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 2019

ANNUAL RESULTS HIGHLIGHTS

The Group's revenue for the year ended 31 December 2019 was RMB1,949.5 million, representing an increase of RMB477.9 million, or 32.5%, from RMB1,471.6 million for the previous year. The profit attributable to the owners of the Company was RMB198.9 million, representing an increase of RMB117.1 million, or 143.2%, from RMB81.8 million for the previous year.

No final dividend for the year ended 31 December 2019 was proposed by the Board to the shareholders of the Company (for the year ended 31 December 2018: 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 2019 (the "**Reporting Year**"), together with the comparative figures for the previous year as follows:

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2019** *RMB'000*	**2018** *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**403,227**	333,590
Right-of-use assets		**101,113**	–
Land use rights		**–**	20,792
Intangible assets		**3,950**	13,734
Investments in associates		**10,480**	5,440
Deferred income tax assets		**100,996**	131,380
Prepayments and other receivables	*6*	**37,982**	16,145
		657,748	521,081
Current assets			
Inventories		**464,671**	373,057
Contract assets	*4*	**31,524**	24,581
Trade and note receivables	*5*	**1,139,823**	891,218
Prepayments and other receivables	*6*	**231,787**	289,195
Restricted bank deposits		**17,556**	7,227
Cash and cash equivalents		**588,365**	353,638
		2,473,726	1,938,916
Total assets		**3,131,474**	2,459,997
Equity			
Equity attributable to the Company's equity holders			
Share capital	*7*	**1,178**	1,175
Share premium		**847,899**	845,246
Other reserves		**324,192**	298,510
Currency translation differences		**(431,486)**	(455,398)
Retained earnings		**655,757**	468,476
		1,397,540	1,158,009
Non-controlling interests		**102,029**	93,403
Total equity		**1,499,569**	1,251,412

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Borrowings		**47,403**	142,990
Non-current lease liabilities		**48,735**	–
Deferred income tax liabilities		**21,492**	18,642
		117,630	161,632
Current liabilities			
Borrowings		**233,000**	123,274
Current portion of long-term borrowings		**111,842**	31,258
Contract liabilities	*4*	**22,946**	13,956
Trade and note payables	*8*	**910,400**	702,489
Accruals and other payables	*9*	**137,736**	120,475
Current income tax liabilities		**77,541**	55,501
Current lease liabilities		**20,810**	–
		1,514,275	1,046,953
Total liabilities		**1,631,905**	1,208,585
Total equity and liabilities		**3,131,474**	2,459,997

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**1,949,459**	1,471,649
Other losses, net		**(7,693)**	(28,947)
Operating costs			
Material costs		**(379,987)**	(303,544)
Employee benefit expenses		**(498,264)**	(409,118)
Operating lease expenses		**–**	(88,400)
Short-term and low-value lease expenses		**(84,064)**	–
Transportation costs		**(29,943)**	(27,806)
Depreciation and amortisation		**(84,616)**	(71,439)
Technical service expenses		**(383,252)**	(219,319)
Net impairment losses of financial and contract assets		**(1,751)**	(1,481)
Impairment losses of inventories and prepayments		**(7,030)**	(18,162)
Others		**(179,767)**	(176,522)
		(1,648,674)	(1,315,791)
Operating profit		**293,092**	126,911
Finance income	*10*	**3,125**	1,153
Finance expenses	*10*	**(33,480)**	(31,957)
Finance costs, net		**(30,355)**	(30,804)
Profit before income tax		**262,737**	96,107
Income tax expense	*11*	**(62,610)**	(19,468)
Profit for the year		**200,127**	76,639
Attributable to:			
Owners of the Company		**198,926**	81,798
Non-controlling interests		**1,201**	(5,159)
		200,127	76,639
Earnings per share for the profit attributable to the owners of the Company (RMB)			
Basic earnings per share	*13*	**0.107**	0.047
Diluted earnings per share	*13*	**0.106**	0.046

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**200,127**	76,639
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	**10,920**	(34,394)
Items that will not be subsequently reclassified to profit or loss:		
Currency translation differences	**12,618**	36,423
Total comprehensive income for the year	**223,665**	78,668
Total comprehensive income for the year attributable to:		
Owners of the Company	**222,769**	83,381
Non-controlling interests	**896**	(4,713)
	223,665	78,668
Total comprehensive income for the year	**223,665**	78,668

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**308,361**	61,216
Income tax paid	**(6,345)**	(4,040)
Net cash generated from operating activities	**302,016**	57,176
Cash flows from investing activities		
Purchases of property, plant and equipment	**(112,597)**	(24,533)
Proceeds from disposal of property, plant and equipment	**828**	8,937
Purchases of intangible assets	**(18)**	–
Investment in associates	**(5,040)**	(3,870)
Restricted bank deposits	**(10,329)**	(4,675)
Interest received	**3,029**	1,005
Net cash used in investing activities	**(124,127)**	(23,136)
Cash flows from financing activities		
Proceeds from borrowings	**332,000**	326,785
Repayments of borrowings	**(239,490)**	(322,530)
Interest paid	**(27,778)**	(25,666)
Principal elements of lease payments	**(17,812)**	–
Proceeds from share options exercised	**1,974**	2,900
Contributions from minority shareholders	**7,743**	–
Payments of financing fee and deposits	**(4,080)**	–
Acquisition from non-controlling interests	**(516)**	–
Net proceeds from placing of new shares	**–**	188,129
Net cash generated from financing activities	**52,041**	169,618
Net increase in cash and cash equivalents	**229,930**	203,658
Cash and cash equivalents at beginning of the year	**353,638**	147,022
Exchange gains on cash and cash equivalents	**4,797**	2,958
Cash and cash equivalents at end of the year	**588,365**	353,638

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 oil-field services including drilling, well completion, reservoir and the trading and manufacturing of oilfield services related products mainly in the People's Republic of China (the "PRC") and overseas. The ultimate controlling parties of the Group are 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 the 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 2019:

- *IFRS 16 Leases*
- *Prepayment Features with Negative Compensation – Amendments to IFRS 9*
- *Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28*
- *Annual Improvements to IFRS Standards 2015 – 2017 Cycle*
- *Plan Amendment, Curtailment or Settlement – Amendments to IAS 19*
- *Interpretation 23 Uncertainty over Income Tax Treatments.*

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of 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. 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 the year ended 31 December 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity 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 16 *Leases* on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Accordingly, the reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

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 lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged from 6.26% to 6.40% per annum.

(i) Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(ii) ***Measurement of lease liabilities***

	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 not recognised as a liability	**(16,038)**
Less: low-value leases not recognised as a liability	**(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

(iii) ***Measurement of right-of-use assets***

The 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.

(iv) ***Adjustments recognised in the balance sheet on 1 January 2019***

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

- Land use rights – decreased by RMB 20,792,000
- Right-of-use assets – increased by RMB 99,523,000
- Accruals and other payables – decreased by RMB 2,386,000
- Lease liabilities – increased by RMB 65,665,000
- Prepayment – decreased by RMB 15,452,000.

(v) ***Lessor accounting***

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

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, right-of-use assets and other non-current assets

The Group tests whether property, plant and equipment, right-of-use assets and other non-current assets have suffered any impairment. 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 and contract assets

The loss allowances for financial assets and contract 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 2019 and 2018 are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue		
Drilling	**792,939**	540,711
Well completion	**488,959**	309,147
Reservoir	**667,561**	621,791
	1,949,459	1,471,649

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 RMB1,505,616,000 (2018: RMB1,161,493,000) are derived from China National Petroleum Corporation and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

(b) Segment information

The segment information for the years ended 31 December 2019 and 2018 are as follows:

	Drilling *RMB'000*	**Well completion** *RMB'000*	**Reservoir** *RMB'000*	**Total** *RMB'000*
As at / year ended 31 December 2019				
Revenue from external customers	**792,939**	**488,959**	**667,561**	**1,949,459**
Time of revenue recognition				
– At a point in time	**62,393**	**167,449**	**84,076**	**313,918**
– Over time	**730,546**	**321,510**	**583,485**	**1,635,541**
EBITDA	**174,464**	**134,248**	**170,187**	**478,899**
Total assets	**799,572**	**979,055**	**534,114**	**2,312,741**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**27,944**	**64,761**	**42,213**	**134,918**

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Total *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

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
EBITDA for reportable segments	**478,899**	328,662
Unallocated expenses		
– Share-based payments	**(15,222)**	(7,931)
– Other losses, net	**(7,693)**	(28,947)
– Unallocated overhead expenses	**(78,276)**	(93,434)
	(101,191)	(130,312)
	377,708	198,350
Depreciation and amortisation	**(84,616)**	(71,439)
Finance expenses	**(33,480)**	(31,957)
Finance income	**3,125**	1,153
Profit before income tax	**262,737**	96,107

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Segment assets for reportable segments	**2,312,741**	1,833,426
Unallocated assets		
– Deferred income tax assets	**100,996**	131,380
– Unallocated inventories	**13,336**	9,577
– Unallocated prepayment and other receivables	**88,000**	119,309
– Restricted bank deposits	**17,556**	7,227
– Cash and cash equivalents	**588,365**	353,638
– Investments in associates	**10,480**	5,440
	818,733	626,571
Total assets per balance sheet	**3,131,474**	2,459,997

(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	
	2019	2018
	RMB'000	*RMB'000*
PRC	**1,326,445**	922,694
Kazakhstan	**358,846**	351,141
Turkmenistan	**101,942**	79,195
Canada	**66,283**	54,329
Indonesia	**54,961**	35,371
Middle East	**39,684**	28,184
Others	**1,298**	735
	1,949,459	1,471,649

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	
	2019	2018
	RMB'000	*RMB'000*
PRC	**370,021**	221,402
Kazakhstan	**61,273**	60,151
Middle East	**42,390**	45,675
Turkmenistan	**32,611**	21,068
Singapore	**23,080**	21,529
Canada	**16,232**	9,558
Indonesia	**239**	4,866
Others	**426**	12
	546,272	384,261

(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 2019	31 December 2018
	RMB'000	*RMB'000*
Current contract assets	**33,333**	26,282
Loss allowance	**(1,809)**	(1,701)
Total contract assets	**31,524**	24,581
Current contract liabilities	**22,946**	13,956
Total current contract liabilities	**22,946**	13,956

(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	
	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year		
– Drilling	**3,827**	7,560
– Well completion	**7,805**	818
– Reservoir	**2,324**	221
Total	**13,956**	8,599

(ii) ***Unsatisfied long-term service contracts***

The following table shows unsatisfied performance obligations resulting from fixed price long-term service contracts:

	RMB'000
Within one year	680,703
More than one year but not more than two years	156,125
More than two years	56,122

All other service contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15 Revenue from Contracts with Customers, the transaction price allocated to these unsatisfied contracts is not disclosed.

(e) Changes in accounting policy

The adoption of the new leasing standard described in Note 2.2 had the following impact on the segment disclosures in the current year.

	Increase			
	Adjusted EBITDA	**Depreciation**	**Segment assets**	**Segment liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Drilling	15,284	13,304	37,019	38,550
– Well completion	2,488	3,022	47,790	13,512
– Reservoir	4,506	3,819	16,304	17,483
Total	22,278	20,145	101,113	69,545

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year.

5. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables *(a)*	**1,090,420**	882,925
Less: loss allowance	**(88,607)**	(87,830)
Trade receivables – net	**1,001,813**	795,095
Note receivables *(a)*	**138,010**	96,123
	1,139,823	891,218

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	
	2019	2018
	RMB'000	*RMB'000*
Up to 6 months	**936,561**	711,376
6 months – 1 year	**159,193**	94,411
1 – 2 years	**30,794**	51,409
2 – 3 years	**12,753**	18,314
Over 3 years	**89,129**	103,538
Trade and note receivables, gross	**1,228,430**	979,048
Less: loss allowance	**(88,607)**	(87,830)
Trade and note receivables, net	**1,139,823**	891,218

(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.

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

6. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**78,054**	95,789
Prepayment for taxes	**16,040**	26,857
Less: loss allowance	**(2,909)**	(1,739)
Total non-financial assets	**91,185**	120,907
Deposits and other receivables	**61,224**	77,411
Receivable relating to disposal of equipment	**83,140**	93,225
Less: loss allowance	**(3,762)**	(2,348)
Total financial assets	**140,602**	168,288
	231,787	289,195
Non-current		
Advances to suppliers	**36,748**	419
Deposits and other receivables	**1,234**	274
Prepayment for operating lease	**–**	15,452
Total non-financial assets	**37,982**	16,145
Total	**269,769**	305,340

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 advances to suppliers representing those that were past due are as follows:

	2019	2018
	RMB'000	*RMB'000*
As at 1 January	**(1,739)**	(1,851)
Provision	**(1,170)**	–
Reversal	**–**	112
As at 31 December	**(2,909)**	(1,739)

7. SHARE CAPITAL

	Number of shares *(Thousands)*	Share capital *RMB'000*
Authorised:		
Ordinary shares of USD0.0001 each as at 31 December 2018 and 2019	5,000,000	3,219

	Number of shares *(Thousands)*	Share capital *RMB'000*
Issued and fully paid:		
Ordinary shares of USD0.0001 each		
As at 31 December 2017	1,535,192	975
Add:		
Issuance of ordinary shares	306,958	195
Share options exercised	6,872	5
As at 31 December 2018	1,849,022	1,175
Add:		
Share options exercised	4,554	3
As at 31 December 2019	1,853,576	1,178

8. TRADE AND NOTE PAYABLES

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Up to 6 months	**686,623**	452,733
6 months to 1 year	**68,286**	37,750
1 – 2 years	**82,090**	62,170
2 – 3 years	**15,015**	49,834
Over 3 years	**58,386**	100,002
	910,400	702,489

9. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Interest payable	**3,230**	2,184
Rental fee payable	**–**	2,686
Other payables	**38,700**	23,843
Total financial liabilities	**41,930**	28,713
Payroll and welfare payable	**55,021**	43,599
Taxes other than income taxes payable	**40,785**	48,163
Total non-financial liabilities	**95,806**	91,762
	137,736	120,475

10. FINANCE COSTS, NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Finance income:		
– Interest income on short-term bank deposits	**3,029**	1,004
Net foreign exchange gains on financing activities	**96**	149
Finance income	**3,125**	1,153
Interest expense:		
– Bank borrowings	**(18,276)**	(16,721)
– Interest paid of lease liabilities	**(4,466)**	–
– Bank charges and others	**(5,997)**	(3,780)
– Secured loans from a third party institution	**(4,741)**	(1,221)
– Liability component of convertible bonds	**–**	(10,235)
Finance costs	**(33,480)**	(31,957)
Finance costs, net	**(30,355)**	(30,804)

11. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**29,060**	11,182
Deferred income tax	**33,550**	8,286
Income tax expense	**62,610**	19,468

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%.

(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 2019 and 2018, 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, America and the United Arab Emirates are 20%, 20%, 25%, 25%, 35% and nil 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	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**262,737**	96,107
Tax calculated at domestic tax rates applicable to profits in the respective countries	**43,846**	14,749
Expenses not deductible for taxation purposes	**7,324**	6,171
Utilisation of previously unrecognised tax losses	**(8,434)**	(10,061)
Losses not recognised as deferred income tax assets	**18,076**	8,609
Withholding tax relating to unremitted retained earnings	**2,850**	–
Additional tax deduction of research and development expenses	**(1,052)**	–
Income tax expense	**62,610**	19,468

12. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2019 and 2018.

13. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit attributable to the owners of the Company	**198,926**	81,798
Weighted average number of ordinary shares in issue (thousands)	**1,850,798**	1,738,527
Basic earnings per share (RMB per share)	**0.107**	0.047

(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 one category of dilutive potential ordinary shares: share options. 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.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to the owners of the Company	**198,926**	81,798
Interest expense on convertible bonds	**–**	Anti-dilutive
	198,926	81,798
Weighted average number of ordinary shares in issue (thousands)	**1,850,798**	1,738,527
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**–**	Anti-dilutive
– Share options (thousands)	**30,270**	36,973
	1,881,068	1,775,500
Diluted earnings per share (RMB per share)	**0.106**	0.046

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the Reporting Year, the international oil price remained volatile. Compared to last year, the general price level was slightly lower, but the overall range of fluctuations was smaller. In 2019, the expenditure on oil and gas exploration and development worldwide slightly increased from last year with large variations in different regions. Among which, the growth in such expenditure in the PRC region was significant. As to the PRC market, with the pushing ahead of the new strategy on energy security, the PRC government stepped up its policy support on domestic oil and gas exploration and development to increase oil and gas reserves so as to curb the overly rapid growth in reliance on oil and gas imports. As a result, the expenditure on upstream oil and gas exploration and development in China grew substantially. Benefiting from the increase in market demand for oil-field services, the oil-field service industry in China was in the prosperity cycle in general.

During the Reporting Year, by fully capitalising on its own strengths, the Group's business in the PRC markets saw significant growth. At the same time, it actively opened up new businesses and new markets while enhancing internal management and strengthening technological capabilities. Revenue and profits grew substantially. Measures taken by the Group are as follows:

First, the Group seized the industry opportunities arising from the PRC government's move to increase reserves and production in China. Leveraging on its technological strengths and experience in the traditional regions, the Group increased the project management efficiency and service quality while closely monitoring the needs of customers. In particular, in the traditional regions such as Tarim oilfield that the Group enjoys comparative strengths, the Group expanded the workload of superior projects including drilling and workover, drilling fluid, stimulation and fracturing, and maintained its industry leading position in the markets of fine managed pressure drilling and high-end well completion.

Second, the Group further cultivated the non-conventional oil and gas market. By accumulating technological strengths and project management experience, the Group optimised the business model and seized the business opportunities arising from the continuous growth of the non-conventional oil and gas market. The Group established its foothold in the shale gas market in Sichuan, Chongqing and Guizhou and performed satisfactorily.

Third, the Group actively expanded into new market regions with focus on the markets in Middle East and Africa. The Group also actively expanded into new businesses with market prospects including green oilfields and offshore oil and gas technical services in the PRC.

Fourth, adhering to the philosophy of "corporate development using technology as traction", the Group reinforced its technological strengths through horizontal cooperation and self-incubation. The Group constantly maintained technological cooperation with its long-term strategic partner Halliburton Energy Services (China) Limited, engaged in the research and development ("**R&D**") with Southwest Petroleum University and joined hands with The Fourth Paradigm (Beijing) Technology Co., Ltd. to enter the area of smart oilfields.

Fifth, the Group continued to improve the corporate governance system, optimised the information system, improved the staff training system and strengthened employee capability building to increase the Group's operating efficiency.

Based on the foregoing, the Group closely followed the market dynamics, consolidated its market position and enhanced its level of technical services while reducing costs and increasing efficiencies in 2019. The three business segments recorded growth in varying extents.

REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,949.5 million, representing an increase of RMB477.9 million or 32.5% over last year. The analysis of the Group's revenue by business segment is as follows:

	For the year ended 31 December		
Revenue	**2019**	2018	Change
	RMB'000	*RMB'000*	*(%)*
Reservoir	**667,561**	621,791	7.4%
Drilling	**792,939**	540,711	46.6%
Well Completion	**488,959**	309,147	58.2%
Total	**1,949,459**	1,471,649	32.5%

Benefitting from the increase in market demand for oil-field service and the increase in the Group's orders, the revenue of the Group realised a relatively large percentage of growth in 2019. Among which, the revenue contribution from reservoir segment accounted for 34.2%, up by RMB45.8 million or 7.4% as compared with that in last year; the revenue contribution from drilling segment accounted for 40.7%, up by RMB252.2 million or 46.6% as compared with that in last year; and the revenue contribution from well completion segment accounted for 25.1%, up by RMB179.8 million or 58.2% as compared with that in last year. In general, the reservoir segment maintained steady growth, whereas the revenue from drilling and well completion segments recorded faster growth.

Oil Reservoir Service Segment

	For the year ended 31 December		
Revenue from reservoir services	**2019**	2018	Change
	RMB'000	*RMB'000*	*(%)*
Overseas	**292,035**	284,084	2.8%
PRC	**375,526**	337,707	11.2%
Total	**667,561**	621,791	7.4%

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, the business of the Group's reservoir segment grew steadily and recorded revenue of RMB667.6 million, representing an increase of RMB45.8 million or 7.4% as compared with that in last year. In 2019, the revenue from reservoir segment in the PRC market amounted to RMB375.5 million, representing an increase of RMB37.8 million or 11.2% as compared with that in last year, accounting for 56.3% of the total revenue from reservoir segment. The growth of the domestic reservoir business mainly benefitted from the growth in business volume from the station operation and maintenance as well as operation and maintenance of equipment in Xinjiang. In 2019, the revenue from reservoir segment in the overseas markets amounted to RMB292.0 million, representing an increase of RMB8.0 million or 2.8% as compared with that in last year, accounting for 43.7% of the total revenue from reservoir segment.

Drilling Service Segment

	For the year ended 31 December		
Revenue from drilling services	**2019**	2018	Change
	RMB'000	*RMB'000*	*(%)*
Overseas	**225,542**	162,082	39.2%
PRC	**567,397**	378,629	49.9%
Total	**792,939**	540,711	46.6%

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

During the Reporting Year, the revenue from drilling segment amounted to RMB792.9 million, representing an increase of RMB252.2 million or 46.6% as compared with that in last year. In 2019, the revenue from drilling segment in the PRC market amounted to RMB567.4 million, representing an increase of RMB188.8 million or 49.9% as compared with that in last year, accounting for 71.6% of the total revenue from drilling segment. Revenue from the PRC market grew substantially, mainly benefitting from the growth in business volume from Tarim oilfield's slurry service, underbalance drilling service, fine managed pressure drilling and workover services and Zheng'an's shale gas drilling project. Revenue from the overseas markets amounted to RMB225.5 million, representing a substantial increase of RMB63.5 million or 39.2% as compared with that in last year, accounting for 28.4% of the total revenue from drilling segment. The growth in revenue from the overseas markets was mainly due to the growth in casing head and cementing tool business in Turkmenistan and the workover business in Kazakhstan.

Well Completion Service Segment

Revenue from well completion services	For the year ended 31 December 2019 *RMB'000*	2018 *RMB'000*	Change *(%)*
Overseas	**105,437**	102,789	2.6%
PRC	**383,522**	206,358	85.9%
Total	**488,959**	309,147	58.2%

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

During the Reporting Year, the revenue from well completion segment amounted to RMB489.0 million, representing an increase of RMB179.8 million or 58.2% as compared with that of last year. Among which, revenue from the PRC market amounted to RMB383.5 million, representing an increase of RMB177.2 million or 85.9% as compared to that in last year, accounting for 78.4% of the total revenue from well completion segment. The growth mainly benefitted from the growth of well completion tool business in the Tarim oilfield and fracturing service in Changning area. Revenue of well completion from the overseas markets amounted to RMB105.4 million, representing an increase of RMB2.6 million or 2.6% as compared with that in last year, accounting for 21.6% of the total revenue from well completion segment.

MARKET ENVIRONMENT

During the Reporting Year, the international oil price remained volatile. Compared to last year, the general price level was slightly lower, and the range of fluctuations was smaller. The prevailing international oil price fluctuations were mainly attributable to the rising shale oil production from the United States, Organization of the Petroleum Exporting Countries ("**OPEC**") and allies output reduction, uncertainties over global economic prospects and changing international geopolitical conditions. In 2020, it is likely that the international oil price trend will remain weakly balanced but the possibility of fluctuations due to changes in market factors cannot be ruled out.

The global oil-field service companies showed mixed performance and market competition remained fierce. Given the increase in expenditure on oil and gas exploration and development in China, the scale of the domestic oil-field service market expanded in general. Given the lower relevance between the performance of domestic oil-field service providers and the international oil price trend, the overall oil-field service industry in the PRC remained in the prosperity cycle.

Overseas Markets

The Group's overseas markets mainly cover Central Asia such as Kazakhstan and Turkmenistan, Southeast Asia such as Indonesia and Singapore, North America such as Canada and the Middle East. During the Reporting Year, the political and economic environment in the Group's overseas markets was generally stable. The exchange rate of currencies of major overseas markets such as Tenge, Kazakhstan currency and Manat, Turkmenistan currency against the United States dollar remained stable. In 2019, the revenue from Kazakhstan and Turkmenistan amounted to RMB358.8 million and RMB101.9 million, representing 57.6% and 16.4% of the revenue from the overseas markets of the Group and representing an increase of 2.2% and 28.7% from last year, respectively. The business of the Group in Kazakhstan remained stable substantially. The Group's business in Turkmenistan grew quickly. The Group secured the contract regarding the drilling and well completion tool trading project and the natural gas compressor repairs and maintenance project in Turkmenistan. The Group also made positive business progress in other overseas markets. In Indonesia, the Group secure the contract for the large-sum well completion tool order and carried out the oil reservoir, drilling and well completion related technology service businesses. In North America, the Group continued to carry out the pressure gauge and accessory related sales business. In the Middle East, the Group secured the new dynamic monitoring oil reservoir service contract and carried out the workover rig service business. The Group's business expansion in other overseas markets such as Africa was also well underway.

PRC Market

As China pushed ahead the implementation of the new strategy of energy security, coupled with the national policies to step up oil and gas exploration and development efforts and increase oil and gas reserves in China, the three Chinese state-owned oil giants separately formulated the "seven-year action plans" and implemented thoroughly. In 2019, the upstream capital expenditure on exploration and development grew by over 20%. During the Reporting Year, by fully capitalised on its technological strengths and experience, the Group's business in the PRC market grew rapidly.

In 2019, in Xinjiang market, the Group recorded continuous growth in the drilling, workover, drilling fluid and high-end well completion businesses, and maintained its leading position in the high-end well completion market, oil-based drilling fluid market and fine managed pressure drilling market in the region. The Group added a set of workover equipment, won the bid for the integrated support service turnkey business contract worth of approximately RMB80 million with respect to the workover of about 8 wells in the Tarim Oilfield. The Group entered into the fracturing equipment service contract in the sum of approximately RMB50 million. The Group also entered into the large-sum turnkey service contract for station operation and maintenance and the well completion tool service contract for gas storage in Hutubi.

The non-conventional oil and gas and other businesses of the Group also made breakthrough. The sizable development of shale gas has become one of the key business growth points of the Group. In 2019, the Group secured a turnkey project worth of approximately RMB200 million for drilling service in the Changning region with respect to the Sichuan and Chongqing market, won the bid for the turnkey project exceeding RMB70 million for shale gas drilling in the Guizhou region, and won the bid for the large-sum turnkey framework project for well completion tool service. The Group undertook the Qinghai hot dry rock project under the national new energy key project and successfully completed drilling and smoothly carried out the turnkey project for high concentration carbon dioxide capture and geological storage drilling and well completion in Inner Mongolia, the PRC.

Based on the foregoing, in 2019, the Group seized the industry opportunities arising from the government policies to support oil and gas development, intensively explored the traditional markets and non-conventional oil and gas markets domestically and actively consolidated and expanded the overseas markets while enhancing the technological standards and project operational and management capabilities to cope with the opportunities and challenges brought by the external market environment by maintaining and enhancing competitive strengths in the market cycle of prosperity.

R&D AND MANUFACTURING

In 2019, the Group built the incubation and integration platform for the introduction of new technologies to continuously push ahead the large-scale application of new technologies. During the year, the major efforts of the Group mainly centred on the incubation and innovation of technologies including "process technique of enhancing oil and gas reservoir recovery", "drilling efficiency enhancement process technique", "new process technique of reservoir layer reformation of non-conventional oil and gas fields" and "high-end well completion process" while adjusting the Group's technology structure to strengthen its core technological competitiveness.

As to oil reservoir, the matching process technique of brine resistant profile control and water shutoff (抗高鹽調剖堵水工藝技術) was successfully promoted and widely applied in an oilfield in Kazakhstan, accomplishing the workload for more than 20 wells. The stimulation results of such process technique were good and received high recognition from customers, which provided full assurance for its subsequent workload. The compressor dewatering gas recovery technology was successfully applied in the gas field project in Hotan River, Tarim. Currently, the project is running smoothly. The technology has successfully solved the problem of water invading into the well, thus laying a foundation for subsequent mass application. The optic fibre monitoring technology was successfully applied in Tianjin's geothermal project, Jiangsu and Southwest gas fields' gas storage projects as well as Changqing's oilfield. Currently, the technology is at a preliminary development stage in the industry, which is conducive to facilitating the Group's rapid expansion of market share in such business segment. The ultra-high temperature and ultra-high pressure logging technology was successfully applied in Tarim, Xinjiang. Leveraging on such technology, the Group smoothly completed the operations of static temperature and static pressure gradient testing (測靜溫靜壓梯度作業) and set a record high in well depth under cable operations. The technology received customers' trust and recognition, which laid a solid foundation for its subsequent workload.

As to well drilling, the Group's four drilling platforms under Changning's shale gas project successfully commenced operation and completed drilling. This marked the comprehensive enhancement and integration of the technological capabilities of the Group in drilling shale gas complex wells and handling complex drilling incidents. Meanwhile, through the improvement of the fine managed pressure drilling technology, the Group overcame the drilling pain point of "two highs and one low" (two abnormal high-pressure layers and one abnormal low-pressure layer) in the Tarim oilfield. The successful application in well operations has built good credibility for the Group's expansion to the Kuche Shanqian market of the Tarim oilfield. In addition, R&D of the high-temperature resistant environmentally friendly water-based system was a success. The system met the national standards after inspection by a professional institution and was successfully applied in two wells in the Tarim region. This has allowed the Group to build a leading position in the environmentally friendly water-based drilling fluid market in Tarim.

As to well completion, the "multi-stage fracturing and tubing string process technique for high-pressure gas wells, vertical wells and high-angle wells" and the "well completion process technique of chemical injection valve for high wax incrustation gas wells + safety valve for deep wells"(高含蠟結垢氣井化學注入閥+深井安全閥完井工藝技術) were successfully promoted and applied in the "three highs" (high temperature, high pressure and high sulphur volume) gas fields in Tarim, such that the Group continued to dominate the market in Tarim in the area of high-end well completion business. This has laid a foundation for the potent development of the well completion business in the Tarim market.

As to well workover, the "multi-functional integrated well casing preparation supporting process technique" is a workover supporting technique independently developed by the Group which has filed a patent application. The process technique is able to combine the three conventional operations during oil recovery testing namely scrapping of well casing (井筒刮壁), milling of bell mouth (磨銑喇叭口) and milling of drafting process (磨銑通井) so as to achieve well casing preparation in one drilling, which can shorten the cycle, increase efficiency and enhance added value of single-well operations. This can enhance the Group's competitiveness in the workover market in Tarim.

As to fracturing, the "crack control precision cutting volume fracturing technology for horizontal wells" (水平井縫控密切割體積壓裂技術) was successfully applied in Changning. Compared with neighbouring wells, the test production was 1.6-2.5 times higher. The stimulation results were good, thus receiving high recognition from customers. Currently, the Group is entering into a number of platform risk work contracts. The promotion of technology mainly focused on the shale gas market in Sichuan and Chongqing as well as the tight oil and gas market around Mahu-Jimusar.

In addition to the successful application of the aforesaid technologies, the Group carried out integration, R&D and incubation of the rotary geosteering technology, HyperLCasing leakproof plugging process technology, well integration evaluation technology, smart oilfield related technology, process technique of oil and gas recovery enhancement and highly difficult and risky turnkey workover technology, etc. Several exchanges with customers in various regional markets were conducted with sound feedbacks. Some technologies have undergone pilot run onsite and will be implemented in projects soon, thus building a certain level of industry value. In 2020, the Group will focus its resources on promoting these technologies for greater market prospects.

In 2020, by introducing the development strategy of "technology as traction", the Group has formulated the strategic plan for technological development of the coming three years and will allocate more resources to new technology introduction and incubation as well as equipment R&D in an effort to expedite the enhancement of technological capabilities, thus building the Group into an industry leading oil-field service company possessing core technologies.

HUMAN RESOURCES

Based on the Group's strategic plans and business objectives, in the area of human resources, in 2019, the Group improved its corporate culture and human resources systems as well as improved its strategic talent allocation and employee capability development systems. By optimising its performance-oriented incentive mechanism, the Group better capitalised on the employees' initiative to promote team building and enhance management efficiency. In addition, the Group adopted a share option scheme on 1 December 2011. The Group will continue to consider granting share options to eligible persons in accordance with the share option scheme to better achieve long-term talent incentives. From 1 December 2011 to 31 December 2019, the Group granted a total of 328,250,000 share options.

In 2019, the Group completed the development of the training system and carried out various training projects, including new joiner training, management training and technical and safety training, while building an online learning platform. In 2019, attendance in the training reached 9,000 and the training covered all business regions and project departments domestically and abroad with 100,000 training hours cumulatively.

As at 31 December 2019, the Group had a total of 3,712 employees, up by 87 employees from 3,625 employees as at 31 December 2018. In 2019, 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 2019, revenue of the Group was RMB1,949.5 million, representing a year-on-year increase of RMB477.9 million, or 32.5%, as compared with that of RMB1,471.6 million for the previous year. The increase was mainly due to the continuous growth of the Group's overall business volume.

Other losses, net

For the year ended 31 December 2019, other losses, net of the Group were RMB7.7 million, representing a year-on-year decrease of RMB21.2 million or 73.4% as compared to other losses, net of RMB28.9 million for the previous year. The decrease was mainly due to the decrease in exchange loss as foreign exchange rate remained relatively stable for the year.

Material costs

For the year ended 31 December 2019, material costs of the Group were RMB380.0 million, representing a year-on-year increase of RMB76.5 million, or 25.2%, as compared with that of RMB303.5 million for the previous year. The increase of material costs was mainly due to the continuous growth of the Group's overall business volume.

Employee benefit expenses

For the year ended 31 December 2019, employee benefit expenses of the Group were RMB498.3 million, representing a year-on-year increase of RMB89.2 million, or 21.8%, as compared with that of RMB409.1 million for the previous year. The increase was mainly due to the growth of operating activities of the Group and the increase in labour costs.

Short-term and low-value lease expenses

For the year ended 31 December 2019, the short-term and low-value lease expenses amounted to RMB84.1 million, representing an increase of RMB84.1 million as compared with that in the previous year. The increase was mainly due to the change in accounting policy for leases.

Transportation costs

For the year ended 31 December 2019, transportation costs of the Group were RMB29.9 million, representing a year-on-year increase of RMB2.1 million, or 7.6%, as compared with that of RMB27.8 million for the previous year. The increase was mainly due to the growth and recovery of operating activities of the Group.

Depreciation and amortisation

For the year ended 31 December 2019, depreciation and amortisation of the Group was RMB84.6 million, representing a year-on-year increase of RMB13.2 million, or 18.5%, as compared with that of RMB71.4 million for the previous year. The increase was mainly due to the change in the accounting for leases, resulting in an increase in the depreciation and amortisation of right-of-use assets.

Technical service expenses

For the year ended 31 December 2019, technical service expenses of the Group were RMB383.3 million, representing a year-on-year increase of RMB164.0 million, or 74.8%, as compared with that of RMB219.3 million for the previous year. The increase was mainly due to the increase in operating activities of the Group.

Impairment losses of assets

For the year ended 31 December 2019, impairment losses of assets of the Group were RMB8.8 million, representing a year-on-year decrease of RMB10.8 million or 55.1% as compared to impairment loss of assets of RMB19.6 million in the previous year.

Others

For the year ended 31 December 2019, other operating costs of the Group were RMB179.8 million, representing a year-on-year increase of RMB3.3 million as compared with that of RMB176.5 million for the previous year.

Operating profit

As a result of the aforementioned factors, the Group's operating profit during the Reporting Year was RMB293.1 million, representing a year-on-year increase of RMB166.2 million or 131.0% compared with the operating profit of RMB126.9 million for the previous year. The increase was mainly due to the growth of operating activities of the Group.

Finance costs, net

For the year ended 31 December 2019, the Group's finance costs, net were RMB30.4 million, representing a year-on-year decrease of RMB0.4 million, or 1.3%, as compared with that of RMB30.8 million for the previous year.

Income tax expense

For the year ended 31 December 2019, income tax expense was RMB62.6 million, compared with the income tax expense of RMB19.5 million for the previous year, representing a year-on-year increase of RMB43.1 million or 221.0%. The increase in income tax expense was mainly as a result of the growth of the Group's business volume, which increased the profit for the year.

Profit for the year

As a result of the explanations above, the Group's profit for the Reporting Year was RMB200.1 million, representing a year-on-year increase of RMB123.5 million or 161.2% as compared to profit for the prior year of RMB76.6 million. The increase was mainly due to the growth and recovery of the operating activities of the Group.

Profit attributable to the owners of the Company

For the year ended 31 December 2019, profit attributable to the owners of the Company was RMB198.9 million, representing a year-on-year increase of RMB117.1 million or 143.2% as compared to profit attributable to the owners of the Company of RMB81.8 million for the previous year. The increase was mainly due to the growth and recovery of the operating activities of the Group.

Property, plant and equipment

As at 31 December 2019, property, plant and equipment was RMB403.2 million, representing a year-on-year increase of RMB69.6 million, or 20.9%, from RMB333.6 million as at 31 December 2018. The increase was mainly due to the purchase of new equipment during the period to satisfy business needs.

Right-of-use assets

As at 31 December 2019, the carrying value of right-of-use assets was RMB101.1 million, representing an increase of RMB101.1 million from that as at 31 December 2018. The increase was mainly due to the change in accounting policy for leases.

Land use rights

As at 31 December 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. The decrease 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 for leases.

Intangible assets

As at 31 December 2019, intangible assets were RMB4.0 million, representing a decrease of RMB9.7 million, or 70.8%, from RMB13.7 million as at 31 December 2018. The decrease was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2019, deferred income tax assets were RMB101.0 million, representing a decrease of RMB30.4 million, or 23.1%, 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 31 December 2019, non-current portion of prepayments and other receivables was RMB38.0 million, representing an increase of RMB21.9 million, or 136.0%, from RMB16.1 million as at 31 December 2018. The increase was mainly due to the increase in prepayments made by the Group for the purchase of new equipment. The current portion of prepayments and other receivables was RMB231.8 million, representing a decrease of RMB57.4 million, or 19.8%, from RMB289.2 million as at 31 December 2018. The decrease was mainly due to the reduced percentage of contract prepayments of the Group.

Inventories

As at 31 December 2019, inventories were RMB464.7 million, representing an increase of RMB91.6 million, or 24.6%, from RMB373.1 million as at 31 December 2018. The increase was mainly due to the growth and recovery of operating activities of the Group.

Trade and note receivables/trade and note payables

As at 31 December 2019, trade and note receivables amounted to RMB1,139.8 million, representing an increase of RMB248.6 million, or 27.9%, from RMB891.2 million as at 31 December 2018. The increase was mainly due to the increase of revenue realised during the Reporting Year. As at 31 December 2019, trade and note payables amounted to RMB910.4 million, representing an increase of RMB207.9 million, or 29.6%, from RMB702.5 million as at 31 December 2018. The increase was mainly due to the growth of operating activities of the Group.

Liquidity and capital resources

As at 31 December 2019, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB605.9 million, representing an increase of RMB245.0 million, or 67.9%, from RMB360.9 million as at 31 December 2018. The increase was mainly due to the growth of operating activities of the Group.

As at 31 December 2019, the Group's short-term borrowings and current portion of long-term borrowings were RMB344.8 million while the long-term borrowings were RMB47.4 million. As at 31 December 2018, the Group's short-term borrowings and current portion of long-term borrowings were RMB154.5 million while the long-term borrowings were RMB143.0 million. As at 31 December 2019, the bank borrowings of the Group were mainly denominated in RMB and such borrowings were generally subject to a fixed interest rate.

As at 31 December 2019, the Group's current lease liabilities were RMB20.8 million while the non-current lease liabilities were RMB48.7 million.

As at 31 December 2019, the Group's gearing ratio was 30.8%, representing an increase of 7.0% as compared with 23.8% as at 31 December 2018. Gearing ratio was calculated as total debt divided by total equity. Total debt included total borrowings and lease liabilities. The increase in gearing ratio was mainly due to the application of new lease standard in 2019.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2019, the total number of ordinary shares of the Company in issue was 1,853,575,999 shares (31 December 2018: 1,849,021,665 shares). As at 31 December 2019, equity attributable to the owners of the Company was RMB1,397.5 million, representing an increase of RMB239.5 million, or 20.7%, as compared with RMB1,158.0 million as at 31 December 2018.

Significant investment held

As at 31 December 2019, 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 2019, the Group pledged parts of its right-of-use assets 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 2019 *RMB'000*	As at 31 December 2018 *RMB'000*
Right-of-use assets	**5,694**	–
Trade and note receivables	**302,000**	218,516
Long-term prepayments	–	6,130

Secured loans from a third party institution

The Group's loans from a third party institution are expiring in 2021 and 2022 and are secured by certain machinery with a carrying amount of RMB66,807,000 (2018: RMB49,905,000), and guarantee of a subsidiary of the Group.

Contingent liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2019, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2019, the Group had capital expenditure commitments of RMB46.4 million, while short-term and low-value operating lease commitments were mainly lease of warehouses and equipment with the amount of RMB3.1 million.

SUBSEQUENT EVENT

After the outbreak of Coronavirus Disease ("**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and many other countries. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any material adverse effects as a result of the COVID-19 outbreak.

OUR PLANS

Looking ahead to 2020, the oversupply of crude oil is likely to continue in general and the oil price trends will continue to face uncertainties. Compared to the overseas markets, the oil-field service market in the PRC may have more market opportunities.

As to the PRC market, with the ongoing implementation of the seven-year action plan to step up oil and gas exploration and development in the PRC, the number of drilling wells in the PRC is expected to grow in 2020, whereas the expenditure on exploration and development is expected to increase. The PRC oil companies are stepping up the exploration and development in the Middle and Western China and the natural gas exploitation will be the focus of resources exploration in China. This will be conducive for the Group to capitalising the strengths built in non-conventional wells such as high-temperature and high-pressure natural gas wells.

To further closely follow the market demand and capture the development opportunities, the Group will continue to focus its efforts on the following areas in 2020:

1. The Group will make good use of the benefits of the policies in the PRC market and capitalise on the opportunities arising from the increase exploration and development of and investment in oil and gas by "the three oil giants" in PRC for sometime in the future. Leveraging on the Group's strengths in the PRC market, the Group will further expand its scale of operation in the PRC market and expand its market share.

2. Coupled with the key direction of the oil companies' exploration and development in the future, the Group will further expand its services in the area of high-end oil and gas wells by leveraging on its leading advantage in the high-end oilfield and gasfield services market in China.

3. Targeting at Africa and the Middle East, the Group will further expand its overseas business layout to initiate sizable operation in the new overseas markets, thus optimising the overseas business layout.

4. The Group will expand the offshore oil and gas technology service market in China by capitalising on the breakthroughs in oilfield conservation and stimulation technology.

5. Adhering to the technology-oriented philosophy, the Group will strengthen the development of technological capability with focus on enhancing the integrated turnkey service capability as well as the special technological service capability on complex wells and high-end wells.

6. The Group will further enhance its management efficiency, reduce operating costs and strengthen the building of talent teams so as to achieve sustainable development.

FINAL DIVIDEND

The Board did not propose a final dividend for the year ended 31 December 2019 (2018: 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 10 June 2020, the register of members of the Company will be closed from 5 June 2020 to 10 June 2020 (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 4 June 2020.

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 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 year ended 31 December 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 year ended 31 December 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 final results for the year ended 31 December 2019 of the Group with the auditor of the Company.

PUBLICATION

The annual results announcement for the year ended 31 December 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 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

The PRC, 26 March 2020

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*