovery and growth of the operating activities of the Group.

Operating profit

Based on the above reasons, the Group's operating profit during the Period was RMB103.6 million, as compared with operating profit of RMB41.4 million for the comparative period of last year.

Finance costs, net

For the six months ended 30 June 2019, the Group's finance costs, net were RMB12.7 million, representing a decrease of RMB4.3 million, or 25.3% from RMB17.0 million for the comparative period. The decrease in finance costs, net was mainly due to the inclusion of interest on convertible bonds repaid in 2018 amounting to RMB7.60 million in the figures for the comparative period of last year.

Income tax expense

For the six months ended 30 June 2019, income tax expense was RMB15.6 million as compared with income tax expense of RMB6.8 million for the comparative period of last year. The increase in income tax expense was due to the recovery and growth of operating activities of the Group.

Profit for the period

As a result of the explanations above, the Group's profit for the period was RMB75.2 million, as compared with a profit of RMB17.6 million for the comparative period of last year.

Profit attributable to equity holders of the Company

For the six months ended 30 June 2019, profit attributable to equity holders of the Company was RMB75.2 million, as compared with profit attributable to equity holders of the Company of RMB19.7 million for the comparative period of last year.

Property, plant and equipment

As at 30 June 2019, property, plant and equipment were RMB334.7 million, representing a decrease of RMB1.1 million, or 0.3%, from RMB333.6 million as at 31 December 2018. The decrease in property, plant and equipment was mainly due to the continuing depreciation of existing equipment.

Right-of-use assets

As at 30 June 2019, the carrying value of right-of-use assets amounted to RMB95.0 million, representing an increase of RMB95.0 million, or 100.0%. The increase in right-of-use assets was mainly due to the changes in accounting policy.

Land use rights

As at 30 June 2019, the carrying value of land use rights was nil, representing a decrease of RMB20.8 million, or 100.0%, from RMB20.8 million as at 31 December 2018. This was mainly due to the transfer of land-use-rights assets to right-of-use assets as a result of the changes in accounting policy.

Intangible assets

As at 30 June 2019, intangible assets were RMB9.9 million, representing a decrease of RMB3.8 million, or 27.7%, from RMB13.7 million as at 31 December 2018. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 30 June 2019, deferred income tax assets were RMB121.8 million, representing a decrease of RMB9.6 million, or 7.3%, from RMB131.4 million as at 31 December 2018. The decrease was mainly due to the Group's utilisation of tax losses carried forward.

Prepayments and other receivables

As at 30 June 2019, non-current portion of prepayments and other receivables was RMB48.9 million, representing an increase of RMB32.8 million, or 203.7%, from RMB16.1 million as at 31 December 2018, while current portion of prepayments and other receivables was RMB301.3 million, representing an increase of RMB12.1 million, or 4.1%, from RMB289.2 million as at 31 December 2018. The increase was mainly due to recovery and growth of operating activities of the Group.

Inventories

As at 30 June 2019, inventories were RMB421.1 million, representing an increase of RMB48.0 million, or 12.9%, from RMB373.1 million as at 31 December 2018. The increase in inventories was mainly due to the recovery and growth of operating activities of the Group.

Trade and note receivables/Trade payables

As at 30 June 2019, trade and note receivables were RMB886.7 million, representing a decrease of RMB4.5 million, or 0.5%, from RMB891.2 million as at 31 December 2018. The marginal decrease, notwithstanding the substantial increase in revenue, was mainly due to the Group's increased efforts to recover accounts receivable. As at 30 June 2019, trade payables were RMB612.5 million, representing a decrease of RMB90.0 million, or 12.8%, from RMB702.5 million as at 31 December 2018. The decrease was mainly due to the payment of part of the old aged payables during the Period.

Liquidity and capital resources

As at 30 June 2019, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB285.1 million, representing a decrease of RMB75.8 million, or 21.0%, from RMB360.9 million as at 31 December 2018. The decrease was mainly due to the increase in preliminary costs committed by the Group to its business for industry layout as market conditions picked up.

As at 30 June 2019, the Group's short-term borrowings and current portion of long-term borrowings were RMB301.8 million while the long-term borrowings were RMB60.7 million. As at 31 December 2018, the Group's short-term bank borrowings and current portion of long-term bank borrowings were RMB154.5 million while the long-term borrowings were RMB143.0 million.

As at 30 June 2019, the Group's gearing ratio was 27.0%, representing an increase of 3.2% as compared with 23.8% as at 31 December 2018. 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 30 June 2019, the total number of ordinary shares of the Company in issue was 1,851,100,665 shares (31 December 2018: 1,849,021,665 shares). As at 30 June 2019, equity attributable to the equity holders of the Company was RMB1,250.6 million, representing an increase of RMB92.6 million, or 8.0%, as compared with RMB1,158.0 million as at 31 December 2018.

Significant investment held

As at 30 June 2019, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

For the six months ended 30 June 2019, the Group had no material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 30 June 2019, the Group pledged parts of its property, plant and equipment, long-term prepayments, trade and note receivables and rights-of-use assets to secure the Group's borrowings. The carrying values of the assets pledged are as follows:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Property, plant and equipment	70,595	49,905
Long-term prepayments	–	6,130
Trade and note receivables	241,000	218,516
Right-of-use assets	5,909	–

Foreign exchange risk

Fluctuations in exchange rates of Kazakhstan Tenge brings foreign currency exchange risk to the Group. Currently, Kazakhstan is the largest overseas market of the Group in terms of revenue contribution. In accordance with certain laws and regulations, local service contracts are required to be denominated in Kazakhstan Tenge. In the first half of 2019, exchange rates of Kazakhstan Tenge against USD fell slightly in general as compared with the corresponding period of last year but had no significant impact on the overall business of the Group.

Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 30 June 2019, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 30 June 2019, the Group had capital expenditure commitments of RMB2.5 million.

Subsequent event

Subsequent to 30 June 2019, the Company had no material subsequent events.

SUBSEQUENT WORK PLANS

Since 2019, the oil-field service industry has been brought with good development opportunities. Centring on the Group's strategies and business objectives for 2019, the Group will continue to strengthen its work in the following areas in the second half of 2019:

1. Continue to take a market-oriented approach, expand existing business, solve customer needs and develop one-stop turnkey business.
2. Strengthen the marketing of existing technologies, actively introduce new technologies and new processes to expand new business growth points and seek new breakthrough in high temperature gas well business, non-conventional oil and gas business, gas reservoir business, land and marine oilfield environmental protection business.
3. Push ahead the overseas development strategy, continue to achieve customer diversification and actively expand into overseas markets, especially the markets of Middle East and Africa.
4. Continue to enhance the standard of internal management, enhance management efficiency, strengthen team capacity building and optimise the three major systems namely authorisation, incentive and risk management and internal control.
5. Focus on production safety management and continue to comprehensively and effectively implement the health, safety and environmental management systems to ensure production operations are smoothly implemented.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2019 to the shareholders of the Company (for the six months ended 30 June 2018: 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 2019.

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.

The Company was in compliance with the code provisions set out in the CG Code during the six months ended 30 June 2019. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

Save as otherwise disclosed in this announcement, during the six months ended 30 June 2019, 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 2019 of the Group with the auditor of the Company.

PUBLICATION

The interim results announcement for the six months ended 30 June 2019 of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sptenergygroup.com) respectively. The 2019 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, 26 August 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