# 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 2020

**ANNUAL RESULTS HIGHLIGHTS**

The Group's revenue for the year ended 31 December 2020 was RMB1,289.3 million, representing a decrease of RMB660.2 million, or 33.9%, from RMB1,949.5 million for the previous year. The loss attributable to equity owners of the Company was RMB91.2 million, while the profit attributable to equity owners of the Company for the previous year was RMB198.9 million.

No final dividend for the year ended 31 December 2020 was proposed by the Board to the shareholders of the Company (for the year ended 31 December 2019: 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 2020 (the "**Reporting Year**"), together with the comparative figures for the previous year as follows:

## CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December **2020** *RMB'000* | 2019 *RMB'000* |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **412,254** | 403,227 |
| Right-of-use assets | | **97,049** | 101,113 |
| Intangible assets | | **3,306** | 3,950 |
| Investments in associates | | **4,018** | 10,480 |
| Deferred income tax assets | | **117,707** | 100,996 |
| Financial assets at fair value through other comprehensive income | | **15,718** | – |
| Prepayments and other receivables | *6* | **28,959** | 37,982 |
| | | **679,011** | 657,748 |
| **Current assets** | | | |
| Inventories | | **436,400** | 464,671 |
| Contract assets | | **21,811** | 31,524 |
| Trade and note receivables | *5* | **1,034,259** | 1,139,823 |
| Prepayments and other receivables | *6* | **183,905** | 231,787 |
| Restricted bank deposits | | **27,337** | 17,556 |
| Cash and cash equivalents | | **321,618** | 588,365 |
| | | **2,025,330** | 2,473,726 |
| **Total assets** | | **2,704,341** | 3,131,474 |
| **Equity** | | | |
| **Equity attributable to the Company's equity holders** | | | |
| Share capital | *7* | **1,178** | 1,178 |
| Share premium | | **848,026** | 847,899 |
| Other reserves | | **330,378** | 324,192 |
| Currency translation differences | | **(528,924)** | (431,486) |
| Retained earnings | | **562,342** | 655,757 |
| | | **1,213,000** | 1,397,540 |
| **Non-controlling interests** | | **18,371** | 102,029 |
| **Total equity** | | **1,231,371** | 1,499,569 |

| | Note | As at 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **233,077** | 47,403 |
| Non-current lease liabilities | | **46,660** | 48,735 |
| Deferred income tax liabilities | | **21,991** | 21,492 |
| | | **301,728** | 117,630 |
| **Current liabilities** | | | |
| Borrowings | | **193,000** | 233,000 |
| Current portion of long-term borrowings | | **65,266** | 111,842 |
| Contract liabilities | | **7,266** | 22,946 |
| Trade and note payables | *8* | **697,413** | 910,400 |
| Accruals and other payables | *9* | **125,298** | 137,736 |
| Current income tax liabilities | | **64,795** | 77,541 |
| Current lease liabilities | | **18,204** | 20,810 |
| | | **1,171,242** | 1,514,275 |
| **Total liabilities** | | **1,472,970** | 1,631,905 |
| **Total equity and liabilities** | | **2,704,341** | 3,131,474 |

## CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Revenue** | | **1,289,267** | 1,949,459 |
| **Other gains/(losses), net** | | **25,550** | (7,693) |
| **Operating costs** | | | |
| Material costs | | **(277,825)** | (379,987) |
| Employee benefit expenses | | **(476,903)** | (498,264) |
| Short-term and low-value lease expenses | | **(74,471)** | (84,064) |
| Transportation costs | | **(32,255)** | (29,943) |
| Depreciation and amortisation | | **(75,756)** | (84,616) |
| Technical service expenses | | **(227,434)** | (383,252) |
| Net impairment losses of financial and contract assets | | **(23,393)** | (1,751) |
| Impairment losses of inventories and prepayments | | **(28,452)** | (7,030) |
| Others | | **(162,729)** | (179,767) |
| | | **(1,379,218)** | (1,648,674) |
| **Operating (loss)/profit** | | **(64,401)** | 293,092 |
| Finance income | *10* | **892** | 3,125 |
| Finance costs | *10* | **(37,487)** | (33,480) |
| **Finance costs, net** | | **(36,595)** | (30,355) |
| Share of net profit of associates accounted for using the equity method | | **148** | – |
| **(Loss)/profit before income tax** | | **(100,848)** | 262,737 |
| Income tax credit/(expense) | *11* | **2,444** | (62,610) |
| **(Loss)/profit for the year** | | **(98,404)** | 200,127 |
| **Attributable to:** | | | |
| Owners of the Company | | **(91,189)** | 198,926 |
| Non-controlling interests | | **(7,215)** | 1,201 |
| | | **(98,404)** | 200,127 |
| **(Losses)/earnings per share for the profit attributable to the owners of the Company (RMB)** | | | |
| Basic (losses)/earnings per share | *13* | **(0.049)** | 0.107 |
| Diluted (losses)/earnings per share | *13* | **(0.049)** | 0.106 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2020** | 2019 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **(Loss)/profit for the year** | | **(98,404)** | 200,127 |
| **Other comprehensive (loss)/income:** | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Currency translation differences | | **(45,913)** | 10,920 |
| Items that will not be subsequently reclassified to profit or loss: | | | |
| Currency translation differences | | **(50,804)** | 12,618 |
| Changes in the fair value of equity investments at fair value through other comprehensive income | | **(3,898)** | – |
| **Total comprehensive (loss)/income for the year** | | **(199,019)** | 223,665 |
| **Total comprehensive (loss)/income for the year attributable to:** | | | |
| Owners of the Company | | **(192,592)** | 222,769 |
| Non-controlling interests | | **(6,427)** | 896 |
| | | **(199,019)** | 223,665 |
| **Total comprehensive (loss)/income for the year** | | **(199,019)** | 223,665 |

## CONSOLIDATE CASH FLOW STATEMENT

| | Note | Year ended 31 December **2020** *RMB'000* | 2019 *RMB'000* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in)/generated from operations | | **(140,795)** | 308,361 |
| Income tax paid | | **(21,566)** | (6,345) |
| Net cash (used in)/generated from operating activities | | **(162,361)** | 302,016 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(108,641)** | (112,597) |
| Proceeds from disposal of property, plant and equipment | | **83,945** | 828 |
| Purchases of intangible assets | | **(1,121)** | (18) |
| Purchases of financial assets at fair value through other comprehensive income | | **(19,616)** | – |
| Payments to non-controlling interests on liquidation of a subsidiary | | **(82,490)** | – |
| Increase in restricted bank deposits | | **(9,781)** | (10,329) |
| Interest received | | **813** | 3,029 |
| Proceeds from disposal of/(investment in) an associate | | **5,040** | (5,040) |
| Dividends received from an associate | | **82** | – |
| Net cash used in investing activities | | **(131,769)** | (124,127) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **486,763** | 332,000 |
| Repayments of borrowings | | **(382,579)** | (239,490) |
| Interest paid | | **(32,213)** | (27,778) |
| Principal elements of lease payments | | **(26,556)** | (17,812) |
| Proceeds from share options exercised | | **88** | 1,974 |
| Contributions from non-controlling interests | | **5,219** | 7,743 |
| Payments of financing fee and deposits | | **(7,480)** | (4,080) |
| Acquisition from non-controlling interests | | **–** | (516) |
| Net cash generated from financing activities | | **43,242** | 52,041 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(250,888)** | 229,930 |
| Cash and cash equivalents at beginning of the year | | **588,365** | 353,638 |
| Exchange (losses)/gains on cash and cash equivalents | | **(15,859)** | 4,797 |
| **Cash and cash equivalents at end of the year** | | **321,618** | 588,365 |

# 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 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 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").

The company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 December 2011.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and is approved for issue by the Board of Directors on 26 March 2021.

## 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, except for certain financial assets which are measured at fair value.

#### *2.1.3 New and amended standards adopted by the Group*

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- *Definition of Material – amendments to IAS 1 and IAS 8*
- *Definition of a Business – amendments to IFRS 3*
- *Interest Rate Benchmark Reform – amendments to IFRS 7, IAS 9 and IFRS 39*
- *Revised Conceptual Framework for Financial Reporting*

The 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.

## 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 in 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 2020 and 2019 are as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Revenue | | |
| Drilling | **434,644** | 792,939 |
| Well completion | **294,837** | 488,959 |
| Reservoir | **559,786** | 667,561 |
| | **1,289,267** | 1,949,459 |

The revenue from external customers 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 RMB1,004,685,000 (2019: RMB1,505,616,000) are derived from China National Petroleum Corporation（CNPC）and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

**(b) Segment information**

The segment information for the years ended 31 December 2020 and 2019 are as follows:

| | Drilling | Well completion | Reservoir | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at/year ended 31 December 2020** | | | | |
| Revenue from external customers | **434,644** | **294,837** | **559,786** | **1,289,267** |
| Time of revenue recognition | | | | |
| – At a point in time | **–** | **226,926** | **69,876** | **296,802** |
| – Over time | **434,644** | **67,911** | **489,910** | **992,465** |
| EBITDA | **(39,487)** | **47,129** | **76,413** | **84,055** |
| Total assets | **897,736** | **743,544** | **460,494** | **2,101,774** |
| Total assets include: | | | | |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | **27,055** | **47,025** | **23,865** | **97,945** |

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| EBITDA for reportable segments | **84,055** | 478,899 |
| Unallocated expenses | | |
| – Share-based payments | **(7,420)** | (15,222) |
| – Other gains/(losses), net | **25,550** | (7,693) |
| – Unallocated overhead expenses | **(90,682)** | (78,276) |
| | **(72,552)** | (101,191) |
| | **11,503** | 377,708 |
| Depreciation and amortisation | **(75,756)** | (84,616) |
| Finance costs | **(37,487)** | (33,480) |
| Finance income | **892** | 3,125 |
| (Loss)/profit before income tax | **(100,848)** | 262,737 |

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Segment assets for reportable segments | **2,101,774** | 2,312,741 |
| Unallocated assets | | |
| – Deferred income tax assets | **117,707** | 100,996 |
| – Unallocated inventories | **16,185** | 13,336 |
| – Unallocated prepayment and other receivables | **99,984** | 88,000 |
| – Restricted bank deposits | **27,337** | 17,556 |
| – Cash and cash equivalents | **321,618** | 588,365 |
| – Financial assets at fair value through other comprehensive income | **15,718** | – |
| – Investments in associates | **4,018** | 10,480 |
| | **602,567** | 818,733 |
| Total assets per balance sheet | **2,704,341** | 3,131,474 |

### (c) Geographical segment

The following table shows revenue by geographical segment which is based on where the customer is located:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| PRC | **848,844** | 1,326,445 |
| Kazakhstan | **225,248** | 358,846 |
| Turkmenistan | **98,132** | 101,942 |
| Canada | **58,326** | 66,283 |
| Indonesia | **34,341** | 54,961 |
| Middle East | **24,195** | 39,684 |
| Others | **181** | 1,298 |
| | **1,289,267** | 1,949,459 |

The following table shows the non-current assets other than deposits and other receivables, investments in associates, deferred income tax assets and financial assets at fair value through other comprehensive income by geographical segment according to the country of domicile of the respective entities in the Group:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| PRC | **366,477** | 368,787 |
| Kazakhstan | **52,011** | 61,273 |
| Middle East | **37,965** | 42,390 |
| Turkmenistan | **25,436** | 32,611 |
| Singapore | **20,201** | 23,080 |
| Canada | **7,099** | 16,232 |
| Indonesia | **1,305** | 239 |
| Others | **29,840** | 426 |
| | **540,334** | 545,038 |

### (d) Assets and liabilities related to contracts with customers

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

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Current contract assets | **23,136** | 33,333 |
| Loss allowance | **(1,325)** | (1,809) |
| Total contract assets | **21,811** | 31,524 |
| Current contract liabilities | **7,266** | 22,946 |
| Total contract liabilities | **7,266** | 22,946 |

*(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 | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | | |
| – Drilling | **–** | 3,827 |
| – Well completion | **501** | 7,805 |
| – Reservoir | **169** | 2,324 |
| Total | **670** | 13,956 |

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Within one year | **889,997** | 680,703 |
| More than one year but not more than two years | **81,392** | 156,125 |
| More than two years | **48,370** | 56,122 |
| Total | **1,019,759** | 892,950 |

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.

## 5. TRADE AND NOTE RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables *(a)* | **983,369** | 1,090,420 |
| Less: loss allowance | **(106,142)** | (88,607) |
| Trade receivables – net | **877,227** | 1,001,813 |
| Note receivables *(a)* | **157,032** | 138,010 |
| | **1,034,259** | 1,139,823 |

*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 | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Up to 6 months | **678,155** | 936,561 |
| 6 months – 1 year | **82,939** | 159,193 |
| 1 – 2 years | **277,340** | 30,794 |
| 2 – 3 years | **10,712** | 12,753 |
| Over 3 years | **91,255** | 89,129 |
| Trade and note receivables, gross | **1,140,401** | 1,228,430 |
| Less: loss allowance | **(106,142)** | (88,607) |
| Trade and note receivables, net | **1,034,259** | 1,139,823 |

(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 | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Current | | |
| Advances to suppliers | **102,333** | 78,054 |
| Prepayment for taxes | **21,668** | 16,040 |
| Less: loss allowance | **(4,772)** | (2,909) |
| Total non-financial assets | **119,229** | 91,185 |
| Deposits and other receivables (a) | **69,950** | 61,224 |
| Receivable relating to disposal of equipment | **–** | 83,140 |
| Less: loss allowance | **(5,274)** | (3,762) |
| Total financial assets | **64,676** | 140,602 |
| | **183,905** | 231,787 |
| Non-current | | |
| Prepayment for equipment and machinery | **27,725** | 36,748 |
| Deposits and other receivables | **1,234** | 1,234 |
| Total non-financial assets | **28,959** | 37,982 |
| Total | **212,864** | 269,769 |

*Notes*

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

(b) Movements in impairment of advances to suppliers representing those that were past due are as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **As at 1 January** | **(2,909)** | (1,739) |
| Provision | **(4,290)** | (1,170) |
| Write off | **2,427** | – |
| **As at 31 December** | **(4,772)** | (2,909) |

## 7. SHARE CAPITAL

| | Number of shares *(Thousands)* | Share capital *RMB'000* |
|---|---|---|
| **Authorised:** | | |
| Ordinary shares of USD0.0001 each as at 31 December 2019 and 2020 | 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 2018 | 1,849,022 | 1,175 |
| Add: | | |
| Share options exercised | 4,554 | 3 |
| As at 31 December 2019 | 1,853,576 | 1,178 |
| Add: | | |
| Share options exercised | 200 | – |
| **As at 31 December 2020** | 1,853,776 | 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** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Up to 6 months | **341,989** | 686,623 |
| 6 months to 1 year | **112,272** | 68,286 |
| 1 – 2 years | **146,560** | 82,090 |
| 2 – 3 years | **34,039** | 15,015 |
| Over 3 years | **62,553** | 58,386 |
| | **697,413** | 910,400 |

The carrying amounts of trade and note payables are considered to be the same as their fair values.

## 9. ACCRUALS AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Interest payable | **576** | 3,230 |
| Other payables | **47,270** | 38,700 |
| Total financial liabilities | **47,846** | 41,930 |
| Payroll and welfare payable | **57,473** | 55,021 |
| Taxes other than income taxes payable | **19,979** | 40,785 |
| Total non-financial liabilities | **77,452** | 95,806 |
| | **125,298** | 137,736 |

The fair value of accruals and other payables approximate their carrying values.

## 10. FINANCE COSTS, NET

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Finance income: | | |
| – Interest income on short-term bank deposits | **813** | 3,029 |
| Net foreign exchange gains on financing activities | **79** | 96 |
| **Finance income** | **892** | 3,125 |
| Interest expense: | | |
| – Bank borrowings | **(23,185)** | (18,276) |
| – Interest paid of lease liabilities | **(3,991)** | (4,466) |
| – Bank charges and others | **(2,881)** | (5,997) |
| – Secured loans from a third party institution | **(7,430)** | (4,741) |
| **Finance costs** | **(37,487)** | (33,480) |
| **Finance costs, net** | **(36,595)** | (30,355) |

## 11. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax (a) | **15,768** | 29,060 |
| Deferred income tax | **(18,212)** | 33,550 |
| Income tax (credit)/expense | **(2,444)** | 62,610 |

*Notes*

(a) Current income tax

(i) 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.

(ii) 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 2020 and 2019, 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%.

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

(iv) The subsidiaries established in Singapore are subject to Singapore profits tax rate of 17%.

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

(vi) 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.

(b) The income tax on the Group's (loss)/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 | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| (Loss)/profit before income tax | **(100,848)** | 262,737 |
| Tax calculated at domestic tax rates applicable in respective countries | **(13,780)** | 43,846 |
| Expenses not deductible for taxation purposes | **3,525** | 7,324 |
| Impact on share of results of investments accounted for using equity method | **(22)** | – |
| Utilisation of previously unrecognised tax losses | **(8,960)** | (8,434) |
| Losses not recognised as deferred income tax assets | **17,823** | 18,076 |
| Withholding tax relating to unremitted retained earnings | **397** | 2,850 |
| Additional tax deduction of research and development expenses | **(1,427)** | (1,052) |
| Income tax (credit)/expense | **(2,444)** | 62,610 |

## 12. DIVIDENDS

The Board did not propose a final dividend for the year ended 31 December 2020 (2019: Nil).

## 13. EARNINGS PER SHARE

### (a) Basic

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

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| (Loss)/profit attributable to owners of the Company | **(91,189)** | 198,926 |
| Weighted average number of ordinary shares in issue (thousands) | **1,853,773** | 1,850,798 |
| Basic (losses)/earnings per share (RMB per share) | **(0.049)** | 0.107 |

### (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.

The share options in issue have not been included in the calculation of the diluted earnings per share, as these share options had no dilutive effect during the twelve months ended 31 December 2020.

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| **(Losses)/earnings** | | |
| (Loss)/profit attributable to owners of the Company | **(91,189)** | 198,926 |
| **Weighted average number of ordinary shares in issue (thousands)** | **1,853,773** | 1,850,798 |
| Adjustment for: | | |
| – Share options (thousands) | **–** | 30,270 |
| | **1,853,773** | 1,881,068 |
| Diluted (losses)/earnings per share (RMB per share) | **(0.049)** | 0.106 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

During the Reporting Year, the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") spread across the world and continued to deal a blow to the global economy. The futures price of US crude oil was impacted by the COVID-19 outbreak and turned to negative for the first time in history in April 2020. Throughout 2020, the average crude oil spot of Brent stood at approximately USD41.7 per barrel, a decrease of over 30% from the previous year. Oil consumption was severely affected by the COVID-19 outbreak while oil demand has been reducing by the improvements of efficiency and the electrification of transportation. Oil and gas companies around the world cut their investment expenditures on a large scale and many companies in the industry have gone through bankruptcy restructuring and lay-offs; China's three major oil companies reduced their scale of investments in oil and gas exploration and development to varying degrees, and made dynamic adjustments to their capital expenditures. The oil-field service industry suffered from the pressures from both the COVID-19 outbreak and low oil prices, which result in sharp drop in workload, fierce competition and overall low point in business cycle.

In the face of the COVID-19 outbreak and industry crisis, the Group fought against the COVID-19 outbreak in solidarity, secured its production, overcame difficulties and combat risks by fully leveraging its own advantages, and safeguarding the stable operation of the Group's basic fundamentals. During the year ended 31 December 2020 (the "**Period**"), both the revenue scale and profit level of the Group slided down. During the Period, the Group recorded a revenue of RMB1,289.3 million, representing a decrease of RMB660.2 million or 33.9% from the same period last year; and recorded a loss for the Period of RMB98.4 million while a net profit of RMB200.1 million was recorded in the same period of the previous year. In response to the impact of the COVID-19 outbreak and low oil prices on the People's Republic of China ("**PRC**") market and overseas markets, specific measures taken by the Group are as follows:

Firstly, the Group took joint forces in pandemic prevention and control measure to combat the outbreak and promoted an orderly resumption of work and production. In the face of a sudden COVID-19 outbreak, the regional companies and the united headquarter of the project departments of the Group established a joint COVID-19 outbreak prevention and control working group to dynamically monitor the development of the COVID-19 outbreak, and fine tuned the pandemic prevention strategy to minimize the adverse impact of the COVID-19 outbreak. At the same time, as the Group organised orderly resumption of work and production in areas where the COVID-19 outbreak had been alleviated, the Group also managed to minimize the loss of product efficiency and market benefit.

Secondly, striving to become a customer-reliable professional solution provider, the Group adhered to the philosophy of "Technology led development, while continuing to improve management efficiency," persistently built technology as its core competitiveness, and persistently improved our ability of technical iteration. The Group's new technologies and new processes in the business segments of oil reservoir, drilling, well completion, well workover and fracturing had been greatly improved, resulting in an increase in its production value.

Thirdly, stayed abreast of customers needs and acted proactively in market operation. Facing fierce industry competition, customers shrinking budgets and declining demand caused by the COVID-19 outbreak, the Group adopted the business strategy of "using technology as the traction for early deployment" to continuously integrate advantageous resources, optimize business structure, and spare no effort in expansion of markets and projects. Among them, the market fundamentals of the regional markets of Xinjiang and Central Asia remained stable, while regional projects that cooperated with China National Offshore Oil Corporation ("**CNOOC**") and the ones located in the Sichuan and Chongqing markets had made breakthroughs. New projects in regions such as Africa and the Middle East also had a good prospect.

Fourthly, the Group implemented refined management and overcame difficulties by reducing costs and increasing efficiency. With the goal of "three controls and three improvements", which refer to controls in investments, costs, and decline rate, and the improvements in economic efficiency, labor efficiency and safety level.

Fifthly, the Group strictly fulfilled our environmental, social and governance responsibilities to ensure the appropriate and effective environmental, social and governance risk management and internal control systems are in place. The Group promoted the establishment and operation of a global human resources business system and informatisation system, continuously optimized the staff training system according to its operational needs to enhance the core capability of employees.

Despite the decline in the operation results of the Group during the Period, the Group fully capitalised its own advantages in this difficult situation to combat the pandemic, expand the markets, stabilise production, improve technology, create results, overcome difficulties, and adopted prudent financial policies, fully demonstrating the risk resistance capacity and operation flexibility of the Group.

## REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,289.3 million, representing a decrease of RMB660.2 million or 33.9% over last year. The analysis of the Group's revenue by business segment is as follows:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| | ***RMB'000*** | *RMB'000* | *(%)* |
| **Revenue** | | | |
| Reservoir | **559,786** | 667,561 | (16.1%) |
| Drilling | **434,644** | 792,939 | (45.2%) |
| Well completion | **294,837** | 488,959 | (39.7%) |
| Total | **1,289,267** | 1,949,459 | (33.9%) |

Affected by the dual impact of low oil prices and the COVID-19 outbreak, oil and gas companies have reduced their capital expenditures on upstream exploration and development, the prices of investment project services have fallen, and the workload has decreased, which resulted in a certain degree of decline in the Group's revenue in 2020. Among which, the revenue contribution from reservoir segment accounted for 43.4%, decrease of RMB107.8 million or 16.1% as compared with that in last year; the revenue contribution from drilling segment accounted for 33.7%, decrease of RMB358.3 million or 45.2% as compared with that in last year; and the revenue contribution from well completion segment accounted for 22.9%, decrease of RMB194.1 million or 39.7% as compared with that in last year. Overall, the decline in revenue from reservoir segment was relatively small, while the revenue from drilling and well completion segments declined significantly.

## RESERVOIR SERVICE SEGMENT

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| | ***RMB'000*** | *RMB'000* | *(%)* |
| **Revenue from reservoir services** | | | |
| Overseas | **233,753** | 292,035 | (20.0%) |
| PRC | **326,033** | 375,526 | (13.2%) |
| Total | **559,786** | 667,561 | (16.1%) |

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

During the Reporting Year, the business of the Group's reservoir segment had a more steady development and recorded revenue of RMB559.8 million, representing a decrease of RMB107.8 million or 16.1% as compared with that in last year. In 2020, the revenue from reservoir segment in the PRC market amounted to RMB326.0 million, representing a decrease of RMB49.5 million or 13.2% as compared with that in last year, accounting for 58.2% of the total revenue from reservoir segment. In 2020, the revenue from reservoir segment in the overseas markets amounted to RMB233.8 million, representing a decrease of RMB58.3 million or 20.0% as compared with that in last year, accounting for 41.8% of the total revenue from reservoir segment.

## DRILLING SERVICE SEGMENT

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| | ***RMB'000*** | *RMB'000* | *(%)* |
| **Revenue from drilling services** | | | |
| Overseas | **113,037** | 225,542 | (49.9%) |
| PRC | **321,607** | 567,397 | (43.3%) |
| Total | **434,644** | 792,939 | (45.2%) |

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 and drilling fluid services, etc.

During the Reporting Year, the revenue from drilling segment amounted to RMB434.6 million, representing a decrease of RMB358.3 million or 45.2% as compared with that in last year. In 2020, the revenue from drilling segment in the PRC market amounted to RMB321.6 million, representing a decrease of RMB245.8 million or 43.3% as compared with that in last year, accounting for 74.0% of the total revenue from drilling segment. Revenue of drilling segment in the PRC market decreased significantly. Revenue of drilling segment in the overseas markets amounted to RMB113.0 million, representing a decrease of RMB112.5 million or 49.9% as compared with that in last year, accounting for 26.0% of the total revenue from drilling segment.

## WELL COMPLETION SERVICE SEGMENT

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| | ***RMB'000*** | *RMB'000* | *(%)* |
| **Revenue from well completion services** | | | |
| Overseas | **93,633** | 105,437 | (11.2%) |
| PRC | **201,204** | 383,522 | (47.5%) |
| Total | **294,837** | 488,959 | (39.7%) |

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 RMB294.8 million, representing a decrease of RMB194.1 million or 39.7% as compared with that of last year. Among which, revenue from the PRC market amounted to RMB201.2 million, representing a decrease of RMB182.3 million or 47.5% as compared with that in last year, accounting for 68.2% of the total revenue from well completion segment. Revenue of well completion from the overseas markets amounted to RMB93.6 million, representing a decrease of RMB11.8 million or 11.2% as compared with that in last year, accounting for 31.8% of the total revenue from well completion segment.

## MARKET ENVIRONMENT

During the Reporting Period, the COVID-19 outbreak resulted in the deep recession of the global economy. The global petroleum market was hugely impacted. Supply and demand of petroleum are at serious imbalance with an unprecedented negative international crude oil futures price. Oil companies experienced serious loss in their operating results, with their oil and gas output decreasing hugely, leading to a significant reduction in capital expenditure and a huge decline in the cashflow. However, since the beginning of 2021, under the impact of various favourable factors, such as the continuing production reduction by the Organization of Petroleum Exporting Countries (OPEC), the improvement in global crude oil demand and the gradual alleviation or containment of the COVID-19 outbreak due to universal access to the vaccines for COVID-19 around the world, the international crude oil prices had been continuously rising. It was expected that oil prices in 2021 will be on a more stabilized level with an upward trend. With the recovery of the global economy, the oil and gas industry was expected to enter into a stage of rebound under the pandemic.

At the same time, during the Reporting Year, the European Union promulgated the "European Climate Law", which clearly stated the goal of achieving carbon neutrality by 2050; many international oil companies had proposed to transform into a new type of comprehensive energy companies and announced their commitment to achieve "net zero" carbon emissions by 2050, indicating that the global energy transition had entered an inflection point from quantitative change to qualitative change.

During the Reporting Year, the performance of the global oil-field service industry had fallen to a record low, and the total contracted value achieved by oil-field service companies last year had dropped significantly year-on-year. In the context that global economic activities have not yet fully returned to normal and the majority of energy industry enterprises is undergoing a low-carbon transition, it is going to take a while for the oil-field service industry to recover. Judging from the financial reports of the world's oil-field service giants for the fourth quarter of 2020 which were successionally published recently, their operations showed signs of further improvement, signaling industry recovery. As international oil prices recovered to the expected level, the oil market had also shown first signs of recovery. Oil companies had begun to increase oil and gas investment and productivity, and oil service companies would also enter into a cycle of growth.

## 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, the Middle East and Africa. During the Reporting Year, affected by the COVID-19 outbreak and quarantine restrictions, most countries faced problems such as supply and demand imbalance, falling oil prices, and rising global oil inventories. Meanwhile, the most significant impact to the oil-field services companies regarding pandemic also included difficulties in mobilizing and demobilizing, resulting in non-guaranteed normal production operations. In 2020, according to the oil production limiting agreement by OPEC, the Kazakhstan Ministry of Energy imposed production restrictions on large and medium-sized oil fields, and significantly reduced the investment in exploration and development; due to the spread of COVID-19 outbreak, project planning, work arrangements and mobilizing and demobilizing work were seriously affected, resulting in a substantial decline in output value. At the same time, the exchange rate of the Kazakhstan currency, the Tenge, against the US dollar had depreciated during the year, which caused a slight impact on profits. Being one of the epicenters of the pandemic, the Group in Kazakhstan had overcome various difficulties to ensure the safety of the overseas operating personnel and the stability and continuity of its basic businesses. The COVID-19 outbreak has had a certain impact on Turkmenistan's production, lifestyle and commodity prices. Although the customers' exploration and development investment budget decreased year-on-year, the Group continued to make unremitting efforts and obtained large-sum completion tool orders in competition with international oilfield service giants. The output value of the business in the Middle East also declined. The Group overcame the adverse effects of the COVID-19 outbreak in Indonesia, won the bid for two-year well completion services and steel wire operation service contracts and secured the continuity of market position. The Group continued the production and sales of high-end electronic pressure gauges and accessories for downhole monitoring in North America. The Group has also successfully obtained a new long-term offshore wells order.

## PRC Market

During the Reporting Year, in the face of the dual impact of low oil price and the COVID-19 outbreak, PRC oil and gas companies had strived to overcome difficulties. Despite upstream exploration and development capital expenditures shrinked to a certain extent, the oil and gas reserves and production had increased against the trend. The "14th Five-Year Plan" of the PRC formulated in 2020 and the long-term goals for 2035 require energy as the foundation and the industry development as a strong support. The "Guiding Opinion for Energy Work in 2020 (《2020年能源工作指導意見》)" issued by the National Energy Administration in June 2020, stated its requirements to increase efforts in oil and gas exploration and development, focusing on expansion of the construction of four major oil and gas production bases in Bohai Bay, Sichuan, Xinjiang and Ordos; while the meeting of the National Energy Commission held in October and the "New Generation Energy Development (《新時代能源發展》)" white paper released in December both emphasised on strengthening oil and gas exploration and development, and facilitating the expansion of reserves and production to improve our self-sufficiency in terms of oil and gas. In 2021 and during the "14th Five-Year Plan" period, China's petroleum and petrochemical enterprises will continue to implement the seven-year action plan regarding the exploration and development, while continue to strengthen its effort in non-conventional and conventional oil and gas exploration and development. The above measures were all implemented to ensure the security of national energy. Under this backdrop, the upstream development capital expenditure of oil and gas enterprises was expected to stabilize, which may benefit the oil-field service industry.

During the Reporting Year, the annual oil and gas production of the Xinjiang Tarim Oilfield had exceeded 30 million tons, which would further consolidate Xinjiang's position as a national large-scale oil and gas production, processing and reserve base, thereby making it a major strategic alternative area for reserves and production expansion of oil and gas in PRC. Xinjiang has always been one of the key markets of the Group. The Xinjiang market has always been based on the Tarim Oilfield, the Northwest Oilfield, Xinjiang Oilfield and Tuha Oilfield. Affected by the COVID-19 outbreak and other factors, our customers focused on optimising the production and operation model and promoting cost reduction and efficiency enhancement, thus lowered their investment projects service price and reduced workload, resulting in a decrease in the output value of the Group's drilling fluid and well workover projects for the period as compared with corresponding period. However, as to the well completion business, it continued to maintain its leading position in the regional market. The successful trial of small outer diameter packers in wells is of great significance. In terms of the oil reservoir business, the high-pressure gas well PVT (Pressure-volume-temperature) sampling process technique had received partial verification. The completion of such technique would increase the number of wells operated and radiate to other high-pressure areas. For the well drilling business, we had received orders for the fine managed pressure drilling technology service, and smoothly carried out the special process technique drilling project in V-shaped wells.

During the period, the Group carried out steady development in the Sichuan and Chongqing markets. As to the oil reservoir business, based on the original trial operations of our wells, we expanded to the corrosion detecting service, and had won the bid for corrosion detecting of 15 wells of Chongqing gas mine, and may further expanded to other mines. For fracturing and stimulation projects, we had promoted new techniques and new process in refracturing, thus we are expected to account for a certain market share. We had achieved outstanding performance in terms of sales value and profit scale of well completion tools, and planned to further expand the market efficiency to form a dominant market share. Our well drilling and workover operations will take the professional route, owning multiple sets of imported rotary steering systems and drilling speed-up tools with international advanced levels, and we will provide targeted tool portfolios based on customer needs. In particular, the slim holes, fishing for non-conventional trapped fishes and the process of tubing string workovers of multi-level packers. We had successfully handled clients' rotary and steering accidents, and extricated enormous economic losses for customers.

The non-conventional oil and gas and other businesses of the Group continued to achieve breakthroughs where new process techniques and new technologies therefore can be used. In 2020, orders in hand of the shale gas project in Guizhou were successfully completed during the Period. With the application of the new drilling efficiency enhancement technologies, the drilling case encounter rate in horizontal segment of four wells, premium reservoir drilling encounter rate and coring recovery rate all achieved 100%. The quality of each construction not only met the standards, but also earned high recognition from owners. We expected to participate in bidding for acquiring new orders in the first half of 2021. The Group successfully completed the re-fracturing of certain wells of the shale gas field in Fuling, which stood as the first well to adopt re-fracturing after the reconstruction of the well casing of shale gas horizontal well in the country and realized high productivity, and laying the foundation for the stable increase of shale gas's productivity and the enhancement of recovery. The Group won the bid of the salt cavern gas storage well workover EPC project of PetroChina Company Limited by leveraging its outstanding technical solutions and abundant experiences in well workover, marking a new breakthrough of the Group in the gas storage business.

During the Period, the Group made significant breakthrough in the CNOOC market, and won the tender of the Permanent Electronic Pressure Gauge Project of of Bohai Oil Field of CNOOC, marking a solid step towards achieving a more diversified development of the Group's customer base.

To conclude, under the dual impact of the COVID-19 outbreak and the drop in international oil prices in 2020, the Group was plagued with shrinking production value and a sharp decline in the volume of operations in both domestic and overseas markets. In order to overcome such challenges, the Group followed the work orientation of reducing costs and increasing efficiency, enhancing technology-led development, promoting management improvement, and facilitating to improve quality and efficiency. On the one hand, it consolidated the original markets at home and abroad, and on the other hand, it successfully developed the diversification of products and technical services, kept close to customer needs, actively tapped market potential, and strived to improve market competitiveness and market share.

## RESEARCH AND DEVELOPMENT ("R&D") AND MANUFACTURING

In 2020, the Group put forward a "technology as traction" development strategy. Guided by market demand, the Group has allocated more resources into the R&D and manufacturing of new technologies and equipments. Despite the impact of the COVID-19 outbreak, the Group has made substantial progress in new technologies and new process techniques in the business areas such as oil reservoir, drilling, well completion, well workover and fracturing, and obtained gratifying results and greater market workload, thereby creating higher industry value.

As to oil reservoir, targeting at the "three highs" (high temperature, high pressure and high sulphur volume) gas fields in Tarim, the Group developed the high temperature and high-pressure PVT (pressure-volume-temperature) sampler, being the first of its kind in the PRC, which has been successfully put into market application and has exclusively captured the market share in this area. Meanwhile, the trial operations of the ultra-high pressure and high wax gas wells in Kuche Shanqian, Tarim have repeatedly set records, continuously maintaining a workload of over 50% in such market. The successful application of the distributed optic fibre permanent downhole monitoring system in Changqing's oilfields and Southwest gas fields has brought the Group with greater market opportunities.

As to well drilling, the shale gas platforms in Zhengan, Guizhou have completed drilling and achieved profit targets. This marked the Group's creation of an exclusive technology system in respect of integrated technologies, including drilling speed improvement and trajectory control for shale gas cluster horizontal wells in complex stratums, providing solutions to preventing issues of irregular well positions, small wellhead spacing, high requirements for anti-collision and trajectory control, complex and unstable stratums, poor drillability, collapses, leakage and tool sticking. The technology system has won great acclaim from customers, and is expected to continue its operation in such market in 2021. The Group successfully introduced the rotary steering and magnetic field ranging technologies for connected wells, being the first of its kind in China, and successfully operated in certain western oilfields. Currently, the construction has commenced according to schedule, and such technology has accurately positioned the target wells for multiple times, winning high acclaim and laying a solid foundation for the subsequent promotion of the rotary steering technology.

As to well completion, targeting the complicated oil and gas reservoir markets in Sichuan and Chongqing, Tarim and the Amu Darya in Turkmenistan, etc., the Group successfully applied the new technologies and process techniques including the multi-stage well completion process technique for three highs gas wells, vertical wells and high-angle wells, and the well completion process technique of chemical injection valve for high wax incrustation gas wells and safety valve for deep wells, and solved the technological challenges of the three highs complex wells in the process of well completion. In particular, the successful initial test for the small outer diameter packers has resolved a great breakthrough in respect of key technology for customers, possesses tremendous development potential, and will further enhance the promotion of the new technologies and process techniques.

As to well workover, while strengthening technological innovation and R&D, the Group adopted a risk-based package cooperation model, innovatively introduced new process techniques and new technologies such as coiled tubing mechanical cutting, open-hole wellbore cleansing, rotary steering tools for efficient fishing in complex wild wells in Xinjiang and southwest China, setting a record high in many workover jobs. Our technological capability has won high recognition from customers.

As to fracturing, the Group successfully applied the fixed casing re-fracturing technique for certain gas fields in southwest China for the first time, which solved difficulties relating to the re-fracturing of shale gas long horizontal wells. The test production is consistent with the results of the initial fracturing, for which onsite application will continue to be carried out in various wells in 2021. High-pressure gas wells in certain gas fields of Turkmenistan have adopted new technologies including coiled tubing and pressured sand scouring and drag acid fracturing, which have helped overcome stratum sand production, reservoir pollution, and bottom water coning. We have seen production volume increase significantly as a result, and secured the major workload share in such market.

Apart from the successful application of the new technologies and new process technique R&D results above, the Group's technology team has conducted R&D, integration and incubation of technologies including optical fibre monitoring, composite comprehensive profile control and displacement, nano oil recovery, highly soluble temporary blockage, maximum volume placement full-length diversion fracturing, smart well completion, ultra-high temperature screw drilling, efficient PDC (polycrystalline diamond composite) bit processing, casing deformation wells support, and wellbore integrity evaluation, etc. Several exchanges with customers in various regional markets were also conducted with sound feedback. Some technologies underwent pilot run onsite and will be implemented in projects soon, laying a solid foundation for the Company to continue adhering to the development strategy of technology as traction in 2021.

## HUMAN RESOURCES

Based on the Group's finalised five-year strategic plans and business objectives for 2020, the Group upgrades its human resources management system in a step-by-step manner. The major details of the human resources work in 2020 are as follows:

1. Due to the severe COVID-19 outbreak across the globe, the Group effectively implemented a series of measures such as optimisation of labour costs, pandemic prevention and control, and achieved great results;

2. Despite difficult macro-economic and operation conditions, the Group implemented a performance management system based on performance and technological innovation, which has had great positive incentive function;

3. During the pandemic, leveraging its advantages established in online learning platform, the Group commenced a comprehensive online talent training programme and established a three-tier talent training system to increase the core strengths of key personnel; in 2020, attendance in the training through the online platform reached 19,759 and the training covered all business regions and project departments domestically and abroad with 163,282 training hours cumulatively;

4. The establishment and operation of the business system for human resources and informatisation system of the Group have been carried out effectively; and

5. In respect of manpower deployment of this year, the Group needs to continuously optimize its personnel structure to meet its operational needs and reserve manpower for additional programmes at the same time.

As of 31 December 2020, the Group had a total of 3,939 employees, increase of 227 employees from 3,712 employees as at 31 December 2019. The actual labour costs of the Group for 2020 were controlled within the budget amount set at the beginning of this year.

## FINANCIAL REVIEW

For the year ended 31 December 2020, revenue of the Group was RMB1,289.3 million, representing a year-on-year decrease of RMB660.2 million, or 33.9%, as compared with that of RMB1,949.5 million for the previous year. The decrease was mainly due to the weak oil-field service market affected by the declining oil prices amid the COVID-19 outbreak.

### Other gains/(losses), net

For the year ended 31 December 2020, other gains, net of the Group were RMB25.6 million, as compared with other losses, net of RMB7.7 million for the previous year. The change was mainly due to the exchange gains as a result of fluctuations in foreign exchange rates.

### Material costs

For the year ended 31 December 2020, material costs of the Group were RMB277.8 million, representing a year-on-year decrease of RMB102.2 million, or 26.9%, as compared with that of RMB380.0 million for the previous year. The decrease was mainly due to the shrinkage of the operating activities of the Group.

### Employee benefit expenses

For the year ended 31 December 2020, employee benefit expenses of the Group were RMB476.9 million, representing a year-on-year decrease of RMB21.4 million, or 4.3%, as compared with that of RMB498.3 million for the previous year. The decrease was mainly due to the enhancement of efficiency in human resources management of the Group and temporary concessions for a particular period of the social security fund and other benefits and plans introduced by the government in view of the COVID-19 outbreak.

**Short-term and low-value lease expenses**

For the year ended 31 December 2020, short-term and low-value lease expenses of the Group were RMB74.5 million, representing a year-on-year decrease of RMB9.6 million, or 11.4%, from RMB84.1 million for the previous year. The decrease was mainly due to the shrinkage of the operating activities of the Group.

**Transportation costs**

For the year ended 31 December 2020, transportation costs of the Group were RMB32.3 million, representing a year-on-year increase of RMB2.4 million, or 8.0%, as compared with that of RMB29.9 million for the previous year. The increase was mainly due to an increase in transportation costs as a result of transportation difficulties caused by the COVID-19 outbreak.

**Depreciation and amortisation**

For the year ended 31 December 2020, depreciation and amortisation of the Group was RMB75.8 million, representing a year-on-year decrease of RMB8.8 million, or 10.4%, as compared with that of RMB84.6 million for the previous year. The decrease was mainly because some of the fixed assets were fully depreciated.

**Technical service expenses**

For the year ended 31 December 2020, technical service expenses of the Group were RMB227.4 million, representing a year-on-year decrease of RMB155.9 million, or 40.7%, as compared with that of RMB383.3 million for the previous year. The decrease was mainly due to the shrinkage of the operating activities of the Group.

**Impairment losses of assets**

For the year ended 31 December 2020, impairment losses of assets of the Group were RMB51.8 million, while the impairment losses of assets of the Group were RMB8.8 million for the previous year. The increase in impairment losses of assets was mainly due to the slow recovery of accounts receivables and the impairment of inventories as a result of the current industry environment.

**Others**

For the year ended 31 December 2020, other operating costs of the Group were RMB162.7 million, representing a year-on-year decrease of RMB17.1 million or 9.5%, as compared with that of RMB179.8 million for the previous year. The decrease was mainly due to the shrinkage of the operating activities of the Group.

**Operating (loss)/profit**

Based on the above reasons, the Group's operating loss during the Period was RMB64.4 million, compared with the operating profit of RMB293.1 million for the previous year.

**Finance costs, net**

For the year ended 31 December 2020, the Group's finance costs, net were RMB36.6 million, representing a year-on-year increase of RMB6.2 million, or 20.4%, as compared with that of RMB30.4 million for the previous year. The increase was mainly due to the increase in interest expenses as a result of the Group's increased financing efforts.

**Investment income from associates under the equity method**

For the year ended 31 December 2020, the Group's investment income from associates under the equity method was RMB0.1 million.

**Income tax credit/(expense)**

For the year ended 31 December 2020, income tax credit was RMB2.4 million, compared with the income tax expense of RMB62.6 million for the previous year. The decrease in income tax was mainly due to the decline in the operating results of the Company.

**(Loss)/profit for the year**

As a result of the explanations above, the Group's loss for the Reporting Year was RMB98.4 million, while the profit was RMB200.1 million for the previous year.

**(Loss)/profit attributable to equity holders of the Company**

For the year ended 31 December 2020, loss attributable to equity holders of the Company was RMB91.2 million, compared with a profit of RMB198.9 million for the previous year.

**Property, plant and equipment**

As at 31 December 2020, property, plant and equipment was RMB412.3 million, representing an increase of RMB9.1 million, or 2.3%, from RMB403.2 million as at 31 December 2019. The increase was mainly due to the purchase of new equipment during the period to satisfy new business needs.

**Right-of-use assets**

As at 31 December 2020, the carrying value of right-of-use assets amounted to RMB97.0 million, representing a decrease of RMB4.1 million, or 4.1%, from RMB101.1 million as at 31 December 2019. The decrease was mainly due to the amortisation of the right-of-use assets.

**Intangible assets**

As at 31 December 2020, intangible assets were RMB3.3 million, representing a decrease of RMB0.7 million, or 17.5%, from RMB4.0 million as at 31 December 2019. The decrease was mainly due to the continuing amortisation of the existing intangible assets.

**Deferred income tax assets**

As at 31 December 2020, deferred income tax assets were RMB117.7 million, representing an increase of RMB16.7 million, or 16.5%, from RMB101.0 million as at 31 December 2019. The increase was mainly due to the recognition of deferred income tax assets with respect to impairments and tax losses of certain subsidiaries.

**Prepayments and other receivables**

As at 31 December 2020, non-current portion of prepayments and other receivables was RMB29.0 million, representing a decrease of RMB9.0 million, or 23.7%, from RMB38.0 million as at 31 December 2019, mainly due to the recognition of the Group's equipment purchased during the Reporting Year, while current portion of prepayments and other receivables was RMB183.9 million, representing a decrease of RMB47.9 million, or 20.7%, from RMB231.8 million as at 31 December 2019. The decrease was mainly due to the collection of certain other receivables on disposal of equipment.

**Inventories**

As at 31 December 2020, inventories were RMB436.4 million, representing a decrease of RMB28.3 million, or 6.1%, from RMB464.7 million as at 31 December 2019. The decrease was mainly due to the impairment of inventories.

**Contract assets, trade and note receivables/contract liabilities, trade and note payables**

As at 31 December 2020, contract assets, trade and note receivables were RMB1,056.1 million, representing a decrease of RMB115.2 million, or 9.8%, from RMB1,171.3 million as at 31 December 2019. The decrease was mainly due to the decline of revenue recorded during the Reporting Year. As at 31 December 2020, contract liabilities, trade and note payables amounted to RMB704.7 million, representing a decrease of RMB228.6 million, or 24.5%, from RMB933.3 million as at 31 December 2019. The decrease was mainly due to the shrinkage of the operating activities of the Group.

**Liquidity and capital resources**

As at 31 December 2020, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB349.0 million, representing a decrease of RMB256.9 million, or 42.4%, from RMB605.9 million as at 31 December 2019. The decrease was mainly due to the shrinkage of the operating activities of the Group.

As at 31 December 2020, the Group's short-term borrowings and current portion of long-term borrowings were RMB258.3 million while the long-term borrowings were RMB233.1 million. 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 2020, 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 2020, the Group's current lease liabilities amounted to RMB18.2 million and non-current lease liabilities amounted to RMB46.7 million.

As at 31 December 2020, the Group's gearing ratio was 45.2%, representing an increase of 14.4% as compared with 30.8% as at 31 December 2019. Gearing ratio was calculated as interest-bearing liabilities and lease liabilities divided by total equity.

**Capital structure**

The capital of the Company comprises only ordinary shares. As at 31 December 2020, the total number of ordinary shares of the Company in issue was 1,853,775,999 shares (31 December 2019: 1,853,575,999 shares). As at 31 December 2020, equity attributable to the equity holders of the Company was RMB1,213.0 million, representing a decrease of RMB184.5 million, or 13.2%, as compared with RMB1,397.5 million as at 31 December 2019.

**Significant investment held**

As at 31 December 2020, 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 bank borrowings**

As at 31 December 2020, the Group pledged parts of its right-of-use assets and trade and note receivables to secure the bank borrowings of the Group. The carrying values of the assets pledged are as follows:

| | **As at 31 December 2020** *RMB'000* | As at 31 December 2019 *RMB'000* |
|---|---|---|
| Right-of-use assets | **4,757** | 5,694 |
| Trade and note receivables | **384,000** | 302,000 |

**Assets pledged to secure the loans from a third party institution**

The Group's loans from a third party financial institution are expiring from 2021 to 2023 and are secured by certain machinery with a carrying amount of RMB110,257,000 (2019: RMB66,807,000), and guaranteed by four subsidiaries of the Group.

**Foreign exchange risk**

Fluctuations in exchange rates of Kazakhstan Tenge (KZT) and United States dollar (USD) bring foreign currency exchange risk to the Group. Currently, the Group mainly operates in the PRC, Kazakhstan, Singapore, Canada and Indonesia. Certain sales to and purchases from overseas are denominated in USD. 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 KZT. Compared with last year, while exchange rates of both KZT and USD against RMB fell by 15.4% and 6.5% as a whole in 2020, such changes did not have a material impact on the overall business of the Group. However, due to the aforementioned devaluation, the Group incurred translation losses in other comprehensive income of RMB96.7 million.

**Contingent liabilities**

As at 31 December 2020, the Group had no material contingent liabilities.

**Off-balance sheet arrangement**

As at 31 December 2020, the Group had no off-balance sheet arrangements.

**Contractual obligations**

As at 31 December 2020, the Group had capital expenditure commitments of RMB30.9 million, while operating leases were mainly lease of offices, warehouses and equipment with the amount of RMB25.4 million.

## SUBSEQUENT EVENT

The Group has no significant subsequent events occurred after 31 December 2020.

## OUR PLANS

To adapt to profound changes in the energy industry in the post-pandemic era and new trends, opportunities and challenges that confront the oil-field service industry, the Group will continue to focus its efforts on the following areas in 2021:

1. The Group will seize the period of strategic opportunities from the country's domestic focus on ensuring national energy security, increasing oil and gas exploration and development, and promoting the increase of oil and gas reserves and production, and will root itself in the domestic market while attending to the overseas market at the same time, so as to meet the demands from customers in pursuit of higher quality, better speed and efficiency, larger production and lower cost. The Group will enhance coordination in the production organisation, innovate its management, and put innovations in business models into practice, thereby gaining market share amidst fierce competition and significantly increase industry value and profit.

2. The Group will focus on "accelerating strategic market layout and pushing for the technology-led development strategy", in order to promote business layout. The Group will resort to technologies to solve clients' demands and further advance market expansion, and focus on innovation of individual technologies, and attach greater importance to providing oil and gas companies with integrated comprehensive business process solutions.

3. Continuously improving management level, and enhancing capability of risk resistance. The Group will continue to proactively implement refined management, focus on promoting project management, and implement cost reduction and efficiency enhancement in real practice, thereby controlling investment and cost, improving economic and workforce performance, and maintaining market competitiveness. The Group will grow its resilience and capability of risk resistance by implementing asset-light operation and prudent financial policies.

4. Continuously paying attention to employee's development and growth. The Group will also continue to construct a system for high-level innovation talent development, and accelerate the development of innovation teams and leaders through major technology projects. The Group will designate outstanding talent of technology innovation as project leads to bring out the innovation vitality of our technicians.

5. Establishing a long-term environmental, social and governance management mechanism, and continuously improving environmental, social and governance performance. The Group will continue to improve the overall level of sustainable development and effectively integrate environmental, social and governance requirements into business operation and management to fulfil its social responsibilities.

## FINAL DIVIDEND

The Board did not propose final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: 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 2021, the register of members of the Company will be closed from 7 June 2021 to 10 June 2021 (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 2021.

## 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 2020.

## 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 2020. 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 2020, 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 2020 of the Group with the auditor of the Company.

## PUBLICATION

The annual results announcement for the year ended 31 December 2020 of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sptenergygroup.com) respectively. The 2020 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 2021

*As of the date of this announcement, the executive Directors are Mr. Wang Guoqiang, Mr. Ethan Wu and Mr. Li Qiang; the non-executive Directors are Mr. Wu Jiwei and Ms. Chen Chunhua; and the independent non-executive Directors are Ms. Zhang Yujuan, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming.*

* *For identification purpose only*