2020
ANNUAL REPORT

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

* For identification purpose only




Contents

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang *(Chairman)*
Mr. Ethan Wu *(Chief Executive Officer)*
Mr. Li Qiang

Non-Executive Directors

Mr. Wu Jiwei [Note 1]
Ms. Chen Chunhua

Independent Non-Executive Directors

Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

AUDIT COMMITTEE

Mr. Wu Kwok Keung Andrew *(Chairman)*
Ms. Chen Chunhua
Mr. Wan Kah Ming

REMUNERATION COMMITTEE

Ms. Zhang Yujuan *(Chairman)*
Mr. Wang Guoqiang
Mr. Wu Kwok Keung Andrew

NOMINATION COMMITTEE

Mr. Wang Guoqiang *(Chairman)*
Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew

AUTHORISED REPRESENTATIVES

Mr. Wang Guoqiang
Ms. Ho Siu Pik

COMPANY SECRETARY

Ms. Ho Siu Pik *(FCG, FCS)*

COMPANY WEBSITE

www.sptenergygroup.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

5/F, Hongmao Commercial Building
Jia No. 8 Hongjunying East Road
Chaoyang District
Beijing
PRC
(postal code: 100012)

Note:

1. Mr. Wu Jiwei has been re-designated as a non-executive Director of the Company by the Board of Directors of the Company with effect from 8 December 2020.

Corporate Information

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
China CITIC Bank International Limited
Bank of Kunlun Company Limited
Bank of China Limited

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

1251

DATE OF LISTING

23 December 2011

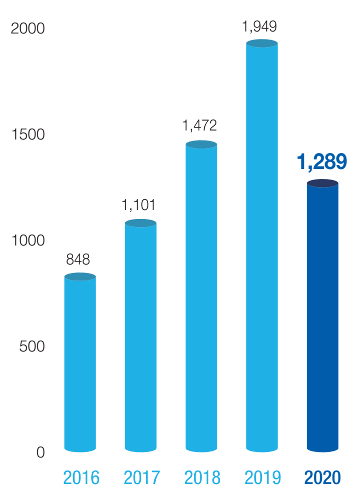
Financial Summary

The following financial information is extracted from the consolidated financial statements of SPT Energy Group Inc. (the "Company") and its subsidiaries (the "Group"), which is prepared under the International Financial Reporting Standards:

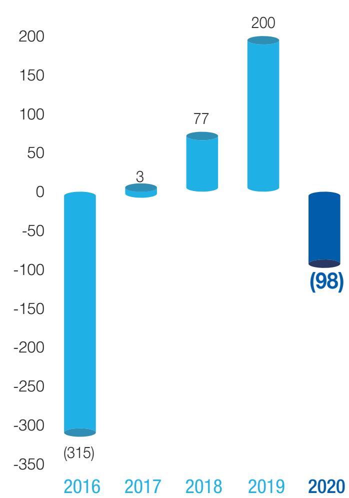
CONDENSED CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
RMB'000	**2020**	2019	2018	2017	2016
Revenue	**1,289,267**	1,949,459	1,471,649	1,100,642	848,131
Other gains/(losses), net	**25,550**	(7,693)	(28,947)	36,618	(30,015)
Operating costs	**(1,379,218)**	(1,648,674)	(1,315,791)	(1,090,448)	(1,086,199)
Operating (loss)/profit	**(64,401)**	293,092	126,911	46,812	(268,083)
Finance costs, net	**(36,595)**	(30,355)	(30,804)	(29,677)	(30,301)
Share of net profit of associates accounted for using the equity method	**148**	–	–	–	–
(Loss)/profit before income tax	**(100,848)**	262,737	96,107	17,135	(303,384)
(Loss)/profit for the year	**(98,404)**	200,127	76,639	3,260	(314,654)
Attributable to:					
Owners of the Company	**(91,189)**	198,926	81,798	5,541	(292,346)
Non-controlling interests	**(7,215)**	1,201	(5,159)	(2,281)	(22,308)
Dividends proposed after balance sheet date	**–**	–	–	–	–

Revenue Trend (RMB million)

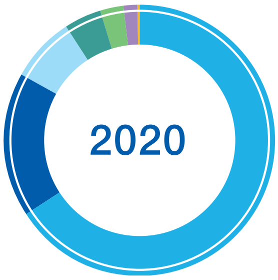


Profit Trend (RMB million)

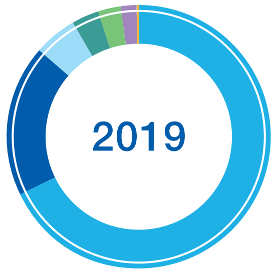


Financial Summary

Revenue by Region (RMB'000)



- China : 848,844
- Kazakhstan : 225,248
- Turkmenistan : 98,132
- Canada : 58,326
- Indonesia : 34,341
- Middle East : 24,195
- Others : 181



- China : 1,326,445
- Kazakhstan : 358,846
- Turkmenistan : 101,942
- Canada : 66,283
- Indonesia : 54,961
- Middle East : 39,684
- Others : 1,298

Revenue by Business (RMB'000)

- Reservoir : 559,786
- Drilling : 434,644
- Well completion : 294,837

- Reservoir : 667,561
- Drilling : 792,939
- Well completion : 488,959

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2020**	2019	2018	2017	2016
Assets					
Non-current assets	**679,011**	657,748	521,081	558,928	612,864
Current assets	**2,025,330**	2,473,726	1,938,916	1,430,895	1,447,429
Total assets	**2,704,341**	3,131,474	2,459,997	1,989,823	2,060,293
Total equity	**1,231,371**	1,499,569	1,251,412	978,098	1,012,334
Liabilities					
Non-current liabilities	**301,728**	117,630	161,632	39,300	125,234
Current liabilities	**1,171,242**	1,514,275	1,046,953	972,425	922,725
Total liabilities	**1,472,970**	1,631,905	1,208,585	1,011,725	1,047,959
Total equity and liabilities	**2,704,341**	3,131,474	2,459,997	1,989,823	2,060,293

Chairman's Statement

We strive to become a first-class international energy services enterprise.

Wang Guoqiang
Chairman of the Board

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I present the annual report of the Group for the year ended 31 December 2020 (the "Reporting Year") to the shareholders of the Company.

During the Reporting Year, the Group's revenue amounted to RMB1,289.3 million and the loss attributable to the owners of the Company amounted to RMB91.2 million.

Chairman's Statement

MARKET REVIEW

In 2020, under the global impact of Coronavirus Disease 2019 ("COVID-19 outbreak"), the world economy experienced a profound contraction, and the global oil and gas industry entered a critical period. As a result of the shrinkage in the oil market, demand and supply both saw record declines with international oil price unprecedently plummeting into negative territory. The implication of the largest production cut agreement in history by the "oil production cut alliance" formed by oil-producing countries had directly affected the survival and development of oil-field service industry.

In the face of the dual impact of low oil prices and the COVID-19 outbreak, China's major oil and gas companies reduced their investments in oil and gas exploration and development to varying extents and revised their capital expenditures, which resulted in significant reduction of the workload of oil-field service industry, alongside with fierce competition within the market. In the mid to late 2020, as the COVID-19 outbreak was quickly brought under control in China, the Chinese economy showed a V-shaped reversal and maintained a trend of steady recovery. To ensure national energy security, different parties in the oil and gas market in the PRC kept to the "seven-year action plan" to continuously increase domestic oil and gas output. Throughout 2020, the additional proven geological oil and natural gas reserves amounted to 1.32 billion tonnes and 129 million cubic metres. Shale oil and gas exploration achieved multiple breakthroughs. In addition to actively raising high-quality production capacity, oil and gas production enterprises pressed ahead with cost reduction and efficiency enhancement, which marked an opportunity yet also a challenge to oil-field service industry.

Under such external environment, in 2020, the Group immediately made adjustments to its work arrangement, proactively responded to challenges and overcame difficulties so as to ensure stable operation of enterprises. As to the overseas markets, while safeguarding the traditional markets such as Central Asia, the Group managed to expand markets including the Middle East and Africa. As the Group continued to tap further into the market vertically and horizontally in China and consolidated the markets of Xinjiang, Sichuan and Chongqing, the development of non-conventional oil and gas markets made new breakthroughs. The Group expanded into the offshore oil-field market and laid a solid foundation for the development of gas storage business. As to product and technology, in 2020, the Group adhered to the "technology-led development" strategy. Guided by market demand, the Group has allocated more resources into the R&D and manufacturing of new technologies and equipment while maintaining its own technological advantages. The Group developed the first high temperature and high-pressure PVT sample, created a unique technology system for integration of technologies including drilling speed improvement and trajectory control for shale gas cluster horizontal wells in complex stratums. The Group successfully introduced the rotary steering and electromagnetic distance measurement technologies for connected wells, being the first kind in China. Also, the Group successfully applied the fixed casing re-fracturing technique for the first time, which solved difficulties relating to the re-fracturing of shale gas long horizontal wells, further enhancing the Group's core technology competitiveness. As to internal management, the Group had strictly fulfilled its environmental, social and governance responsibilities, implemented refined management to enhance economic benefits, labour efficiency and safety standards. In addition, the Group promoted the establishment and operation of a global human resources system and informatisation system, continuously optimised the staff structure and improved the staff training system according to its operational requirements to enhance the core capability of employees. As to cooperation with external parties, in 2020, the technological cooperation between the Group and Halliburton (China) Energy Services Co., Ltd. was taken further ahead while promoting the application of latest technology and solution on cost reduction, quality improvement, and efficiency enhancement.

Chairman's Statement

PROSPECTS

In 2021, demand and supply of global oil tend to stabilise and oil prices are expected to show an upward trend throughout the year. With vaccination programs proceeding throughout the world, the global epidemic situation has improved. With the recovery of the global economy and increasing crude oil demand, the oil-field service market is expected to usher in more opportunities.

Looking ahead, the transition to clean and low-carbon energy use in the global energy industry will be accelerated, and the road to carbon neutrality is firmly in place. The petroleum industry has been bestowed the social responsibility to cut carbon emission while oil and gas companies are trying to transform into energy companies, bringing new challenges to the oil-field service market in the future. Based on China's current energy demand and development trend, carbon emission of petrochemical energy is expected to peak in 2025, natural gas is growing fast in the meantime, and shale gas will become a growth driver for natural gas consumption. The oil-field service industry in China has progressed towards the orientation of new process techniques and new technologies as natural gas being extensively developed, which benefited the companies with advantage in high-temperature and high-pressure wells and non-conventional wells. In order to safeguard national energy security, in 2021, the total capital expenditure for the "Three Barrels of Oil" domestic plan for upstream exploration and development amounted to approximately RMB340 billion, representing a year-on-year increase of approximately 5%. Such increase signified the boom of the domestic oil-service industry's business cycle, or its continuous rising trend.

Based on the foregoing, in 2021, the Group will continue to overcome the adverse impact of the COVID-19 outbreak on the Company, cater to customers' needs for higher efficiency and lower cost and compete effectively in the market with advanced technologies, thus providing customers with high-quality services. The Group will continue to innovate its management and put innovations in business models into practice, thereby gaining market share amidst fierce competition and significantly improving revenues and profits. As to domestic market, the Group will seize opportunities arising from the strategic development of domestic energy industry in China. With advanced technologies such as deep and ultra-deep drilling and well completion technologies, long-horizontal section of well drilling and well completion supporting technologies, high temperature and high pressure reservoir layer reformation and testing, and well workover technology, the Group will consolidate markets of Xinjiang, Sichuan and Chongqing. Leveraging the latest technologies for shale gas drilling and hydraulic fracturing, the Group will strive to maximise its service offering and expand the market share of shale gas exploration and development. At the same time, the Group will continuously step up its efforts in the development of gas storage business. Project cooperation in offshore oil-field service market is starting to gain traction, which provides ample room for development. As to overseas market, while consolidating the traditionally advantageous markets such as Central Asia and focusing on markets in the Middle East and Africa, the Group will seize the opportunities arising from the "Belt and Road" strategy and proactively expand the overseas market to increase its market share and strengthen the Group's international competitiveness. As to technological development, in 2021, the Group will continue to implement the "technology-led development" strategy, promote the application of self-developed new technologies and transformation of business structure, precipitate the training for new staff and leaders, keep facilitating the steady development of oil-field service industry, build up a platform for innovation and idea creation, encourage technology innovation and, last but not least, stress the ability to provide customers with comprehensive solutions for business process integration. All these efforts are expected to optimise the overall business structure of the Group.

Chairman's Statement

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to take this opportunity to express our heartfelt gratitude to all of our respected shareholders, customers, business partners and investors for their trust and support, also to all of our employees for their contribution. We will devote ourselves to develop our business and achieve steady growth so as to bring better return of investment to our shareholders.

Wang Guoqiang
Chairman of the Board

Management Discussion and Analysis

BUSINESS OVERVIEW

During the Reporting Year, the COVID-19 outbreak spread across the world and continued to deal a blow to the global economy. In April 2020, the futures price of US crude oil was impacted by the COVID-19 outbreak and turned to negative for the first time in history. 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 pressure from both the COVID-19 outbreak and low oil prices, which resulted 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 safeguarded the stable operation of the Group's basic fundamentals. During the Reporting Year, both the revenue scale and profit level of the Group slided down. During the Reporting Year, 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 Reporting Year 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.

Management Discussion and Analysis

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. It established the goal of "three controls and three improvements", which refers 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 optimised the staff structure and improved 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 Reporting Year, 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 ***RMB'000***	2019 *RMB'000*	Change *(%)*
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%)

Management Discussion and Analysis

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% of the total revenue, 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% of the total revenue, 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% of the total revenue, 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 ***RMB'000***	2019 *RMB'000*	Change *(%)*
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.

Management Discussion and Analysis

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 from drilling segment in the PRC market decreased significantly. Revenue from 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.

Management Discussion and Analysis

During the Reporting Year, the revenue from well completion service 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, the Group's revenue from well completion segment in 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 from well completion segment in 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 Year, the COVID-19 outbreak resulted in the recession of the global economy. The global petroleum market was hugely impacted. Supply and demand of petroleum were 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 influence 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 roll out of 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 recovery 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 are 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 successively 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 initial signs of recovery. Oil companies started to increase oil and gas investment and productivity, and oil service companies would also enter into a cycle of growth.

Management Discussion and Analysis

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 and 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.

Management Discussion and Analysis

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 during the Reporting Year 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 Reporting Year, 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. 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.

Management Discussion and Analysis

During the Reporting Year, the Group made significant breakthrough in the CNOOC market, and won the tender of the Permanent Electronic Pressure Gauge Project 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.

Management Discussion and Analysis

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 resulted in 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 increased 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 as shown in the 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;

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 Reporting Year was RMB64.4 million, compared with the operating profit of RMB293.1 million for the previous year.

Management Discussion and Analysis

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 acquirement.

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 there was profit of 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 Reporting Year 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 amortisation of the existing intangible assets.

Management Discussion and Analysis

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 temporary differences arising from 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 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.

Management Discussion and Analysis

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 certain 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.

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.

Management Discussion and Analysis

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 increasing 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 and 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 improve its resilience and capability of risk resistance by implementing light-asset 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 talents of technology innovation as project leaders 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.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 58, is an executive Director and chairman of the Board. He had been the chief executive officer of the Company during the period from 1 December 2011 to 31 August 2016 and 1 September 2017 to 10 May 2018. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Wang has over 36 years of experience in the petroleum industry. Mr. Wang has been a Director of the Company since June 2008. He served as an engineer of North China Oil Field Testing Company (華北油田測試公司), a subsidiary of China National Petroleum Corporation ("CNPC"), from July 1984 to August 1993. Mr. Wang obtained a diploma in field machinery from North China Petroleum Vocational College (華北石油職工大學) (currently known as Beijing Institute of Economics and Management (北京經濟管理職業學院) in July 1984 and a master's degree in business administration from The National University of Singapore in April 2007.

Ethan Wu (吳東方), (with former name Wu Dongfang), aged 49, is an executive Director of the Company. He has been appointed as the chief executive officer since 11 May 2018, responsible for the overall operation and management of the Group. Mr. Wu has over 29 years of experience in the petroleum industry. Mr. Wu has been a Director of the Company since June 2008. Mr. Wu served as an assistant engineer of North China Oil Field Testing Company (華北油田測試公司), a subsidiary of CNPC, from March 1991 to November 1993. Mr. Wu obtained a bachelor's degree in electronic instrument and measuring technology from Xi'an Shiyou University in July 1991 and an executive master's degree in business administration from Tsinghua University of China in February 2006.

Li Qiang (李強), aged 45, is an executive Director and chief financial officer of the Company. He is primarily responsible for internal control affairs of the Group including planning and operations, capital operation and information disclosure. Mr. Li has more than 23 years of experience in corporate management. Mr. Li has been an executive Director of the Company since 21 March 2017. Prior to joining the Group, he served as the senior project manager of Beijing Bowei Management Consultancy Co., Ltd. (北京博維管理顧問有限公司) specialising in corporate strategies, procedure restructuring, human resources management and other consultation tasks. From August 1998 to June 2004, he worked at Beijing Huaer Company Limited (北京化二股份有限公司) as sales and marketing manager and assistant to plant general manager, etc. Mr. Li obtained a bachelor's degree in corporate management from Beijing Wuzi University (北京物資學院) in 1998 and a master's degree in business administration from Peking University in 2005.

Directors' and Senior Management's Biographies

NON-EXECUTIVE DIRECTORS

Wu Jiwei (武吉偉), aged 49, has been an executive Director of the Company since 26 March 2019, and was re-designated as a non-executive Director of the Company on 8 December 2020. He joined the Group on 25 September 2018. He served as the senior vice president to assist the chief executive officer of the Company to expand the strategic blueprint and explore new markets and new businesses. Prior to joining the Group, Mr. Wu was the chairman of Dongxu Optoelectronic Technology Co., Ltd. (東旭光電科技股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock codes: 000413 and 200413) from April 2018 to August 2018. He was the chairman of the supervisory committee of China National Building Material Company Limited (中國建材股份有限公司) (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 03323), from May 2016 to December 2017. He was the chief accountant of China National Building Material Group Co., Ltd. (中國建材集團有限公司) (formerly known as China National Building Material Group Corporation) from March 2011 to May 2017, and the standing committee member of the party committee of such company from August 2016 to May 2017. He was the director of financial management centre of China Chengtong Holdings Group Limited (中國誠通控股集團有限公司) from October 2008 to March 2011. Mr. Wu served the positions of general manager assistant and financial manager of China Petroleum International Engineering Ltd. (中油國際工程有限責任公司), chief accountant of China National Logging Corporation (中油測井技術服務有限責任公司) and deputy chief accountant of Engineering Technology Branch Company of China National Petroleum Corporation (中國石油天然氣集團公司), etc. Mr. Wu obtained a bachelor's degree in foreign enterprise accounting from Xi'an Shiyou University and received a master's degree in management from Central University of Finance and Economics. He is a senior accountant.

Chen Chunhua (陳春花), aged 57, was appointed as an independent non-executive Director of the Company on 1 December 2011 and was re-designated as a non-executive Director on 27 March 2013. She is also a member of the Audit Committee of the Company. Ms. Chen has more than 30 years of experience in academic education and practice in corporate operations and business management. Since September 2016, she has been a professor of the National School of Development at Peking University. She has been an independent non-executive Director of Bank of China Limited (中國銀行股份有限公司) since 20 July 2020. She served South China University of Technology from July 1986 to January 2019 and held the positions of professor and tutor of doctoral students in the Business Administration School. She once served as the joint chairperson and chief executive officer of New Hope Liuhe Co., Ltd. (新希望六和股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000876) from May 2013 to May 2016 responsible for overall operation and development. From 27 December 2013 to 25 August 2020, she served as a non-executive Director of Vtron Group Co., Ltd. (威創集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002308). Ms. Chen obtained a bachelor's degree of engineering in radio technology from South China Institute of Technology in June 1986 and became a post-doctoral candidate in the Business Administration School of Nanjing University in December 2005.

Directors' and Senior Management's Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wu Kwok Keung Andrew (胡國強), aged 67, was appointed as an independent non-executive Director of the Company on 1 December 2011. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wu is also a board member and the Chairman of the Finance Committee of HKU School of Professional and Continuing Education. He was an independent non-executive director of China Mengniu Dairy Company Limited, a company listed on the Stock Exchange (stock code: 2319), from April 2013 to October 2016. Mr. Wu had served Ernst & Young (the "firm") for over 32 years before retirement in January 2010. He served as the regional managing partner of the firm, Hong Kong and Macau region from July 2008 to December 2009, and served as the managing partner of Assurance and Advisory Business Services ("AABS") for Greater China at the firm from 2005 to 2008, and managing partner of AABS for Far East in 2006 to 2007. Mr. Wu obtained a bachelor's degree in science from The University of Hong Kong in 1974. He is a member of the Hong Kong Institute of Certified Public Accountants.

Zhang Yujuan (張渝涓), aged 47, was appointed as an independent non-executive Director of the Company on 27 March 2013. She is also the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company. She has served as the vice chairperson of Beijing Zhiyuan Weiku Culture Development Co., Ltd. (北京智元微庫文化發展有限公司) since January 2018. From January 2016 to December 2017, she was the general manager of Nanjing Pincheng Four Seasons Cultural and Creative Company (南京品成四季文化創意公司). From September 2011 to December 2015, she served as the general manager of Chengdu Tianxinyang Gold Industry Co., Ltd. (成都市天鑫洋金業有限責任公司) and the director of Hong Kong Tianxinyang Co., Ltd. (香港天鑫洋股份有限公司). From 1999 to 2010, she served as the deputy general manager of Beijing Information Co., Ltd. (北京圖文資訊有限公司) and the general manager of the Economic Management Publishing Division. From 1997 to 1999, she worked in the Chinese Cereals and Oils Association. Ms. Zhang obtained a bachelor's degree in economics from the School of Economics of Wuhan University in 1997 and a master's degree in business administration from the Chinese University of Hong Kong in 2009. She obtained a master's degree in business administration from the National University of Singapore in 2015.

Wan Kah Ming (溫嘉明), aged 50, was appointed as an independent non-executive Director of the Company on 1 December 2011. He is also a member of Audit Committee of the Company. He is currently the vice chairman of China Council for the Promotion of Nationalities Trade, Hong Kong Branch (中國民族貿易促進會香港分會), a standing director and an honorary legal advisor of Hong Kong Association of China Council for the Promotion of Peaceful National Reunification (中國和平統一促進會香港總會), the founding director of the China Industrial Overseas Development Association (中國產業海外發展協會), the executive director of China Mergers & Acquisitions Association (中國併購公會), the vice chairman of its Hong Kong Branch and a member of the Chinese Association of Hong Kong and Macau Studies (全國港澳研究會). Mr. Wan has over 26 years of experience in legal practice focusing on China inbound and outbound investment, finance, mergers, acquisitions and restructuring. Since 1 February 2017, he has been a member of the Torture Claims Appeal Board. He has been the executive chairman of Boen Capital Ltd. (邦溫資本有限公司) since May 2006, respectively. He has been the principal solicitor of Leung & Wan Solicitors (梁溫律師事務所) since October 2001. Mr. Wan was an independent non-executive director and a member of the Audit Committee of Lerthai Group Limited (a company listed on the Stock Exchange, stock code: 00112) from December 2018 to December 2019. He served as a consultant of Chan & Chiu Solicitors (陳彼得趙國榮律師行) from January 1998 to September 2001 and an assistant solicitor of S.H. Chan & Co. (陳淑雄律師行) from June 1994 to December 1997. Mr. Wan received his bachelor of law (hons) and postgraduate certificate in laws (PCLL) from The University of Hong Kong in 1993 and 1994, respectively. He was admitted as a solicitor by the High Court of Hong Kong in 1996 and the Supreme Court of England and Wales in 2001. He is also currently a member of The Law Society of Hong Kong (香港律師會) and the Chartered Institute of Arbitrators (英國特許仲裁會) and a appointed attesting officer by the Ministry of Justice, PRC.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Liu Dongqin (劉東勤), aged 51, has been the vice president of the Group since 15 January 2020, mainly in charge of the Group's marketing and operation department, Xinjiang Regional Company and the Directional Well Center. Mr. Liu joined the Group in May 2004 and held the positions of project manager, manager of driving technology department, drilling technology director, drilling cluster director, deputy general manager and general manager of Xinjiang Regional Company. Mr. Liu has 27 years of experience in the petroleum industry. He served as the director of the Drilling Technology Institute (鑽井工藝室), PetroChina North China Oilfield and the director of the Drilling Institute (中石油華北油田鑽井工藝研究院). Mr. Liu graduated from China University of Petroleum (East China) in 1993 with a bachelor's degree in drilling profession. He obtained the qualification of senior engineer in 2004 and received 5 first-class awards at the bureau level, 2 second-class awards at the provincial and ministerial level, as well as several utility patents and invention patents.

Ma Qianli (馬千里), aged 40, has been the vice president of the Group since June 2018, in charge of the Group's management system, human resources, brand management and the president office work. Ms. Ma joined the Group in 2004 and participated in building the global human resources system throughout the entire process and held the positions of human resources manager of the headquarters, human resources manager of the Russian-speaking region, human resources manager of the English-speaking region, global human resources senior manager, etc. Ms. Ma has taken charge of the Group's international strategic cooperation, branding and strategic investment since 2011 and served as strategic market manager, corporate development manager, etc. Ms. Ma obtained a master's degree in international business administration from National School of Development at Peking University, a master's degree in business administration from the international school of business from Vlerick in Belgium and a bachelor's degree in engineering from Beijing Information Science and Technology University.

Luo Hong (羅洪), aged 58, has been the vice president of the Group since November 2019, fully in charge of the technology management of the Group. Mr. Luo has over 31 years of experience in the petroleum industry domestically and abroad. He served as the engineer and deputy chief of the Quality Management Division of Sinopec Anshan Refinery (中石化鞍山煉油廠), and successively held the positions of chief engineer, sales manager and country manager of Halliburton Drilling Fluid China (and North Asia) Region (哈里伯頓鑽井液中國（及北亞）區). He also worked at Halliburton (International) (哈里伯頓（國際）) and was engaged in operational management and project management in Asia Pacific and Russia. Mr. Luo obtained a bachelor of science degree in chemistry from Sun Yat-Sen University (中山大學) in 1984, a master's degree in engineering (organic chemicals) from Sinopec Research Institute of Petroleum Engineering (石油化工科學研究院) in 1991 and a master's degree in business administration from University of International Business and Economics (對外經濟貿易大學) in 2001.

Zhao Feng (趙峰), aged 55, is the vice president and general manager of North America Region of the Group. He is primarily responsible for business development and management of the Group in North America and Singapore. Mr. Zhao has approximately 32 years of experience in the petroleum industry. Mr. Zhao joined the Group in January 1999. He served as a reservoir engineer in Shell Canada Ltd. from May to August 1998. He served as a reservoir research engineer in the Langfang Branch of Research Institute of Petroleum Exploration and Development of CNPC (中石油集團石油勘探開發研究院廊坊分院) from August 1986 to October 1995. Mr. Zhao obtained a bachelor's degree in petroleum engineering from Southwest Petroleum Institute (西南石油學院) in China in July 1986 and obtained a master's degree in chemical and petroleum engineering from The University of Calgary, Canada in November 2002. He also obtained a master's degree in business administration from the Fuqua School of Business of Duke University in the United States in December 2009.

Directors' and Senior Management's Biographies

Gao Wenhai (高文海), aged 53, has been the vice president of the Group since May 2018, currently in charge of the business in the Middle East and Africa. Mr. Gao has over 19 years of experience in the petroleum industry and accumulated extensive working experience in China and overseas regions including South America, Middle East, Southeast Asia and Central Asia. Mr. Gao joined the Group in September 2006 and successively held the positions of director of well completion business line, regional manager of Southeast Asia, general manager of manufacturing centre, etc. Mr. Gao obtained a bachelor's degree in materials science and engineering and a master's degree in business administration from Beihang University (北京航空航天大學).

Xu Anping (徐安平), aged 62, has been the vice president of the Group since April 2019, mainly in charge of the operation management and new market expansion of the companies of the Group in Central Asia. Mr. Xu has over 31 years of experience in the petroleum industry. From September 1980 to September 1997, Mr. Xu worked at the Research Institute of Exploration and Development of Xinjiang Oilfield Company (新疆油田勘探開發研究院) as director of the Oilfield Dynamics Research Office (油田動態研究室) and director of the Development and Planning Research Office (開發規劃室研究室). He served as the development and production manager and deputy general manager of CNPC International (Aketobin) Company (中油國際(阿克糾賓)公司) from October 1997 to January 2009; the deputy chief engineer of CNPC International (Kazakhstan) Company (中油國際(哈薩克斯坦)公司) from February 2009 to January 2017; and the deputy chief engineer of CNPC International (Central Asia) (中油國際中亞公司) Company and the deputy general manager of CNPC International (Aketobin) Company from February 2017 to January 2019.

Chen Jian (陳劍), aged 45, has been the director of investor relations of the Group, mainly in charge of investor relations, capital operation, information disclosure, financing and work related to the Board and general meeting. Ms. Chen joined the Group in 2009 and held the positions of finance manager, deputy financial controller and investment and finance director, during which she was in charge of the financial regulation, financial system building, financial information disclosure and financing in the initial public offering of the Group. She has over 20 years of experience in finance management and finance related work. Prior to joining the Group, she worked at Cummins Engine (Beijing) Co., Ltd. (康明斯發動機(北京)有限公司) and Cummins (China) Investment Co., Ltd. (康明斯(中國)投資公司), mainly in charge of finance management and financing related work. Ms. Chen obtained a bachelor's degree in accounting from Tianjin University of Finance and Economics (天津財經大學) and a master's degree in finance from Renmin University of China (中國人民大學). She is granted the qualification of international accountant.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group's operations are substantially conducted through its subsidiaries in the PRC, Kazakhstan, Turkmenistan, Singapore, Canada and Indonesia. The Group is principally engaged in the provision of integrated oilfield services and the manufacturing and sale of oilfield services related products. Analysis of the principal activities of the Group during the year ended 31 December 2020 is set out in Note 5 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year, a discussion on the Group's future business development, an analysis of the Group's performance during the year using financial key performance indicators and a description of the Group's relationship with employees are provided in the Management Discussion and Analysis on pages 10 to 24 of this annual report. No important events affecting the Group have occurred since the end of the financial year ended 31 December 2020. In addition, discussions on the Group's environmental policies, description of possible risks and uncertainties that the Group may be facing, relationships with its key clients and suppliers and compliance with relevant laws and regulations which have a significant impact on the Group are as follows:

ENVIRONMENTAL POLICY AND PERFORMANCE

1. Environmental protection objective

Adhering to the mission of "Respect for Nature and Care for Environment", the Group curbed incidents of environmental pollution and ecological destruction in 2020, achieving the target of "zero" environmental incidents.

2. Fulfilling the responsibilities of environmental protection

Through entering into the Letter of Responsibilities for Environmental Assessment in 2020, the Group has explicitly defined the environmental assessment indicators, strengthened the control of the key environmental factors in its production and operating activities, and stipulated that the manager shall conduct onsite environmental inspections on regular basis, whereby environmental protection responsibilities were effectively fulfilled.

3. Environmental management system

The Group is dedicated to ecological and environmental protection by actively promoting the development of the environmental management system. Sinopetroleum Technology Inc., Pioneer Sinopetroleum Equipment Inc., Petrotech (Xinjiang) Engineering Co., Ltd (all being domestic subsidiaries), CNEC LLP and ENECAL PTE LTD (both being overseas subsidiaries) have passed the ISO14000 environmental management system certification.

Report of the Directors

4. Training on environmental protection

By promoting the study of relevant environmental protection regulations such as the Energy Management Procedures (《能源管理程序》) and the Solid Waste Control Procedures (《固體廢物控制程序》), the Group constantly raises employees' awareness on environmental protection and enhances the expertise and skills of environmental protection with a view to actively promoting environmental protection and safeguarding the Group from environmental issues.

5. Green operational requirements of clients and respective regions

Adhering to the sustainability philosophy, the Group integrates the green strategy into various segments of production and operation to minimize the impact on the environment from its production and operation activities to achieve green production. Meanwhile, the Group actively complies with the environmental protection laws and regulations in the jurisdictions where the Group operates in order to meet the onsite environmental protection requirements of its customers and local governments.

MARKET RISKS AND UNCERTAINTIES

The uncertainties associated with the fluctuations of international oil price constitute the fundamental risk of the Group. The Group's businesses in its various markets rely on the oil producers' continuing spending and investments. In 2020, in addition to significant fluctuations in international oil prices, the risks of the COVID-19 outbreak have also emerged. The combined effect of the two has brought certain negative impacts to the Group's domestic and foreign business development.

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. Due to the aforementioned devaluation, the Group incurred translation losses in other comprehensive income of RMB96.7 million.

In addition, uncertainties exist in some new business development and new market expansion. The Group actively expands into new businesses and new markets to seek more profit growth points. The future growth prospects of these businesses should be further observed.

Report of the Directors

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

In the domestic market, due to the characteristic of oil and gas market in PRC, the Group mainly provides services to the three major state-owned oil companies and their subsidiaries. In overseas market, the Group targets the Sino-foreign oilfield joint ventures as major customers, as supplemented by the business from international oil companies and local national oil companies. The Group has been taking various measures to diversify its customers and to solve the problem of customer concentration. The Group is able to negotiate on price and other terms with these customers on a fair basis. For the years ended 31 December 2019 and 2020, revenue generated from CNPC and its affiliates accounted for 77.2% and 77.9% of total revenue, respectively.

The Group entered into strategic alliances with several international and domestic oil-field services providers, including Halliburton Company, one of the largest diversified oil-field services companies in the world. Such strategic alliances grant the Group accesses to various high-quality products and high-end technologies which help the Group with business development. Apart from these strategic alliances, the Group purchases materials, equipment and outsourced services from a group of individually small suppliers. All purchases and outsources from the suppliers are done case by case on a fair basis.

COMPLIANCE WITH LAWS AND REGULATIONS

Having operations and subsidiaries in different countries and areas, the Group is subject to various requirements of laws and regulations in various jurisdictions where it operates and where the subsidiaries are incorporated, including the PRC, Kazakhstan, Turkmenistan, Iraq, Canada, Singapore, Indonesia and other countries and areas. By examining the nature and extent of legal effects, the Group are mainly subject to two main types of laws and regulations: laws of the relevant jurisdiction and industry-specific regulations. The former generally contains incorporation and operation related laws and regulations such as incorporation laws, tax laws, labour protection laws and various commercial regulations. The latter mainly includes oil and gas industry-specific regulations such as environmental protection regulations, safety and health regulations and other industry rules. During the long history of operation in different countries and areas, the Group has developed a systematic approach to identifying, understanding and complying with legal requirements, including establishment of a dedicated compliance management unit, recruitment of qualified legal professionals, establishment of a database on laws and regulations, legal compliance training and timely review and approval of legal matters. During the year ended 31 December 2020, the Group is not aware of any non-compliance of laws and regulations in the jurisdictions where the Group operates that could have a material adverse effect on the Group's business, financial condition and operating results.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement on page 84 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: nil).

Report of the Directors

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last five financial years are set out on pages 4 to 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, purchases from the Group's five largest suppliers accounted for 25.7% (2019: 44.2%) of the Group's total purchases and purchases from the largest supplier accounted for 18.3% (2019: 22.4%).

For the year ended 31 December 2020, the Group's sales to its five largest customers accounted for 62.2% (2019: 60.9%) of the Group's total sales and sales to the largest customer accounted for 27.7% (2019: 28.8%).

None of the Directors of the Company or any of their associates or any shareholders of the Company (the "Shareholders") (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in Note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Year are set out in Note 14 to the consolidated financial statements.

EQUITY-LINKED AGREEMENT

Details of the Share Option Scheme of the Company are set out from pages 39 to 43 in the Report of the Directors of this annual report. Other than the Share Option Scheme, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year 2020 or subsisted at the end of the year 2020.

RESERVES

Details of movements in the reserves of the Company during the Reporting Year are set out from pages 86 to 87 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,260.8 million (as at 31 December 2019: RMB1,253.3 million).

Report of the Directors

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in Note 17 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report were:

Executive Directors:
Mr. Wang Guoqiang *(Chairman)*
Mr. Ethan Wu *(Chief Executive Officer)*
Mr. Li Qiang

Non-executive Directors:
Mr. Wu Jiwei *(Note)*
Ms. Chen Chunhua

Independent non-executive Directors:
Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

In accordance with Article 108 of the Articles of Association of the Company (the "Articles of Association"), Mr. Li Qiang, Ms. Chen Chunhua and Ms. Zhang Yujuan will retire, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting of the Company.

Details of the Directors to be re-elected at the forthcoming annual general meeting of the Company are set out in the circular to the Shareholders.

Note: Mr. Wu Jiwei has been re-designated as a non-executive Director of the Company with effect from 8 December 2020.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 25 to 29 of this annual report.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that Directors of the Company shall be indemnified out of assets of the Company from and against any losses or liabilities which they incur or sustain in executing their duties or responsibilities or other matters in connection with their duties as Directors. The Company has arranged appropriate Directors' and officers' liability insurance cover for the Directors and officers of the Company.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2020.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into/renewed a service agreement with the Company for a term of three years.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, AGREEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director and controlling shareholders had a material interest in, either directly or indirectly, in any transaction, agreement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year 2020.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or existed during the year ended 31 December 2020.

EMOLUMENT POLICY

A remuneration committee was set up for optimising the Group's emolument policy and structure for all remuneration of the Directors and senior management, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The Company has adopted a share option scheme as incentive to eligible employees. Details of the scheme are set out in the section headed "Share Option Scheme" below.

In respect of the remuneration system of employees, the Group is optimising the remuneration structure and building an incentive system in line with the performance-based approach.

Particulars of the remuneration of the Group for the year ended 31 December 2020 are set out in Note 22 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in Note 22 and Note 33 to the consolidated financial statements.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Name of Directors/ Chief Executive	Nature of interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Mr. Wang Guoqiang	Beneficiary of trusts (Note 1)	651,484,000 (L)	35.14%
	Beneficial owner (Note 3)	2,590,000 (L)	0.14%
Mr. Ethan Wu	Beneficiary of trusts (Note 2)	651,484,000 (L)	35.14%
	Beneficial owner (Note 3)	2,590,000 (L)	0.14%
Ms. Chen Chunhua	Beneficial owner (Note 3)	3,500,000 (L)	0.19%
Mr. Wan Kah Ming	Beneficial owner	33,333 (L)	0.002%
	Beneficial owner (Note 3)	1,833,334 (L)	0.10%
Mr. Wu Kwok Keung Andrew	Beneficial owner (Note 3)	3,500,000 (L)	0.19%
Mr. Li Qiang	Beneficial owner (Note 3)	11,568,000 (L)	0.62%
Ms. Zhang Yujuan	Beneficial owner (Note 3)	2,500,000 (L)	0.13%
Mr. Wu Jiwei	Beneficial owner (Note 3)	15,000,000 (L)	0.81%

Notes:

1. Mr. Wang Guoqiang and his family members are the beneficiaries of Truepath Trust, a discretionary trust established by Mr. Wang Guoqiang, and therefore he is deemed to be interested in 489,512,000 shares of the Company held by Red Velvet Holdings Limited via Truepath Limited. Mr. Wang Guoqiang is also deemed to be interested in the shares held by Mr. Ethan Wu as they are parties acting in concert.

2. (i) Mr. Ethan Wu and his family members are the beneficiaries of Widescope Trust, a discretionary trust established by Mr. Ethan Wu, and therefore he is deemed to be interested in 140,372,000 shares of the Company held by Elegant Eagle Investments Limited via Widescope Holdings Limited. (ii) Mr. Wu and his family members are the beneficiaries of True Harmony Trust, a discretionary trust established by Mr. Ethan Wu, and therefore he is deemed to be interested in 21,600,000 shares of the Company held by Best Harvest Far East Limited via True Harmony Limited. (iii) Mr. Ethan Wu is also deemed to be interested in the shares held by Mr. Wang Guoqiang as they are parties acting in concert.

3. Mr. Wang Guoqiang, Mr. Ethan Wu, Ms. Chen Chunhua, Mr. Wan Kah Ming, Mr. Wu Kwok Keung Andrew, Mr. Li Qiang, Ms. Zhang Yujuan and Mr. Wu Jiwei hold share options in respect of these shares. Details of the share options are set out below in the section headed "Share Option Scheme".

4. "L" denotes long position.

Report of the Directors

Save as disclosed above, as at 31 December 2020, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Nature of Interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Widescope Holdings Limited (Note 1 and 6)	Beneficial owner	140,372,000 (L)	7.41%
Elegant Eagle Investments Limited (Notes 1 and 6)	Interest of controlled corporation	161,972,000 (L)	8.74%
Truepath Limited	Beneficial owner	489,512,000 (L)	26.41%
Red Velvet Holdings Limited (Notes 2 and 6)	Interest of controlled corporation	489,512,000 (L)	26.41%
Credit Suisse Trust Limited (Notes 3 and 6)	Trustee	711,642,242 (L)	38.39%
Greenwoods Asset Management Limited (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%
Greenwoods Asset Management Holdings Limited (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%
Jiang Jinzhi (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%
Unique Element Corp. (Notes 4 and 6)	Interest of controlled corporation	119,000,000 (L)	6.42%

Report of the Directors

Notes:

1. Widescope Holdings Limited and Best Harvest Far East Limited are wholly owned by Elegant Eagle Investments Limited and therefore Elegant Eagle Investments Limited is deemed to be interested in 140,372,000 and 21,600,000 shares of the Company held by these two companies respectively.

2. Truepath Limited beneficially owned 489,512,000 shares of the Company. As Truepath Limited is wholly owned by Red Velvet Holdings Limited, Red Velvet Holdings Limited is deemed to be interested in 489,512,000 shares of the Company.

3. Credit Suisse Trust Limited is the trustee of the Widescope Trust, Truepath Trust and the Jumbo Wind Trust which are discretionary trusts holding the shares in the Company on trust for Elegant Eagle Investments Limited, Red Velvet Holdings Limited and Starshine Investments Limited respectively. Therefore, Credit Suisse Trust Limited is deemed to be interested in shares of the Company held by True Harmony Limited, Widescope Holdings Limited, Truepath Limited and Jumbo Wind Limited.

4. Such 119,000,000 shares represent the same parcel of shares.

5. "L" denotes long position.

6. Pursuant to section 336 of the SFO, the Shareholders are required to file disclosure of interests forms when certain criteria are fulfilled. Therefore, substantial shareholders' latest shareholding in the Company may be different to the shareholding filed with the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in this report, 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 listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Report of the Directors

NON-COMPETITION UNDERTAKING

Each of Mr. Wang Guoqiang, Truepath Limited, Red Velvet Holdings Limited, Mr. Ethan Wu, True Harmony Limited, Best Harvest Far East Limited, Widescope Holdings Limited and Elegant Eagle Investments Limited (the "Controlling Shareholders") has executed a deed of non-competition through which they have irrevocably and unconditionally warranted and undertaken to the Company not to, whether directly or indirectly or as principal or agent, and whether on its/his/her own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company), (i) carry on, engage, participate or hold any right or interest in or render any services to or provide any financial support to or otherwise be involved in the provision of integrated oilfield services or any other business which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with any business that may be carried on by any members of the Group or the Company from time to time whether as a Shareholder, Director, officer, partner, agent, lender, employee, consultant or otherwise and whether for profit, reward or otherwise; or (ii) take any action which interfere with or disrupt or may interfere with or disrupt the Group's business, including but not limited to, solicitation of any of the customers, suppliers or employees of the Company or any member of the Group.

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this annual report during the year ended 31 December 2020.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2020, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

During the year ended 31 December 2020, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

The related party transactions during the year ended 31 December 2020 as set out in Note 31 to the consolidated financial statements in this annual report do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 1 December 2011.

1. Purpose

The purpose of the Share Option Scheme is to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group.

Report of the Directors

2. Participants

The Board is authorised, at its absolute discretion and subject to the terms of the Share Option Scheme, to grant options to subscribe the shares of the Company to, inter alia, any Directors or any employees (full-time and part-time) of the Company or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

3. Total number of Shares available for issue under the Share Option Scheme

The Company has refreshed the Share Option Scheme mandate limit at the annual general meeting held on 10 June 2020, representing 10% of the shares in issue on the same date (i.e. a total of 185,377,599 shares).

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

5. Period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

6. Minimum period for which an option must be held before it can be exercised

The Board may in its absolute discretion set a minimum period for which an option must be held and performance targets that must be achieved before an option can be exercised.

7. Time of acceptance and the amount payable on acceptance of the option

An offer for the grant of options must be accepted within 8 days inclusive of the day on which such offer was made. The amount payable by the grantee to the Company on acceptance of the offer for the grant of options is HK$1.00.

8. Basis of determining the subscription price

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option.

Report of the Directors

9. Life of the Share Option Scheme

The Share Option Scheme became unconditional on the date of listing and shall be valid and effective for a period of ten years commencing on 1 December 2011, subject to the early termination provisions contained in the Share Option Scheme. The remaining life of the Share Option Scheme is 11 months.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme does not exceed 10% of the shares in issue on the date of refreshment of the Share Option Scheme mandate limit on 10 June 2020. The Company may at any time refresh such limit, subject to the Shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

Movements of the share options under the Share Option Scheme during the year ended 31 December 2020 are as follows:

	Number of share options								
Grantee	Outstanding as at 1 January 2020	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2020	Date of grant	Date of expiry	Exercise price per share
Directors									
Mr. Wang Guoqiang	1,090,000 (Note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 4)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Ethan Wu	1,090,000 (Note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 4)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Wu Jiwei	9,000,000 (Note 5)	–	–	–	–	9,000,000	26/09/2018	25/09/2028	HK$0.740
	6,000,000 (Note 6)	–	–	–	–	6,000,000	06/12/2018	05/12/2028	HK$0.532
Ms. Chen Chunhua	1,000,000 (Note 2)	–	–	–	–	1,000,000	29/03/2012	28/03/2022	HK$1.360
	1,000,000 (Note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 4)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490

Report of the Directors

	Number of share options								
Grantee	Outstanding as at 1 January 2020	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2020	Date of grant	Date of expiry	Exercise price per share
Mr. Wu Kwok Keung Andrew	1,000,000 (Note 2)	–	–	–	–	1,000,000	29/03/2012	28/03/2022	HK$1.360
	1,000,000 (Note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 4)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Li Qiang	568,000 (Note 1)	–	–	–	–	568,000	20/02/2012	19/02/2022	HK$1.292
	1,000,000 (Note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	10,000,000 (Note 4)	–	–	–	–	10,000,000	31/08/2016	30/08/2026	HK$0.490
Ms. Zhang Yujuan	1,000,000 (Note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 4)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
Mr. Wan Kah Ming	333,334 (Note 2)	–	–	–	–	333,334	29/03/2012	28/03/2022	HK$1.360
	1,000,000 (Note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
	500,000 (Note 4)	–	–	–	–	500,000	31/08/2016	30/08/2026	HK$0.490
Employees and other grantees* (in aggregate)	5,864,000 (Note 1)	–	–	–	–	5,864,000	20/02/2012	19/02/2022	HK$1.292
	2,750,000 (Note 2)	–	–	–	–	2,750,000	29/03/2012	28/03/2022	HK$1.360
	30,210,000 (Note 3)	–	–	–	1,490,000	28,720,000	13/06/2013	12/06/2023	HK$4.694
	87,083,666 (Note 4)	–	200,000 (Note 7)	–	200,000	86,683,666	31/08/2016	30/08/2026	HK$0.490
	51,000,000 (Note 5)	–	–	–	500,000	50,500,000	26/09/2018	25/09/2028	HK$0.740
	31,000,000 (Note 6)	–	–	–	–	31,000,000	06/12/2018	05/12/2028	HK$0.532
Total	**250,989,000**	**–**	**200,000**	**–**	**2,190,000**	**248,599,000**			

* Other grantees include Mr. Liu Ruoyan and Mr. Lin Yang who resigned as an executive Director and a non-executive Director of the Company respectively on 31 August 2018.

Report of the Directors

Notes:

1. The closing price of the shares immediately before 20 February 2012 on which the share options were granted was HK$1.27 per share. 1/3 of which are exercisable from 20/02/2013 to 19/02/2022; 1/3 of which are exercisable from 20/02/2014 to 19/02/2022; and the remaining 1/3 are exercisable from 20/02/2015 to 19/02/2022.

2. The closing price of the shares immediately before 29 March 2012 on which the share options were granted was HK$1.33 per share. 1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and the remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.

3. The closing price of shares immediately before 13 June 2013 on which the share options were granted was HK$4.57 per share. 1/3 of which are exercisable from 13/06/2014 to 12/06/2023; 1/3 of which are exercisable from 13/06/2015 to 12/06/2023; and the remaining 1/3 are exercisable from 13/06/2016 to 12/06/2023.

4. The closing price of shares immediately before 31 August 2016 on which the share options were granted was HK$0.49 per share. 1/3 of which are exercisable from 31/08/2017 to 30/08/2026; 1/3 of which are exercisable from 31/08/2018 to 30/08/2026; and the remaining 1/3 are exercisable from 31/08/2019 to 30/08/2026.

5. The closing price of shares immediately before 26 September 2018 on which the share options were granted was HK$0.73 per share. 1/3 of which are exercisable from 26/09/2019 to 25/09/2028; 1/3 of which are exercisable from 26/09/2020 to 25/09/2028; and the remaining 1/3 are exercisable from 26/09/2021 to 25/09/2028.

6. The closing price of shares immediately before 6 December 2018 on which the share options were granted was HK$0.54 per share. 1/3 of which are exercisable from 06/12/2019 to 05/12/2028; 1/3 of which are exercisable from 06/12/2020 to 05/12/2028; and the remaining 1/3 are exercisable from 06/12/2021 to 05/12/2028.

7. The weighted average closing price of the shares issued during the Reporting Year from exercise of options immediately before the dates on which the options were exercised was approximately HK$0.780 per share.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the twelve months ended 31 December 2020 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2020, the Group did not make charitable and other donations.

AUDIT COMMITTEE

The Audit Committee of the Company had reviewed together with the external auditor the accounting principles and policies adopted by the Group and the consolidated financial statements for the year.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the year ended 31 December 2020.

Report of the Directors

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 45 to 57 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times up to the date of this report.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders are unsure about the taxation implication of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the share of the Company, they are advised to consult an expert.

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 December 2020.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and has been recommended by the Board for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Wang Guoqiang
Chairman

the PRC, 26 March 2021

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the Reporting Year.

CORPORATE GOVERNANCE PRACTICES

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 on the Stock Exchange as its own code of corporate governance.

The Company was in compliance with the code provisions set out in the CG Code throughout 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.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in the respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify the Directors of the Company for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

As at the date of this report, the Board comprises three executive Directors, namely Mr. Wang Guoqiang (Chairman), Mr. Ethan Wu and Mr. Li Qiang, two non-executive Directors, namely Mr. Wu Jiwei and Ms. Chen Chunhua and three independent non-executive Directors, namely Ms. Zhang Yujuan, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming. The biographies of the Directors are set out under the section headed "Directors' and Senior Management's Biographies" of this annual report.

Save as Mr. Wang Guoqiang and Mr. Ethan Wu who are parties acting in concert as mentioned on page 36 in the Report of the Directors in this annual report, there is no material financial, business, family or other relevant relationship between the members of the Board.

Corporate Governance Report

During the year of 2020, the Board at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. More than one-third of the members of the Board are independent non-executive Directors, which bring the fairly strong independence elements in its compositions.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring Directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved, the Directors have agreed to and have disclosed their commitments to the Company in a timely manner.

Continuous Professional Development

During the Reporting Year, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to the Group's business, corporate governance and regulations on the roles, functions and duties of a Director of a listed company:

Directors	Position	Reading regulatory update	Attending courses relevant to the business of the Group or Directors' duties
Mr. Wang Guoqiang	Executive Director	√	√
Mr. Ethan Wu	Executive Director	√	√
Mr. Li Qiang	Executive Director	√	√
Mr. Wu Jiwei (Note)	Non-executive Director	√	√
Ms. Chen Chunhua	Non-executive Director	√	√
Ms. Zhang Yujuan	Independent Non-executive Director	√	√
Mr. Wu Kwok Keung Andrew	Independent Non-executive Director	√	√
Mr. Wan Kah Ming	Independent Non-executive Director	√	√

Note: Mr. Wu Jiwei has been re-designated as a non-executive Director of the Company with effect from 8 December 2020.

Corporate Governance Report

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman of the Board and the chief executive officer are currently held by Mr. Wang Guoqiang and Mr. Ethan Wu respectively, with clear distinction in their responsibilities. The chairman of the Board is responsible for providing strategic advice and guidance on the business development of the Group while the chief executive officer is responsible for the day-to-day operations of the Group.

Appointment and Re-election of Directors

Each of the Directors has entered into a service agreement with the Company for a term of three years which is terminable by not less than three months' notice in writing.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

In accordance with Article 108 of the Articles of Association, all Directors are subject to retirement by rotation at least once every three years, and according to Article 112 of the Article of Association, any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for election by Shareholders at the next following annual general meeting of the Company after appointment.

At the 2020 annual general meeting on 10 June 2020 (the "2020 AGM"), Mr. Wang Guoqiang, Mr. Ethan Wu and Mr. Wu Kwok Keung Andrew retired by rotation pursuant to Article 108 of the Articles and Association. All of them were re-elected as Directors. Please refer to the Report of the Directors for details of the members of the Board who will retire from office and offer for re-election at the 2021 annual general meeting pursuant to the Articles of Association.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles and Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice have been given to the Directors in general. The agenda and accompanying Board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Corporate Governance Report

Minutes of the Board meetings and Board Committees meetings are recorded in sufficient detail the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committees meetings are sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the Reporting Year, four Board meetings and one general meeting (2020 AGM) were held and the attendance of the individual Directors at these meetings is set out in the table below:

	Attended/Eligible to attend	
Directors	**Board Meetings**	**Annual General Meeting**
Mr. Wang Guoqiang	4/4	1/1
Mr. Ethan Wu	4/4	1/1
Mr. Li Qiang	4/4	1/1
Mr. Wu Jiwei (Note)	3/4	1/1
Ms. Chen Chunhua	4/4	1/1
Ms. Zhang Yujuan	4/4	1/1
Mr. Wu Kwok Keung Andrew	4/4	1/1
Mr. Wan Kah Ming	3/4	1/1

Note: Mr. Wu Jiwei has been re-designated as a non-executive Director of the Company with effect from 8 December 2020.

During the Reporting Year, the Chairman of the Company held two meetings with the independent non-executive Directors without the other executive Directors present.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code for the Reporting Year.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

Corporate Governance Report

Directors have the right to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

(a) to develop, review and implement the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendations to the Board where appropriate to enhance Shareholders' relationship with the Company.

During the Reporting Year, the Company has reviewed and updated the whistleblowing system and anti-corruption policy in accordance with the Listing Rules as guideline for its Directors and employees.

Corporate Governance Report

BOARD COMMITTEES

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, namely Mr. Wang Guoqiang (Chairman), Ms. Zhang Yujuan and Mr. Wu Kwok Keung Andrew, and the majority of them are independent non-executive Directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for Directors; and
- To assess the independence of independent non-executive Directors.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee are then put to the Board for decision. The written terms of reference are available on the websites of the Stock Exchange and the Company.

During the Reporting Year, two meetings of the Nomination Committee were held on 26 March 2020 and 8 December 2020 and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wang Guoqiang	2/2
Ms. Zhang Yujuan	2/2
Mr. Wu Kwok Keung Andrew	2/2

During the Reporting Year, the Nomination Committee assessed the independence of independent non-executive Directors and considered the re-election of the retired Directors and re-designation of a Director.

Corporate Governance Report

Nomination Policy

The key nomination criteria and principles of the Company for the nomination of directors constitute the nomination policy of the Company ("Nomination Policy"). The provisions are set out below in detail:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) identify individuals suitably qualified to become members of the Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) assess the independence of independent non-executive directors; and

(d) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the chief executive.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board Diversity Policy aims to set out the measures taken by the Board to achieve diversity of its members.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company endeavours to select the best candidates as members of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee of the Company will monitor the execution of the policy annually. The Nomination Committee will review the policy from time to time as appropriate to ensure that the policy is effectively executed. The Nomination Committee will discuss any or necessary amendments and submit to the Board regarding the proposed amendments for their approval.

Corporate Governance Report

The Board has adopted the Board Diversity Policy on 27 August 2013 and reviewed the structure, size and composition of the Board according to the Board Diversity Policy on 26 March 2020 and 8 December 2020. All members of the Board have made contribution to their respective areas. All of the executive Directors are professionals in the oil and gas industry, who have incisive understanding to the oil and gas industry and have extensive experience in the specialized knowledge and corporate management. The non-executive Directors and independent non-executive Directors are experts in the areas of corporate operation, investment, law and financial management.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises three members, namely Ms. Zhang Yujuan (Chairman), Mr. Wang Guoqiang and Mr. Wu Kwok Keung Andrew, and the majority of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for formulating such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the operating results of the Company as well as market practice and conditions. The written terms of reference are available on the websites of the Stock Exchange and the Company.

During the Reporting Year, two meetings of the Remuneration Committee were held on 26 March 2020 and 8 December 2020 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Zhang Yujuan	2/2
Mr. Wang Guoqiang	2/2
Mr. Wu Kwok Keung Andrew	2/2

During the Reporting Year, the Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company, and made recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Group. To avoid potential conflict of interest, members have abstained from voting on resolutions which he/she has or his/her associates have a material interest.

Corporate Governance Report

Details of the remuneration by band of the 7 members of the senior management of the Group, whose biographies are set out on pages 28 to 29 of this annual report, for the Reporting Year are set out below:

Remuneration band (RMB)	Number of individual
0-500,000	4
500,001-1,000,000	3

Audit Committee

As at the date of this report, the Audit Committee comprises three members, namely Mr. Wu Kwok Keung Andrew (Chairman), Ms. Chen Chunhua and Mr. Wan Kah Ming. The majority of them are independent non-executive Directors. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor; and

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the Reporting Year, three meetings of the Audit Committee were held on 26 March 2020, 25 August 2020 and 8 December 2020 respectively and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wu Kwok Keung Andrew	3/3
Ms. Chen Chunhua	3/3
Mr. Wan Kah Ming	3/3

Corporate Governance Report

During the Reporting Year, the Audit Committee reviewed the audit plan, the financial reporting system, compliance procedures, internal control (including the adequacy of resources of the Group's accounting and financial reporting functions, staff qualifications and experience, and the adequacy of training program and budget), risk management systems and processes and the re-appointment of the external auditor. They also reviewed interim and final results of the Company and its subsidiaries for the interim period and the fiscal year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in the course of the audit. There are proper arrangements made by the Group for employees to raise concerns about possible improprieties in financial reporting, internal control and other matters. The Audit Committee reviewed the whistleblowing system for employees and those who deal with the Group (eg. customers and suppliers) to raise concerns in confidence about possible improprieties in any matter related to the Group and recommended on its enhancement and related staff training. The updated written terms of reference, which has incorporated the amendments to the CG Code regarding reporting on the risk management and internal control system, is available on the websites of the Company and the Stock Exchange.

The Audit Committee met with the external auditor and discussed matters relating to audit and internal control on 26 March 2020, 25 August 2020 and 8 December 2020.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2020 which give a true and fair view of the affairs of the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. During the year ended 31 December 2020, the Company provides all members of the Board with regular updates on the Company's performance, position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group has a risk management department in place which is responsible for overseeing and assessing internal control and risk management functions and reports to the Audit Committee. During the Reporting Year, the risk management department formulated audit plans and carried out risk assessment of the overall operations of the Group after taking into account various factors including changes in organisational structure and new market business expansion. With respect to alleged frauds reported or suspected frauds unveiled during audit, it carried out detailed investigation and took appropriate actions. At the same time, exit audit has been enhanced to minimise the impacts of change in personnel on the long-term and sustainable development of the enterprise.

The risk management department reviews the effectiveness of the internal control system by (1) assessing the environment of internal control; (2) assessing whether the internal control system is adequate and effective; (3) reviewing the operation of key control procedures through sampling tests. In the course of building up the Group's internal control system, the internal audit function combines advance anticipation and checks, in-process tracking and examinations and follow-up audit investigations, while shifting away from the previous reactive approach to a preventive approach for the management of major risks. Through strengthening the oversight and assessment of the effectiveness of the internal control system, the risk management department facilitates effective implementation of systems and procedures in the course of operation and management, and continues to optimise the internal control system through risk-orientation to enhance the operating efficiency of the Group.

Corporate Governance Report

The risk management department reports to the Audit Committee on issues revealed during the audit on a bi-annual basis and follows up on the execution of rectification plans by relevant responsible persons. The person-in-charge of the risk management department attends each meeting of the Audit Committee and reports on the progress of audit plans and the findings of the audit and supervision.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for assessing and determining the risks and degree of risks the Group is willing to take in fulfilling the business objectives and ensures that the Group has in place and operates an effective risk management and internal control system.

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL

Working together with the management, the risk management department has completed the risk management matrix at the group level and comprehensively assessed the enterprise risks in four areas including strategies, operations, legal and compliance as well as finance to identify high risk areas. They have also jointly formulated the coping strategies in relation to the high risk matters. The summary of the risk management matrix and coping strategies has been reported to the Board via the Audit Committee and has been approved by the Board and the Audit Committee.

The coping strategies and action plans of the management have been integrated into the ordinary course of business of the enterprise and are subject to supervision by the risk management department. It is understood that the implementation of the strategies is to manage but not to eliminate the risks of non-fulfilment of business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, via the Audit Committee, carried out an annual review on the effectiveness of the risk management and internal control system of the Group for the year ended 31 December 2020, which covers the areas including strategies, operations, legal and compliance as well as finance. The Audit Committee has carried out the annual review to assess whether the resources, qualifications and experience of the employees of the risk management department of the Group and the external audit personnel are adequate, and whether the employees are capable of their roles and responsibilities. During the Reporting Year, the Board considered the risk management and internal control system of the Group adequate and effective, and the Group has complied with the relevant code provisions set out in the CG Code in connection with internal control.

INSIDE INFORMATION DISCLOSURE AND CONTROL MEASURES

With respect to inside information, the Group has adopted from time to time certain regulatory measures as appropriate to prevent violation of the disclosure requirements of the Group, including:

– Only a limited number of personnel (mainly the senior management and Directors) have access to inside information upon request. Employees having access to the inside information are fully aware of their confidentiality responsibilities.

– All employees (including the Directors of the Group) must strictly comply with the employment provisions regarding the administration of confidential information.

Corporate Governance Report

The Group complies with the requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements or circulars is not false or misleading as to material facts, or false or misleading through the omission of material facts, and presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

AUDITOR'S REMUNERATION

For the year ended 31 December 2020, fees of RMB6.07 million were paid or payable to the Company's auditor, PricewaterhouseCoopers ("PwC"), for their audit services and non-audit services rendered.

An analysis of the fees paid or payable to PwC was as follows:

Items of auditor's services	RMB'000
Audit services	4,650
Other non-assurance services	800
Tax advisory services	620
Total	**6,070**

COMPANY SECRETARY

During the Reporting Year, Ms. Mok Ming Wai ("Ms. Mok") resigned as the company secretary of the Company with effect from 8 December 2020. Following the resignation of Ms. Mok, Ms. Ho Siu Pik ("Ms. Ho") was appointed as the company secretary of the Company with effect from 8 December 2020. Ms. Ho is an executive director of Corporate Services of Tricor Services Limited and she worked and communicated closely with Mr. Li Qiang, an executive Director and the chief financial officer of the Company.

During the year ended 31 December 2020, Ms. Ho has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting (the "AGM") of the Company provides opportunity for Shareholders to communicate directly with the Board. The Chairman of the Company, the chairmen of the Board Committees and the external auditor of the Company attend the AGM to answer Shareholders' questions.

A shareholders' communication policy was adopted pursuant to CG Code which aims at establishing a two-way relationship and communication between the Company and its Shareholders. To promote effective communication, the Company maintains a website at www.sptenergygroup.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting. At the 2020 AGM, all resolutions were passed by poll by the Shareholders.

Convening of Extraordinary General Meeting and Putting Forward Proposals

Article 64 of the Company's Articles of Association provides that an extraordinary general meeting may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified therein. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

For proposal of a person for election as Director, pursuant to Article 113 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Company's head office in the People's Republic of China or at the Company's registered office. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to IR@sptenergygroup.com.

DIVIDEND POLICY

The Board adopted a dividend policy (the "Dividend Policy") on 6 December 2018. According to the Dividend Policy, under the conditions that it is in compliance with the Cayman Islands Companies Law, the Company's Articles of Association, the consolidated financial statements of the Company is profitable in the relevant financial year and its accumulated undistributed profit is positive, and its cash flow meets the normal operation and long-term development, and subject to the decision of and other factors as considered appropriate by the Board, dividend distribution can be carried out. The Board will review the Dividend Policy from time to time.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, there is no significant change in constitutional documents of the Company.

The PRC, 26 March 2021

Environmental, Social and Governance Report

I. ABOUT THIS REPORT

SPT Energy Group Inc. (stock code: 1251) hereby presents the Environmental, Social and Governance ("ESG") Report 2020 (the "Report") of the Company and its subsidiaries (collectively, the "Group" or "SPT Energy") to demonstrate the concepts and practices of the Group in environmental, social and governance areas to all the stakeholders.

1. Reporting Scope (Organising Scope, Reporting Period)

The reporting scope of this report covers all business operations of SPT Energy in the PRC and around the globe. The reporting period is from 1 January 2020 to 31 December 2020.

2. Reporting Principles

"Materiality": The Group identifies material ESG issues through stakeholder engagement and materiality assessment, and makes key disclosures in the Report;

"Quantitative": The Report discloses the major key performance indicators in environmental aspects of the Group in quantitative terms;

"Balance": The Report presents the environmental and social performance of the Group impartially; and

"Consistency": The relevant disclosure and statistical methods of the Report are consistent with those used in prior years, which will remain unchanged in the subsequent years.

II. ESG MANAGEMENT

1. Management Policy

The management of the Group shall comply with international environmental protection policies and safeguard labour interests, abide by the environmental laws and regulations of the PRC and other jurisdictions in which it operates, and follow internationally recognised labour standards and other applicable industry standards and international conventions to improve working conditions and employee benefits. It is a pre-requisite condition for the Group to perform its ESG responsibilities in providing good engineering and technology services to satisfy customers' needs, and to further apply these requirements to suppliers and distributors.

2. Management Structure

The Group has established a top-down ESG management structure consisting of the Board, the ESG Management Committee, the ESG Management Working Group and the ESG management personnel of the regional companies, subsidiaries and project Departments in charge of the implementation of various ESG management work, including formulation of the Group's ESG strategies, identification and assessment of significant ESG issues and risks, discussion and addressing the significant ESG issues and supervision of the progress and performance of ESG-related work.

Environmental, Social and Governance Report

3. Communication with Stakeholders

The stakeholders of the Group are government, investors, customers, employees, suppliers, partners, media and society. The Group has established diversified communication mechanisms for different stakeholders to understand their expectations and respond to their concerns.

Stakeholder	Communication Mechanisms
Government	Onsite visit and study, receive monitoring and inspections, reporting of situation
Investors	Day to day management, meetings
Customers	Signing of contracts, customer visit
Employees	Employee training, employee activities, performance management
Suppliers	Bidding and tendering, evaluation and investigation
Partners	Negotiation, communication and visits
Media	Corporate publicity
Society	Charitable activities

III. QHSE MANAGEMENT

3.1 Product Quality Management

3.1.1 Quality Management System

As an oil-field service company, the Group upholds and places strong emphasis on product and technology service quality and strictly follows the "Product Quality Law of the People's Republic of China", "Standardisation Law of the People's Republic of China", the laws and regulations of other jurisdictions where the Group operates and other relevant laws and regulations to ensure that the product and technology service quality is within control, and has obtained the quality management system certification ISO9001:2015. During the process, the Group provides efficient and safe services to satisfy customers' requirements on quality, health, safety and environment.

3.1.2 Technological Innovation

The Group places high importance on technological research and development. In the course of more than 20 years of development, the petroleum industry has achieved rapid technological advancement. For the Group, technology is both the embodiment and the basis for survival. Over the years, the Group's research and development efforts and successes have gradually become a key driver of sustainable development for the Group. Therefore, the Group has obtained 66 new utility patents, 28 invention patents and 5 software copyright.

Environmental, Social and Governance Report

During 2020, the Group adhered to the philosophy of "Technology-led development while continuing to improve management efficiency". It continued to build technology as its core competitiveness, improved its ability to iterate, worked hard to refine its internal strength, while seeking external collaboration to achieve a win-win situation, so as to become a trusted professional solution provider for its customers. The Group will continue to build a platform for the steady development and innovation of the oil-field service industry, and to make further contributions to the technological breakthroughs and innovative applications of the petroleum industry.

3.1.3 Customer Satisfaction

The Group has formulated the Customer Satisfaction Survey System, occasionally carrying out customer satisfaction surveys and taking customers' feedbacks seriously as part of its efforts to enhance the quality of products and technical services. To this end, customers are truly satisfied, thus enhancing the Group's brand value.

As of 31 December 2020, the Group did not violate any laws and regulations in the jurisdictions where the Group operates in relation to quality, health, safety and environment with respect to the products and services provided, nor receive any complaints or charges.

3.1.4 Customer Privacy

The Group published and implemented the "Regulation on Trade Secrets" which safeguards privacy and information security on 10 January 2020, and employees have to enter into the "Employee Confidentiality Agreement" upon engagement. The Group values customer privacy in the course of its ordinary business and uses its best endeavours to safeguard the privacy and security of every customer.

3.2 Environmental Protection Management

The Group is likely to incur emission and consumption in the following four areas:

(1) Emission from various vehicles used in the course of production and operation (emissions include nitrogen dioxide, sulphur dioxide and hydrocarbon related pollutants);

(2) Discharge from solid waste and waste liquid (mainly include domestic garbage and domestic wastewater);

(3) Consumption in the course of drilling and workover operations (diesel, electricity and water for production);

(4) Consumption at various levels of the enterprise (water, electricity, natural gas and paper).

Environmental, Social and Governance Report

3.2.1 Emissions Management

The Group strictly abides by the "Environmental Protection Law of the People's Republic of China" and other laws and regulations of the countries in which it operates.

Regarding waste liquid, drilling fluid, fracturing flowback fluid and sewage discharged from oilfield development operations are centrally treated by third parties directly engaged by the customers. Accordingly, the Group has no discharge of hazardous wastes. With respect to general domestic wastewater, it is directed to sewage treatment plant via sewage pipes.

As to solid wastes, general solid wastes and industrial solid wastes are collected, sorted and safely stored by category, which are eventually provided to service providers for collection, treatment and reuse.

Hazardous wastes arising in the course of production and operation are centrally managed by the customers. Accordingly, the Group has no emission of hazardous wastes, thus effectively safeguarding the environment of operation.

In the course of providing technology service and engaging in construction, major measures taken by the Group are as follows: 1) further strengthening the public transport reform that the management and employees should use public transport as the major means of transportation on a business trip; 2) implementing quantitative indicators for the use of diesel and gasoline by operation teams to monitor usage. Through the above measures, the Group has reduced the emission of waste gases and nitrogen oxides.

Major Emissions and Emission Data	As of 31 December 2020	As of 31 December 2019	Change
Nitrogen oxide (kg)	**4,821.9**	**6,724.5**	**(1902.6)**
Sulphur oxide (kg)	**48.5**	**87.6**	**(39.1)**
Particulates (kg)	**463.6**	**646.9**	**(183.3)**

Environmental, Social and Governance Report

Gross Emissions of Greenhouse Gases	As of 31 December 2020	As of 31 December 2019	Change
Carbon dioxide (kg)	3,408,248.0	7,856,662.8	(4,448,414.8)
Carbon dioxide equivalent in methane (kg)	1.2	1.3	(0.1)
Carbon dioxide equivalent in nitrous oxide (kg)	75.1	84.9	(9.8)
Gross greenhouse gas emissions (kg)	3,408,324.3	7,856,749.0	(4,448,424.7)
Greenhouse gas emissions per million yuan of revenue (kg/RMB million)	2,643.6	4,030.2	(1,386.6)

Gross Emission of Non-Hazardous Wastes	As of 31 December 2020	As of 31 December 2019	Change
Domestic wastes (tonne)	784.8	1,130.2	(345.4)
Domestic wastes discharge per million yuan of revenue (tonne/RMB million)	0.61	0.58	0.03
Domestic wastewater (tonne)	26,645.9	37,998	(11,352.5)
Domestic wastewater discharge per million yuan of revenue (tonne/RMB million)	20.7	19.5	1.2

3.2.2 Resources Conservation

The resource consumption involved in the course of production and office operation of the Group mainly includes water, power, natural gas, fuel oil and paper, etc.

The Group has remodelled the equipment to replace oil with electricity (for drilling) and utilised state-of-the-art technology and process, which effectively minimises the operation cycle to achieve the target of energy consumption reduction. The Group promotes green purchasing, green workplace, green energy consumption and green travel.

As to production operations, the Group promotes recycling of water resources. At the same time, it encourages and educates its employees on water saving. Water dripping and leakage in the equipment are prohibited. As of 31 December 2020, there was no wastage of water resources.

Environmental, Social and Governance Report

Gross Energy Consumption	As of 31 December 2020	As of 31 December 2019	Change
Electricity (kwh)	5,378,384.0	12,433,965.0	(7,055,581.0)
Electricity consumption per million yuan of revenue (kwh/RMB million)	4,171.2	6,378.2	(2,206.5)
Gas (m^3)	326,914.1	369,595.0	(42,680.9)
Gas consumption per million yuan of revenue (m^3/RMB million)	253.6	189.6	63.8
Oil (m^3)			
Diesel	2,706.0	5,074.0	(2,368.0)
Gasoline	317.3	380	(62.7)
Engine oil	61.1	86	(24.9)
Oil consumption per million yuan of revenue (m^3/RMB million)	2.4	2.8	(0.4)
Paper (piece)	864,287.0	1,082,427.0	(218,140.0)
Paper consumption per million yuan of revenue (piece/RMB million)	670.4	555.2	115.2

Gross Water Consumption	As of 31 December 2020	As of 31 December 2019	Change
Water consumption for production (m^3)	98,567.0	142,963.0	(44,396.0)
Water consumption for production per million yuan of revenue (m^3/RMB million)	75.8	73.3	2.5
Water consumption for domestic and office use (m^3)	29,103.2	43,222.0	(14,118.8)
Water consumption for domestic and office use per million yuan of revenue (m^3/RMB million)	22.6	31.9	(9.3)

Total packaging material consumption	As of 31 December 2020	As of 31 December 2019	Change
Cartons (kg)	2,046	3,116	(1,070)

Environmental, Social and Governance Report

3.2.3 Environment and Climate Change

The Group is committed to ecological and environmental protection by being actively attentive to climate change and promoting the development of the environmental management system. The Group has obtained the ISO14001: 2015 Environmental Management System Certification.

"Letters of Responsibility for Quality, Health, Safety and Environment ("QHSE") Assessment" have been entered into between the head of the production safety management committee of the Group and the managers of subsidiaries and project departments. It is required that the person-in-charge of the unit must inspect QHSE work onsite on a quarterly basis. The production safety management committee of the Group organises major inspections on safety production twice a year during winter and summer. The production safety management committee also requires that the education of employees on production safety and the employees' awareness on environmental protection shall be strengthened. Through measures such as remodelling the equipment to replace oil with electricity (for drilling) and increasing the voltage to improve efficiency of electromagnetic heaters, we reduce energy use and greenhouse gas emissions, minimising the impact of the Group's production and operation activities on the environment and climate change.

3.3 Occupational Health and Safety Management

The Group strictly abides by the "Production Safety Law of the People's Republic of China" and other laws and regulations of the countries in which it operates to ensure the health and safety of employees.

3.3.1 Pandemic Prevention and Control

In 2020, COVID-19 pandemic disrupted normal production and lifestyles and threatened the lives and safety of employees, especially those working on the front-line overseas, who were deeply affected by the increasingly severe pandemic outbreak abroad. To this end, the Group has taken strict precautions to ensure the lives, health and safety of all employees, and issued 28 pandemic prevention and control documents and notices; 8 "Pandemic Prevention and Control Early Warnings"; 5 updates on "Information on Pandemic Prevention and Control of Entry-Exit Countries"; over 100 updates on "Shift Adjustment in the Group's Domestic and Overseas Units"; more than 300 updates on "Summary of Abnormal Situations of the Prevention and Control of COVID-19 Infection" and "Dynamic Statistics of COVID-19 Infection of the Group Employees" in a timely manner.

In July and August, due to the COVID-19 pandemic, employees of the project department abroad were not able to change shifts. In view of this, the Group has placed keeping employees' mental and emotional health at the top of its list. It conducted long-distance call with each employee to comfort them individually while sending complimentary kit to their families to show support for the employees and relieve their family members of any distress.

Environmental, Social and Governance Report

The overseas COVID-19 pandemic situation remains challenging. Pandemic prevention is still the top priority of the Group's project department overseas to ensure work safety. The Group will continue to provide all-round support to ultimately win the battle against the pandemic.

3.3.2 Major Safety Inspection of the Group

Affected by the COVID-19 pandemic, the Group's summer and winter safety inspections in domestic areas were conducted by the Group's safety inspection leadership team, and in overseas areas by self-inspection.

For the safety hazards identified during the inspection, the inspection team had specified the person responsible for the rectification and the rectification measures by issuing the "Safety Hazard Rectification Notice". A dedicated person then followed-up on the rectification to make sure that the inspection and rectification were carried out. For any irregularities found during the inspection, the inspection team had issued the "Safety Violation Penalty Notice". Through carrying out safety inspections, the Group ensures its safety production objectives are met.

3.3.3 Carry out Safety Year Activities, with the Theme of "I Want to be Safe"

3.3.3.1 Carry out Essay Solicitation on Safety Event

We conducted the essay solicitation event themed "Eight Preventions", for sharing safety perceptions and enhancing safety awareness with a total of 65 essays collected from various departments.

3.3.3.2 Compile Safety Knowledge FAQs and Conduct Safety Knowledge Quiz

A total of 273 FAQs was compiled on the network academy platform and a total of 100 full-time (part-time) safety management personnel of the Group, including some invited staff (unsolicited participants) took part in the "HSE Quiz – December Ranking Tournament". The safety production knowledge, reserve and management capabilities of the Group's safety teams were thus improved.

Environmental, Social and Governance Report

3.3.4 Carry out Anti-Terrorism and Anti-Riot Training by way of Live Broadcast Teaching

According to the Group's anti-terrorism training needs, the parallel method of on-site training and online broadcast were adopted to organise anti-terrorism training. Knowledge such as domestic and overseas social safety risk identification and response, how to conduct self-help and mutual rescue in emergency situations, and common sign language were explained. The number of people who simultaneously watched the training live broadcast online reached 190.

3.3.5 Carry out Fire Escape Training

In order to effectively improve the ability of employees to escape and self-rescue in the event of a fire, and to effectively prevent and deal with fire accidents, the "Fire Escape Training" was carried out through the Group's network academy platform to lay a solid foundation for building a safe "fire-proof wall".

3.3.6 Work Injury Statistics

Key Performance Indicators	**2020**	2019	2018
Number of deaths due to work in the past three years	**0**	0	0
Percentage of deaths due to work in the past three years	**0**	0	0
Number of work days lost due to work-related injuries in 2020	**0**	0	0

Environmental, Social and Governance Report

4. EMPLOYEES' RIGHTS AND INTERESTS

4.1 Legal Employment

The Group strictly complies with labour-related laws and regulations of the countries where it operates, and undertakes the following:

(1) to build a working atmosphere of equality, mutual trust and respect among the employees to safeguard the human rights of its employees;

(2) to recruit, promote and train its employees on merit and quality basis regardless of race, skin colour, nation or any other features;

(3) to ensure that the working hours of employees should not exceed the statutory limit;

(4) to safeguard that employees are entitled to the PRC statutory holidays and marriage leave, etc.;

(5) to value the privacy and confidentiality of employees' personal particulars and respect employees' right to freely establish association, whether or not to join the labour union, and other rights;

(6) to undertake not to use forced labour, pledged labour, indentured labour or non-voluntary prison labour and not to be involved in slavery nor labour trafficking;

(7) no employment condition should require any employee to hand in any personal identification, passport or VISA, and no expenses other than those required to be charged under relevant laws and regulations should be charged;

(8) child labour is strictly prohibited at any stage of production or manufacturing;

(9) wages paid to employees shall comply with the labour laws applicable to the places of employment; and

(10) no brutal or inhumane action and any threat can be taken against the employees.

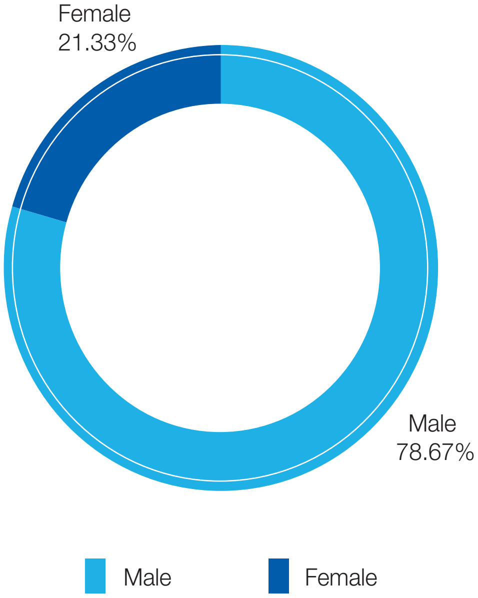
As of 31 December 2020, the Group did not have any labour disputes and there was no violation against the laws and regulations involving child labour or forced labour.

Environmental, Social and Governance Report

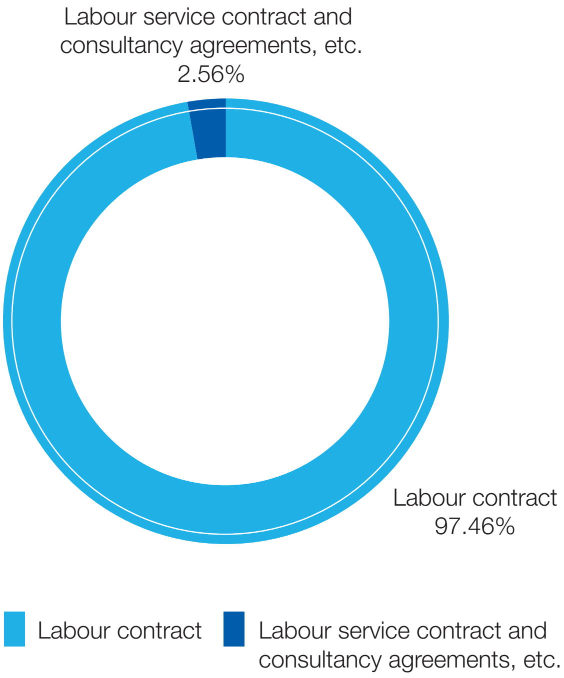
As of 31 December, 2020, the employee structure and turnover of the Group are as follows (excluding 69 dispatched workers):

Total workforce by gender, employment type, age group and region:

Gender

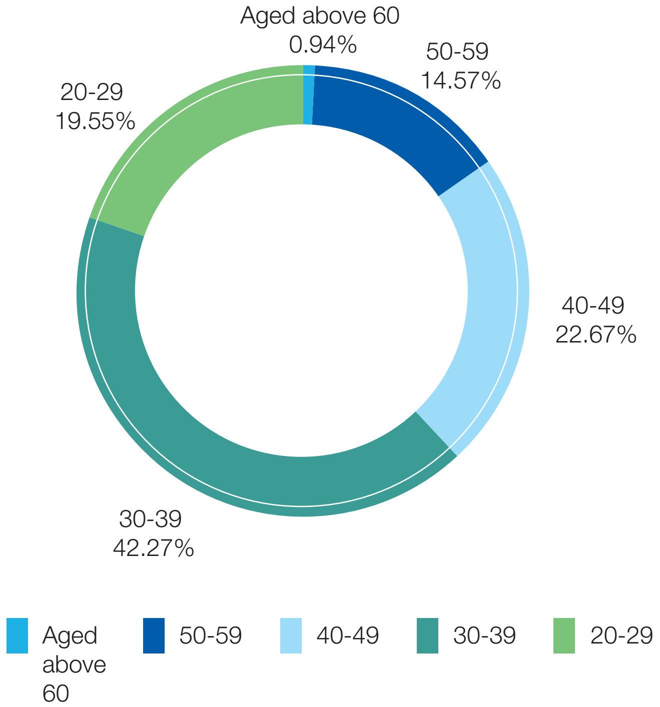


Employment Type

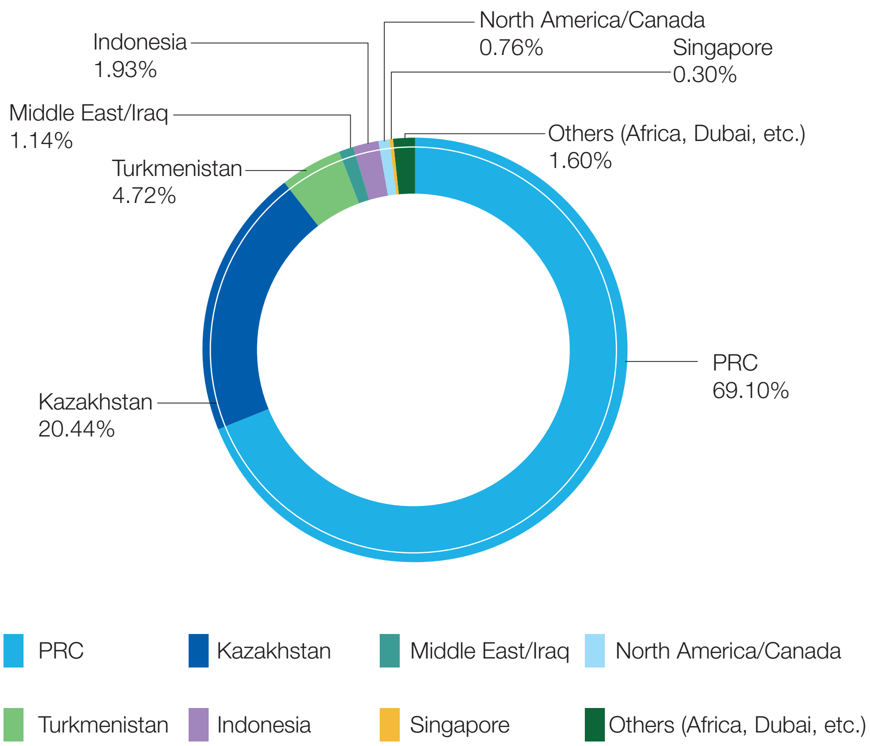


Environmental, Social and Governance Report

Age Group



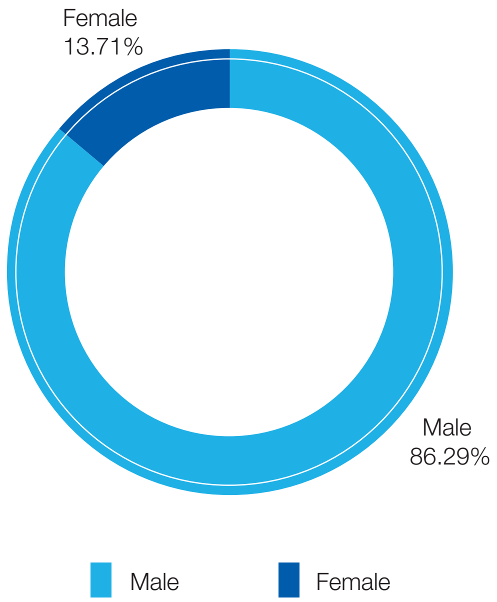
Region



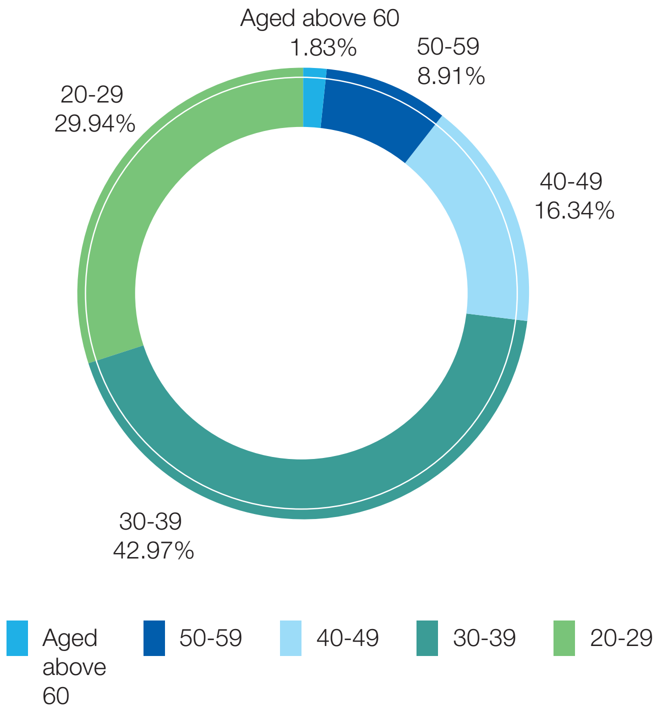
Environmental, Social and Governance Report

Employee turnover rate by gender, age group and region

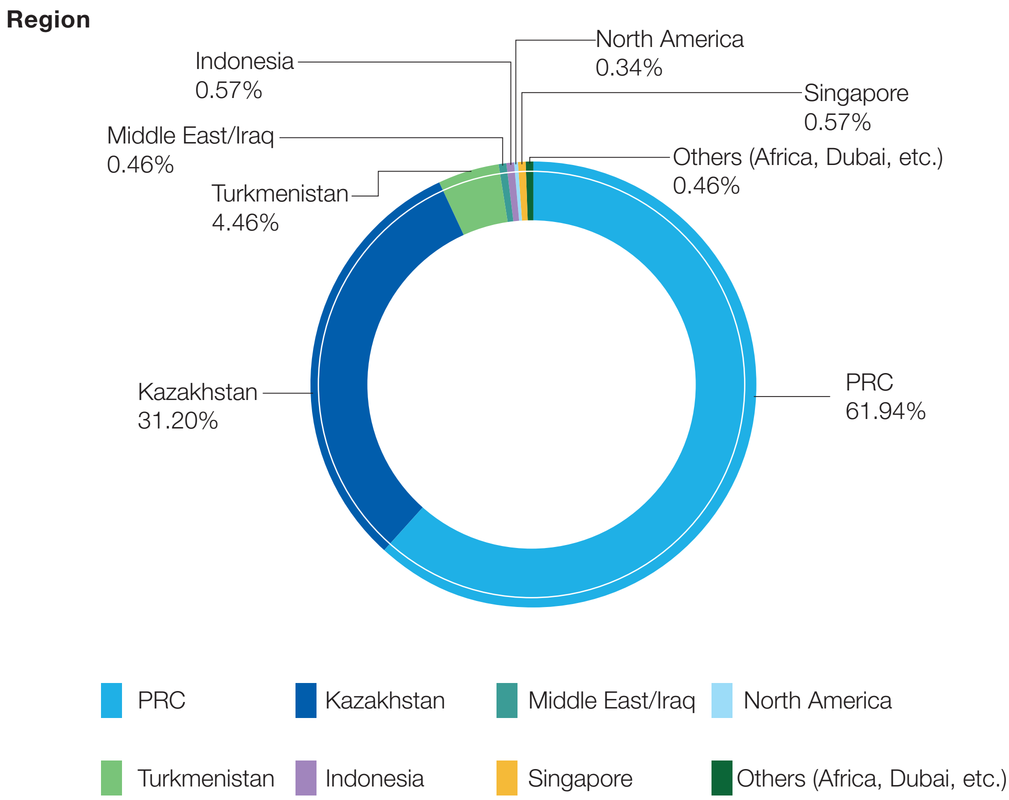
Gender



Age group



Environmental, Social and Governance Report



4.2 Development and Training

The Group continued to improve its training system while developing various training programs covering areas of management, technology, project, operation, safety and new employee training. With the help of online learning platform, we comprehensively carried out the online talent training through the development of online training projects such as "Key Technical Personnel Training Camp", "Cost Reduction and Efficiency Enhancement Training Camp", "Senior Manager Training Camp", "New Employees Orientation and Training" and "Office Guru Training". Meanwhile, the Group also conducted offline training, including the launch of "Job-Skills Training Series", "Safety Training Series", "Internal Trainer Training" and "Senior Management Training" etc.

From January to December 2020, attendance in the training reached 19,759 and the training covered all business regions and project departments domestically and abroad with 163,282 training hours cumulatively.

Environmental, Social and Governance Report

4.2.1 Online Training Projects

In order to accelerate the training of talents, the Group launched a series of training projects, including: four sessions of the online "Key Technical Personnel Training Camp", with the participation rate of key technical personnel of the Group reaching 90%; one session of the Senior Talents Training Camp, with the participation rate of senior managers from the domestic regional companies reaching 100%; 7 batches of New Employees Online Orientation and Training, with the participation rate of newly engaged employees of the Group reaching 100%; and 7 series of other specific trainings, with more than 500 people joining the training online.

4.2.2 Offline Training

In light of the prevention and control of the pandemic, the Group carried out 4 online+offiline training courses on safety and prevention and control of the pandemic. In order to follow through the operating strategy of cost reduction and efficiency enhancement, the Group launched 9 Efficiency Improvement Trainings since May 2020, with the participants covering all ten major functional departments of the Group. Trainings for new employees and technology and safety trainings in each operating region of the Group are launched in an orderly manner according to regional business development.

4.2.3 Cultural Construction project

Ethan Wu, the Chief Executive Officer of the Group, conducted employee caring and visited our employees at the frontline on a regular basis; our regional companies held more than 10 traditional-holiday-based employee activities. The Group also held 14 sessions of trainings and thematic lectures to promote integrity and righteousness, with the participation rate of all employees of the Group reaching 100%.

V. RESPONSIBILITY MANAGEMENT

5.1 Supply Chain Management

The Group adopts an "access system" for the selection of new suppliers. In other words, the procurement unit (project department) under the Group will initiate the application for a supplier access according to the operation demand. Once the application has been approved, the supplier is qualified and the Group can then conduct business transactions with them.

The Risk Management Department of the Group is responsible for the day-to-day supervision for the implementation of the access system and conducts regular internal audit. From January to December 2020, 193 new suppliers have been qualified through the "access system".

Regarding the access of new suppliers, suppliers are required to provide qualifications such as the "Basic Information Questionnaire" and sign an anti-fraud commitment letter. Depending on the characteristics of the business, we will also conduct on-site visit to suppliers.

Environmental, Social and Governance Report

The Group conducts annual performance evaluations of its suppliers to review the quality of their products or services, to ensure that the suppliers' comprehensive capabilities, including quality assurance capabilities and production or service assurance capabilities, meet the Group's requirements. The assessments also facilitate continuous improvement of suppliers.

As an oil-field service company, the Group has always attached importance to environmental protection and sustainable development. This concept will also be passed on to the downstream suppliers of the supply chain, thereby enhancing the sustainable development of the entire chain and ultimately achieving green supply chain management.

The Group has enhanced its information technology and modern management practices to optimise every aspect of cooperation with suppliers.

The Group will focus on developing long-term strategic cooperation relationship with suppliers who do a better job in terms of environmental protection and sustainable development and place more purchase orders with them as incentives.

As of 31 December, 2020, the number of suppliers by region of the Group is as follows:

Year	Total number of suppliers at the end of the year January to December	Overseas region	In China	Distribution of major cities in China				
				Xinjiang	Sichuan and Chongqing	Tianjin	Beijing	Others
2020	1,148	516	632	188	92	44	41	267
			% to number of domestic suppliers	30%	15%	7%	6%	42%

5.2 Anti-Corruption Management

The Group and its employees are in strict compliance with relevant laws and regulations in the regions where it operates, including the "Company Law of the People's Republic of China", "Anti-Unfair Competition Law of the People's Republic of China", "Bidding Law of the People's Republic of China", "Criminal Law of the People's Republic of China" and "Prevention of Bribery Ordinance" of Hong Kong Special Administrative Region of the PRC. As of 31 December 2020, there were no incidents of corruption, bribery, extortion, fraud or money laundering.

5.2.1 Improve the anti-fraud reporting procedures and working mechanism as follows

There is a hotline and a mail box published on the official website of the Group where employees may file complaints of any fraud incidents identified and the evidences on hand under their name or anonymously by phone, email, wechat and post, which effectively smoothen the supervision channel among employees.

Environmental, Social and Governance Report

The Group has established a top-down anti-fraud working mechanism, and implemented rigid management of "strengthen compliance, supervision and disciplinary action (規範有序、接受監督、加強懲戒)" in accordance with the management requirements of "everyone is held responsible for his duties, accountable for his action and liable for his dereliction (有職就有責、任職要負責、失職要問責)". The Risk Management Department of the Group tracks possible fraud, misconduct, and dereliction of duty in the internal audit process. It takes the initiative to learn about cases of disciplinary violations during work interviews, and organizes special supervision work on a regular basis. It conducts off-office audit for personnel, including leaders of regional company, managers of departments and other staffs with financial duties, who is going to leave office. It will also participate in the tendering process of the Group's large-scale procurement of materials and services and supervise the evaluation process. It conducts anti-fraud investigations in a timely manner in response to reported suspected fraud and files their opinions based on the investigation results.

5.2.2 Create an anti-fraud cultural environment and promote moral integrity education

The Group has formulated and issued a number of internal supervision and management systems such as the "Anti-fraud Management System", "Anti-fraud Work Rules", "Handling of Violation of the Code-of-Conduct by Employees" and "Risk Management Requirements Regarding the Appointment of Senior Management".

In 2020, the Group introduced a code-of-conduct for the management team and issued the "Eight Prohibitions", and actively promoted corruption-free and integrity campaign, aiming to improve the integrity awareness of all employees and their ability to identify fraud so as to prevent the occurance of fraud.

5.3 Social Responsibility

In providing oil-field service, the Group satisfies the requirements regarding environment protection of the relevant parties through effective implementation of environmental protection and social investment measures. In addition to undertaking social responsibilities, it has built a friendly, harmonious and win-win environment with local residents.

Since the outbreak of the COVID-19 pandemic, the Group has actively cooperated with the local government to implement various policy requirements for COVID-19 pandemic prevention. At the same time, the Group has been deeply concerned about the safety and health of every frontline employee and their family members. It has deployed and planned in advance, and purchased various daily commodities, health care products and pandemic prevention kits, etc., which were delivered to each employee's family and alleviated their worries.

Xinjiang SPT Engineering Service Co., Ltd., a subsidiary of the Group, is a poverty alleviation unit in Baghjigde Village, Qarayulghun Township, Korla City. In May 2020, after conducting research, demonstration and analysis on various poverty alleviation projects, the Group eventually invested RMB100,000 to build a mushroom farming house in Baghjigde Village, Qarayulghun Township, to help poor households in the village achieve poverty alleviation through industrial transformation and drive the local economic development.

Independent Auditor's Report

pwc

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of SPT Energy Group Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 172, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
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BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Recoverability of the carrying amounts of machinery and equipment in the PRC region
- Provision for inventories

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
(incorporated in the Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the carrying amounts of machinery and equipment in the PRC region	In addressing this matter, we had performed the following procedures:
Refer to Notes 4 and 6 to the consolidated financial statements. The loss making or low level of profit status of certain subsidiaries of the Group gave rise to possible indication that the Group's machinery and equipment in the PRC region might be impaired. As at 31 December 2020, the carrying amount of machinery and equipment in the PRC region amounted to RMB246 million. During the year ended 31 December 2020, management has identified cash generating units ("CGUs") and prepared discounted cash flow models of those CGUs based on value-in-use method for the assessment of potential impairment over the carrying amounts of machinery and equipment in the PRC region, where certain key assumptions have been adopted. We focused on auditing the recoverability of the carrying amounts of machinery and equipment in the PRC region because the carrying amounts of machinery and equipment in the PRC region as at 31 December 2020 were significant, and the estimation of impairment provisions was subject to high degree of estimation uncertainty. The inherent risk in relation to the assessment of recoverability of such carrying amounts is considered significant due to complexity of the model and subjectivity of assumptions used. Therefore, we had identified this as a key audit matter.	• We obtained an understanding of management's internal control and assessment process of identifying impairment indicator and recoverability of carrying amounts of machinery and equipment in the PRC region and assessed the inherent risk of material misstatements by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity and subjectivity. • We considered the CGUs as identified by management. • We evaluated the calculation and the result of value-in-use method for the assessment of potential impairment over the carrying amounts of the machinery and equipment in the PRC region. • We evaluated the key assumptions adopted by management in preparing the discounted cash flow models, including comparison of (i) forecast revenue to budget and historical information; and (ii) forecast gross margin to historical information; and (iii) discount rate to external market data and published information of comparable companies; and also including consideration of relevant market demand and economic environment, etc. • We checked mathematical accuracy of the relevant discounted cash flow models. • We evaluated management's sensitivity analysis on the key assumptions, to ascertain the extent to which adverse changes, will affect the outcome of the impairment assessment of the machinery and equipment in the PRC region significantly. Based upon our work, we found the management's judgment used in the assessment of recoverability of the carrying amounts of machinery and equipment in the PRC region were supported by available evidence.

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
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Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for inventories Refer to Notes 4 and 10 to the consolidated financial statements. As at 31 December 2020, the carrying amount of inventories amounted to RMB436 million, which was stated net of a provision of RMB71 million. The loss making or low level of profit status of certain subsidiaries of the Group gave rise to possible impact on the inventories which may not be ultimately utilised or consumed in its operations within normal operating cycle of the Group's business. We focused on auditing the provision for inventories because the carrying amount of inventories as at 31 December 2020 was significant, and the estimation of provision for inventories was subject to high degree of estimation uncertainty. The inherent risk in relation to the assessment of inventories provision is considered significant due to subjectivity of assumptions used. Therefore, we had identified this as a key audit matter.	In addressing this matter, we had performed the following procedures: • We understood the Group's internal controls on identifying slow-moving inventories and the process of inventory provisions, and assessed the inherent risk of material misstatements by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity. • We observed and tested the result of physical count of inventories performed by the Group at the year end. • We evaluated the level of inventory provision made, including (i) enquiry of management to understand the future usage plans of the slow-moving inventories; (ii) review of the forecasted usage of the slow-moving inventories prepared by management, (iii) analysis of the profit margin of the related sales contracts; and (iv) review of the basis of the provisions made. Based upon our work, we found the management's judgment used in the assessment of provision for inventories prepared by management were supported by available evidence.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
(incorporated in the Cayman Islands with limited liability)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SPT ENERGY GROUP INC. (Continued)
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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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INDEPENDENT AUDITOR'S REPORT
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SPT ENERGY GROUP INC. (Continued)
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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEONG Kin Bong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2021

(If there is any inconsistency between the English and Chinese version of this independent auditor's report, the English version shall prevail.)

Consolidated Balance Sheet

		As at 31 December	
	Note	**2020**	2019
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	*6*	**412,254**	403,227
Right-of-use assets	*7*	**97,049**	101,113
Intangible assets	*8*	**3,306**	3,950
Investments in associates	*9*	**4,018**	10,480
Deferred income tax assets	*20*	**117,707**	100,996
Financial assets at fair value through other comprehensive income		**15,718**	–
Prepayments and other receivables	*12*	**28,959**	37,982
		679,011	657,748
Current assets			
Inventories	*10*	**436,400**	464,671
Contract assets	*5*	**21,811**	31,524
Trade and note receivables	*11*	**1,034,259**	1,139,823
Prepayments and other receivables	*12*	**183,905**	231,787
Restricted bank deposits	*13*	**27,337**	17,556
Cash and cash equivalents	*13*	**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	*14*	**1,178**	1,178
Share premium	*15*	**848,026**	847,899
Other reserves	*16*	**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

Consolidated Balance Sheet

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*17*	**233,077**	47,403
Non-current lease liabilities	*7*	**46,660**	48,735
Deferred income tax liabilities	*20*	**21,991**	21,492
		301,728	117,630
Current liabilities			
Borrowings	*17*	**193,000**	233,000
Current portion of long-term borrowings	*17*	**65,266**	111,842
Contract liabilities	*5*	**7,266**	22,946
Trade and note payables	*18*	**697,413**	910,400
Accruals and other payables	*19*	**125,298**	137,736
Current income tax liabilities		**64,795**	77,541
Current lease liabilities	*7*	**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

The accompanying notes on pages 89 to 172 are an integral part of these consolidated financial statements.

The financial statements on pages 82 to 172 were approved by the Board of Directors on 26 March 2021 and were signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Consolidated Income Statement

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	*5*	**1,289,267**	1,949,459
Other gains/(losses), net	*21*	**25,550**	(7,693)
Operating costs			
Material costs		**(277,825)**	(379,987)
Employee benefit expenses	*22*	**(476,903)**	(498,264)
Short-term and low-value lease expenses	*7*	**(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	*3*	**(23,393)**	(1,751)
Impairment losses of inventories and prepayments	*10,12*	**(28,452)**	(7,030)
Others		**(162,729)**	(179,767)
		(1,379,218)	(1,648,674)
Operating (loss)/profit		**(64,401)**	293,092
Finance income	*24*	**892**	3,125
Finance costs	*24*	**(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)	*25*	**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	*27*	**(0.049)**	0.107
Diluted (losses)/earnings per share	*27*	**(0.049)**	0.106

The accompanying notes on pages 89 to 172 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

		Year ended 31 December	
	Note	**2020**	2019
		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

The accompanying notes on pages 89 to 172 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 1 January 2019		1,175	845,246	298,510	(455,398)	468,476	1,158,009	93,403	1,251,412
Comprehensive income									
Profit for the year		–	–	–	–	198,926	198,926	1,201	200,127
Other comprehensive income		–	–	–	23,843	–	23,843	(305)	23,538
Total comprehensive income		–	–	–	23,843	198,926	222,769	896	223,665
Transactions with owners in their capacity as owners									
Share-based payments	*22*	–	–	15,222	–	–	15,222	–	15,222
Transfer to statutory reserves		–	–	11,645	–	(11,645)	–	–	–
Share options exercised		3	2,653	(682)	–	–	1,974	–	1,974
Capital injection of subsidiaries		–	–	–	–	–	–	7,743	7,743
Transaction with non-controlling interests		–	–	(503)	–	–	(503)	(13)	(516)
Closure of a subsidiary		–	–	–	69	–	69	–	69
Transactions with owners in their capacity as owners		3	2,653	25,682	69	(11,645)	16,762	7,730	24,492
Balance as at 31 December 2019		1,178	847,899	324,192	(431,486)	655,757	1,397,540	102,029	1,499,569

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 1 January 2020		1,178	847,899	324,192	(431,486)	655,757	1,397,540	102,029	1,499,569
Comprehensive loss									
Loss for the year		–	–	–	–	(91,189)	(91,189)	(7,215)	(98,404)
Other comprehensive (loss)/income		–	–	(3,898)	(97,505)	–	(101,403)	788	(100,615)
Total comprehensive loss		–	–	(3,898)	(97,505)	(91,189)	(192,592)	(6,427)	(199,019)
Transactions with owners in their capacity as owners									
Share-based payments	*22*	–	–	7,420	–	–	7,420	–	7,420
Transfer to statutory reserves		–	–	2,226	–	(2,226)	–	–	–
Share options exercised		–	127	(39)	–	–	88	–	88
Capital injection of subsidiaries		–	–	477	–	–	477	5,219	5,696
Disposal of a subsidiary		–	–	–	67	–	67	40	107
Closure of a subsidiary		–	–	–	–	–	–	(82,490)	(82,490)
Transactions with owners in their capacity as owners		–	127	10,084	67	(2,226)	8,052	(77,231)	(69,179)
Balance as at 31 December 2020		1,178	848,026	330,378	(528,924)	562,342	1,213,000	18,371	1,231,371

The accompanying notes on pages 89 to 172 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

		Year ended 31 December	
	Note	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	*28*	**(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

The accompanying notes on pages 89 to 172 are an integral part of these consolidated financial statements.

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 the provision of oil-field services including drilling, well completion, reservoir and the manufacturing and sale 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 Shock 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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, IFRS 9 and IAS 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.

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 2020 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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.2.3 below), after initially being recognised at cost.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (continued)

2.2.3 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income (OCI) of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (continued)

2.2.4 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, vice presidents and directors of the Company that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is United States Dollar ("USD") and the consolidated financial statements are presented in RMB, which is the Group's presentation currency. The presentation currency differs from Company's functional currency as management rely on management accounts prepared in RMB for review of historical performance and decision making.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (continued)

(d) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, is stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Construction-in-progress is stated at cost, including the costs of construction, machinery and other expenditures for the purpose of preparing the construction-in-progress for its intended use and borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction-in-progress is not depreciated until the asset is completed and ready for its intended use.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

	Estimated useful life
Buildings	10 to 20 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 to 7 years
Furniture, fixtures and others	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

2.8 Intangible assets

(a) Computer softwares

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, ranging from 3 to 5 years.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (continued)

(b) Technology

Technology assets were generated from the Group's research and development activities. Only development costs that are directly attributable to the design, development and application of technology are recognised as intangible assets when the following criteria are met:

- Management intends to complete the patents and use or sell it;
- There is an ability to use or sell the patents;
- It can be demonstrated how the patents will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the patents and available; and
- The expenditure attributable to the patents during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the patent include material costs, patent development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investments and other financial assets (continued)

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

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

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

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

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Inventories

Inventories primarily consist of project materials, consumables and project-in-progress for the provision of oilfield services and sales. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of project-in-progress comprises project materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the applicable variable selling expenses.

2.13 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. They are generally due for settlement within one year and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.10 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (continued)

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(b) Post-employment obligations

The Group operates various post-employment schemes, including defined contribution pension plans.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (continued)

(b) Post-employment obligations (continued)

(i) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Employees of entities located in countries other than PRC are covered by other defined-contribution pension plans sponsored by respective governments.

(ii) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

(iii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (continued)

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions(for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. The corresponding amount accounted for as "Other reserve" when recognising the share-based compensation are reclassified to share premium as well.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (continued)

(c) Share-based compensation (continued)

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

(a) Provision of services

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

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue recognition (continued)

(a) Provision of services (continued)

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

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

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

(b) Sales of goods

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

Customer deposit received in relation to sales of goods are recognised as contract liabilities.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 23 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.23 Dividend income

Dividends are recognised in profit or loss when the right to receive payment is established.

2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Leases (continued)

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- makes adjustments specific to the lease, eg term, country, currency and security

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets, include land use rights, are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

- any initial direct costs, and

- restoration costs.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Taxation

A lessee normally recognises an asset and a lease liability when it enters into most leases under IFRS 16. The Group considers the lease as a single transaction in which the asset and liability are integrally linked, so there is no net temporary difference at inception. Subsequently, as differences arise on settlement of the liability and the amortisation of the leased asset, there will be a net temporary difference on which deferred tax is recognised.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, Turkmenistan, Singapore, Canada and Indonesia with most of the transactions denominated and settled in RMB, American Dollar ("USD"), Singapore Dollar ("SGD") and Canadian Dollar ("CAD") respectively. Certain sales to and purchases from overseas are denominated in USD. Foreign exchange risk also arises from borrowings comprising bank borrowings and certain bank deposits denominated in foreign currencies. The Group is exposed to foreign currency exchange risk primarily with respect to USD, the Company's functional currency.

During the financial year, the Group has not used any financial instrument to hedge the foreign exchange risk.

The Group is primarily exposed to changes in USD/RMB exchange rates.

At 31 December 2020, if RMB had weakened/strengthened by certain percentage against the USD with all other variables held constant the assumed changes of the exchange rates would have the following impact on the Group's foreign exchange gains/(losses) accounts.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Pre-tax results increase/(decrease) during the financial year:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
RMB against USD		
– Weakened 5%	**(23,481)**	(43,402)
– Strengthened 5%	**23,481**	43,402

(ii) Cash flow and fair value interest rate risk

Other than cash and cash equivalents and restricted bank deposits, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk exposure arises primarily from its long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk.

As at 31 December 2020, if interest rates on floating interest borrowings at that date had been higher/lower 100 basis points (31 December 2019: 100 basis points), loss before income tax for the year would have been RMB48,000 (2019: RMB57,000) higher/lower.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

(i) Risk Management

Credit risk is managed on group basis. The carrying amounts of bank deposits, trade receivables and other receivables except prepayments included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has concentrations of credit risk on trade receivables. China National Petroleum Corporation ("CNPC"), a PRC state owned enterprise with high credit rating, along with its related entities, represented approximately 77.9% and 77.2% of the revenue of the Group for the years ended 31 December 2020 and 2019 respectively. The Group has policies in place to ensure that services are rendered or sales of products are made to customers with an appropriate credit history. The Group's credit sales are only made to customers with appropriate credit history or their related parties who have no default history. Most of the credit period is six months. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

As at 31 December 2020 and 2019, cash and cash equivalents and restricted bank deposits were primarily deposited in major banks in the PRC, Kazakhstan, Canada and Singapore, which the directors of the Company believe are of good credit quality. The table below shows the bank deposit balances as at 31 December 2020 and 2019:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
PRC- State owned listed banks	**59,666**	114,984
PRC- Other listed banks	**150,136**	293,063
Kazakhstan government owned banks	**60,846**	110,084
Singapore listed banks	**35,498**	29,343
Canada listed banks	**24,537**	27,537
Other listed banks	**14,337**	28,325
Others	**3,935**	2,585
Total	**348,955**	605,921

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets

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

- trade and note receivables
- contract assets relating to service contracts
- other receivables
- cash and cash equivalents
- restricted bank deposits

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

Trade receivables and contract assets

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

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

On that basis, the loss allowance as at 31 December 2020 and 2019 was determined as follows for both trade receivables and contract assets:

31 December 2020	**Up to 6 months**	**6 months - 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Expected loss rate	**0.10%**	**0.89%**	**6.48%**	**20.09%**	**92.85%**	
Gross carrying amount	**533,417**	**85,351**	**280,870**	**15,465**	**91,402**	**1,006,505**
Loss allowance	**533**	**760**	**18,200**	**3,107**	**84,867**	**107,467**

31 December 2019	Up to 6 months	6 months - 1 year	1-2 years	2-3 years	Over 3 years	Total
Expected loss rate	0.08%	0.73%	6.08%	19.17%	93.22%	
Gross carrying amount	798,849	180,262	42,240	12,919	89,483	1,123,753
Loss allowance	639	1,316	2,568	2,477	83,416	90,416

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

The closing loss allowances for trade receivables and contract assets as at 31 December 2020 and 2019 reconcile to the opening loss allowances as follows:

	Contract assets		Trade receivables	
	2020 *RMB'000*	2019 *RMB'000*	**2020** *RMB'000*	2019 *RMB'000*
Opening loss allowance at 1 January	**1,809**	1,701	**88,607**	87,830
Provision for impairment	**–**	108	**24,462**	8,726
Reversal	**(484)**	–	**(4,416)**	(8,583)
Receivables written off during the year as uncollectible	**–**	–	**–**	(224)
Exchange difference	**–**	–	**(2,511)**	858
Closing loss allowance at 31 December	**1,325**	1,809	**106,142**	88,607

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

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

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Note receivables

Based on management's assessment by taking into account default history and forward looking factors, the expected credit loss for note receivables is immaterial, and therefore no provisions for impairment are recognised for note receivables under IFRS 9.

Other receivables

Other receivables include cash advance of the employees, bidding guarantee and rental deposits.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

The closing loss allowances for other receivables as at 31 December reconcile to the opening loss allowances as follows:

	Other receivables	
	2020	2019
	RMB'000	*RMB'000*
Opening loss allowance at 1 January	**3,762**	2,348
Provision for impairment	**3,831**	1,682
Receivables written off during the year as uncollectible	**(2,088)**	–
Reversal	**–**	(182)
Exchange difference	**(231)**	(86)
Closing loss allowance at 31 December	**5,274**	3,762

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Net impairment losses on financial and contract assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to financial and contract assets:

	2020	2019
	RMB'000	*RMB'000*
Impairment losses on trade receivables and contract assets	**24,462**	8,834
Impairment losses on other receivables	**3,831**	1,682
Reversal	**(4,900)**	(8,765)
Net impairment losses on financial and contract assets	**23,393**	1,751

(c) Liquidity risk

Cash flow forecast is performed by group finance department who monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecast takes into consideration the Group's debt financing plans, and legal requirements such as currency restrictions.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020						
Borrowings	**273,857**	**124,302**	**116,757**	**870**	**515,786**	**491,343**
Trade and note payables	**697,413**	**–**	**–**	**–**	**697,413**	**697,413**
Accruals and other payables	**47,846**	**–**	**–**	**–**	**47,846**	**47,846**
Lease liabilities	**20,078**	**19,777**	**19,737**	**14,681**	**74,273**	**64,864**
Total	**1,039,194**	**144,079**	**136,494**	**15,551**	**1,335,318**	**1,301,466**
As at 31 December 2019						
Borrowings	358,768	42,656	4,694	1,720	407,838	392,245
Trade and note payables	910,400	–	–	–	910,400	910,400
Accruals and other payables	41,930	–	–	–	41,930	41,930
Lease liabilities	23,035	17,462	23,180	16,215	79,892	69,545
Total	1,334,133	60,118	27,874	17,935	1,440,060	1,414,120

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio and normally maintain gearing ratio below 50%. This ratio is calculated as gross debt divided by total equity. Gross debt include 'borrowings' , 'current portion of long-term borrowings', current and non-current lease liabilities as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2020 and 2019 are as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Gross debt	**556,207**	461,790
Total equity	**1,231,371**	1,499,569
Gross debt to equity ratio	**45.2%**	30.8%

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

(i) Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements **At 31 December 2020**	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial assets at FVOCI				
– Equity securities	**15,718**	**–**	**–**	**15,718**

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

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.

(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, in accordance with the accounting policy stated in Note 2.7, Note 2.24 and Note 2.9 respectively. 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 judgments 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 judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details are disclosed in Note 3.

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION

The 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

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(a) Revenue (continued)

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

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

	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

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

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 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

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

	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

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(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

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(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 liabilities balance at the beginning of the year		
– Drilling	**–**	3,827
– Well completion	**501**	7,805
– Reservoir	**169**	2,324
Total	**670**	13,956

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

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

(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.

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and others	Construction in process	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019						
Opening net book value	100,045	201,789	2,168	10,243	19,345	333,590
Additions	1,906	115,718	5,219	7,646	6,506	136,995
Depreciation charge	(9,155)	(32,651)	(3,808)	(8,570)	–	(54,184)
Disposals	(5)	(1,901)	(1,467)	(271)	(159)	(3,803)
Transfer	–	876	–	–	(876)	–
Others (a)	–	–	–	–	(14,829)	(14,829)
Exchange differences	1,052	2,615	941	850	–	5,458
Closing net book value	93,843	286,446	3,053	9,898	9,987	403,227
At 31 December 2019						
Cost	154,937	624,467	56,854	105,730	9,987	951,975
Accumulated depreciation and impairment	(61,094)	(338,021)	(53,801)	(95,832)	–	(548,748)
Net book value	93,843	286,446	3,053	9,898	9,987	403,227
Year ended 31 December 2020						
Opening net book value	**93,843**	**286,446**	**3,053**	**9,898**	**9,987**	**403,227**
Additions	**4,508**	**22,343**	**4,021**	**7,139**	**44,261**	**82,272**
Depreciation charge	**(7,385)**	**(36,441)**	**(2,503)**	**(7,374)**	**–**	**(53,703)**
Disposals	**(1,160)**	**(2,532)**	**(167)**	**(117)**	**–**	**(3,976)**
Exchange differences	**(703)**	**(14,099)**	**488**	**816**	**(2,068)**	**(15,566)**
Closing net book value	**89,103**	**255,717**	**4,892**	**10,362**	**52,180**	**412,254**
At 31 December 2020						
Cost	**150,857**	**620,431**	**55,694**	**106,816**	**52,180**	**985,978**
Accumulated depreciation and impairment	**(61,754)**	**(364,714)**	**(50,802)**	**(96,454)**	**–**	**(573,724)**
Net book value	**89,103**	**255,717**	**4,892**	**10,362**	**52,180**	**412,254**

Note:

(a) During the year ended 31 December 2019, certain machinery and equipment under installation were returned to the supplier as agreed between each others in writing.

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note: (continued)

(b) For the year ended 31 December 2020, depreciation expenses amounting to RMB53,703,000 (2019: RMB54,184,000) has been charged in operating costs.

(c) Certain property, plant and equipment have been secured for the Group's secured loans from a third party, details of which have been set out in Note 17(c).

(d) As at 31 December 2020, the Group's machinery and equipment in the PRC region amounted to approximately RMB217 million (2019: RMB193 million).

7. LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2020 ***RMB'000***	31 December 2019 *RMB'000*
Right-of-use assets		
Buildings	**50,158**	63,839
Land use rights		
– Located in PRC*	**19,828**	20,311
– Outside of PRC	**14,512**	3,041
Machinery and equipment	**6,724**	13,922
Vehicle	**5,827**	–
	97,049	101,113
Lease liabilities		
Current lease liabilities	**18,204**	20,810
Non-Current lease liabilities	**46,660**	48,735
	64,864	69,545

* The Group's land use rights primarily represent lease prepayments for the leasehold land in the PRC for a period of 50 years. As at 31 December 2020, land use rights have a remaining period of 42 years.

Additions to the right-of-use assets during the 2020 financial year were RMB24,173,000 (2019: RMB21,735,000).

Notes to the Consolidated Financial Statements

7. LEASES (CONTINUED)

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Notes	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets			
Buildings		15,228	11,344
Land use rights		550	618
Machinery and equipment		8,495	8,183
Vehicle		2,160	–
	23	26,433	20,145
Interest expense (included in finance cost)	*24*	3,991	4,466
Expense relating to short-term leases		74,407	84,021
Expense relating to leases of low-value assets that are not shown above as short-term leases		64	43

(iii) The cash outflow shows the following amounts relating to leases:

	2020 RMB'000	2019 RMB'000
Payments of principal elements of lease	26,556	17,812
Payments of interest expense of lease	3,991	4,466
Payments of short-term and low-value lease	74,471	84,362
	105,018	106,640

(a) The Group's leasing activities

The Group leases various buildings, land use rights, machinery and equipment. Rental contracts are typically made for fixed periods as stated below.

Buildings	2 to 20 years
Land use rights	30 to 50 years
Machinery and equipment	3 to 5 years

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the Consolidated Financial Statements

8. INTANGIBLE ASSETS

Intangible assets comprise technology and computer software. The details are as follows:

	Technology	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2019			
Opening net book value	12,735	999	13,734
Additions	200	18	218
Amortisation charge	(9,984)	(303)	(10,287)
Exchange differences	285	–	285
Closing net book value	3,236	714	3,950
At 31 December 2019			
Cost	85,976	4,606	90,582
Accumulated amortisation and impairment	(82,740)	(3,892)	(86,632)
Net book value	3,236	714	3,950
Year ended 31 December 2020			
Opening net book value	3,236	714	3,950
Additions	–	2,344	2,344
Amortisation charge	(2,837)	(111)	(2,948)
Exchange differences	(40)	–	(40)
Closing net book value	359	2,947	3,306
At 31 December 2020			
Cost	17,262	6,888	24,150
Accumulated amortisation and impairment	(16,903)	(3,941)	(20,844)
Net book value	359	2,947	3,306

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES AND ASSOCIATES

(a) Subsidiaries

The following is a list of the principal subsidiaries of the Group at 31 December 2020:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2020	2019	2020	2019
北京華油油氣技術開發有限公司 (Sinopetroleum Technology Inc.)	PRC, Limited liability entity*	Oil field services, PRC	RMB353,790,000	98.59%	98.59%	1.41%	1.41%
北京華油先鋒石油裝備技術有限公司 (Pioneer Sinopetroleum Equipment Inc.)	PRC, Limited liability entity	Manufacturing, PRC	RMB10,000,000	95%	95%	5%	5%
北京華油環保工程科技有限公司 (Sinopetroleum Engineering Technology Co., Ltd.)	PRC, Limited liability entity	Trading, PRC	RMB15,600,000	95%	95%	5%	5%
廊坊華油能源技術服務有限公司 (Langfang SPT Energy Limited)	PRC, Limited liability entity **	Trading, PRC	USD1,000,000	100%	100%	-	–
諾斯石油工具(天津)有限公司 (North Resource Oil Tools Limited)	PRC, Limited liability entity **	Manufacturing, PRC	USD36,265,000	100%	100%	-	–
新疆華油油氣工程有限公司 (Petrotech (Xinjiang) Engineering Co., Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB149,142,404	100%	100%	-	–
新疆華油能源工程服務有限公司 (Xinjiang SPT Engineering Service Co., Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB65,000,000	100%	100%	-	–
德威興業(北京)油氣技術服務有限公司 (De Wei Oil & Gas technologies Services Co., Ltd.)	PRC, Limited liability entity **	Oil field services and trading, PRC	RMB10,000,000	100%	100%	-	–
新疆華油新海石油工程技術有限公司 (Petrotech (Xinjiang) Xinhai Petroleum Engineering Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB36,000,000	100%	100%	-	–
M-Tech service Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 87,200	100%	100%	-	–

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the principal subsidiaries of the Group at 31 December 2020 (continued):

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2020	2019	2020	2019
CNEC Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 150,000	100%	100%	–	–
FD Services Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 110,000	100%	100%	–	–
OS Services (Kazakhstan) Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%	100%	–	–
Dowell LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 500,000	100%	100%	–	–
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%	100%	–	–
HY Oil Technology Service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%	100%	–	–
NE TKM Hyzmat Limited	Turkmenistan, Limited liability entity	Oil field services, Turkmenistan	Manats142,500	100%	100%	–	–
Pioneer Petrotech Services Inc.	Canada, Limited liability entity	Manufacturing, Canada	CAD 15	100%	100%	–	–
Enecal Canada Corporation	Canada, Limited liability entity	Trading, Canada	CAD 86	100%	100%	–	–
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%	100%	–	–
SPT Oil Field Service Inc. Limited	Hong Kong, Limited liability entity	Trading, Hong Kong	HKD100,000	100%	100%	–	–
PT. Enecal Indonesia	Indonesia, Limited liability entity	Oil field services, Indonesia	USD1,000,000	95%	95%	5%	5%

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the principal subsidiaries of the Group at 31 December 2020 (continued):

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2020	2019	2020	2019
Enecal PTE. Limited (i)	Manufacturing, Singapore	Manufacturing, Singapore	SGD 3,550,000	63.2%	63.2%	36.8%	36.8%
重慶華油能源技術服務有限公司 (Chongqing Huayou Energy Techonology Services Co.Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB50,000,000	100%	100%	-	–
陝西華油能源技術服務有限公司 (Shanxi Huayou Energy Techonology Services Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB50,000,000	100%	100%	-	–
北京華開新科能源技術服務有限公司 (Beijing Huakai New Energy Technology Service Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB3,000,000	51%	51%	49%	49%
北京華油能源技術服務有限公司 (Beijing Huayou Energy Technology Services Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	USD48,000,000	100%	100%	-	–
SPT Energy PTE. Ltd.	Singapore, Limited liability entity	Oil field services, Singapore	SGD 500,000	100%	100%	-	–
Petroleum Services Global DMCC	UAE, Limited liability entity	Oil field services, UAE	AED 100,000	100%	100%	-	–
UU Energy Services Corporation	USA, Limited liability entity	Oil field services, USA	USD1,000,000	100%	100%	-	–
成都昌匯能源技術服務有限公司 (Chengdu Changhui Energy Technology Service Co., Ltd.)	PRC, Limited liability entity	Technology promotion and application services (China)	RMB50,000,000	100%	100%	-	–
華油投資控股(深圳)有限公司 (Huayou Investment Holdings (Shenzhen) Co., Ltd.)	PRC, Limited liability entity	Trading, PRC	RMB100,000,000	100%	100%	-	–

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

The following is a list of the principal subsidiaries of the Group at 31 December 2020 (continued):

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2020	2019	2020	2019
Sinostone Bioethanol Manufacturing Limited	Ghana,Limited liability entity	Oil field services (Ghana)	GHS 12,000,000	51%	60%	49%	40%
Sinopetroleum Technology (Uganda)-SMC Limited	UGANDA,Limited liability entity	Oil field services (UGANDA)	UGX 10,000,000	100%	100%	-	–
Cornerstone Business PTE. Ltd.	Singapore,Limited liability entity	Oil field services (Singapore)	SGD 3,600,000	75%	100%	25%	–
成都廣新石油技術股份有限公司 (Chengdu Guangxin Petroleum Technology Co., Ltd.)	PRC, Other joint stock Limited companies	Oil field services (China)	RMB50,000,000	51%	51%	49%	49%
新疆浩宸翰海商貿有限公司 (Xinjiang HaoChen Hanhai Trading Co., Ltd)	PRC, Limited liability entity	Oil field services (China)	RMB10,000,000	100%	–	-	–
Constant Asia Pacific Holding Pte. Ltd	Singapore,Limited liability entity	Oil field services (Singapore)	USD100,000	100%	–	-	–
Sinostone Farming Limited	Ghana,Private Limited	Oil field services (Ghana)	GHS 3,000,000	100%	–	-	–

* Registered as sino-foreign equity joint venture under PRC law

** Registered as wholly foreign owned enterprises under PRC law

The English names represent the best effort by management of the Group in translating the Chinese names of the companies as they do not have official English names.

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Subsidiaries (continued)

Notes

(i) The issued share capital includes preferred shares amounting to SGD3,200,000 (equivalent to RMB16,302,000) (2019: SGD 3,200,000 (equivalent to RMB16,302,000)), contributed by the Controlling Shareholders and other two shareholders ("Preference Shareholders") of the Company. The Preference Shareholders have neither dividends rights (unless the distributable profits of Enecal Pte. Limited available for distribution as dividends for a financial year exceed SGD 10 billion) nor voting rights (save and except for matters specifically set out in the Singapore Companies Act which principally including (i) any resolution which varies the rights attached to the preference shares; or (ii) any resolution for the winding up of the company). Hence, the Group consolidated 100% profit of Enecal Pte. Limited while the amount received for the preferred shares are reflected as "Non-controlling interests".

(ii) Material non-controlling interests

As at 31 December 2020, the non-controlling interests in respect of subsidiaries were not material.

(b) Associates

The following is a list of the associates of the Group at 31 December 2020:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Ownership interest held by the Group		Measurement method
			2020	2019	
新疆能源(集團)華油技術服務有限公司	PRC, Limited liability entity	Oil field services, PRC	**49%**	49%	Equity method
新疆博塔油田技術服務有限公司	PRC, Limited liability entity	Oil field services, PRC	**24%**	24%	Equity method
大連施普瑞克能源新材料有限公司	PRC, Limited liability entity	Oil field services, PRC	**5%**	5%	Equity method

10. INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Project materials and consumables	**449,090**	470,327
Project-in-progress	**57,941**	44,149
	507,031	514,476
Less: provision for inventories	**(70,631)**	(49,805)
	436,400	464,671

Notes to the Consolidated Financial Statements

10. INVENTORIES (CONTINUED)

The cost of inventories recognised as expense and included in "operating costs" amounted to RMB277,825,000 (2019: RMB379,987,000).

Movements of provision for inventories are as follows:

	2020 *RMB'000*	2019 *RMB'000*
As at 1 January	**(49,805)**	(44,404)
Provision	**(24,162)**	(5,860)
Written off (a)	**836**	860
Exchange difference	**2,500**	(401)
As at 31 December	**(70,631)**	(49,805)

Note

(a) The written off of provision for inventories was primarily due to the disposal of raw materials.

11. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2020 *RMB'000*	2019 *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 to the Consolidated Financial Statements

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

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. Note 3.1(b)(ii) provides for details about the calculation of the allowance.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1(b)(ii).

(d) Certain trade and note receivables have been pledged for the Group's bank borrowings, details of which have been set out in Note 17(a)(i), (d)(i).

Notes to the Consolidated Financial Statements

12. 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)

Notes to the Consolidated Financial Statements

13. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Restricted bank deposits (a)	**27,337**	17,556
Cash and cash equivalent		
– Cash on hand	**2,212**	335
– Deposits in banks	**319,406**	588,030
	321,618	588,365
	348,955	605,921

Note

(a) As at 31 December 2020, the restricted bank deposits were held as securities for oil service projects (2019: securities for oil service projects).

14. SHARE CAPITAL

	Number of shares	Share capital
	(Thousands)	***RMB'000***
Authorised:		
Ordinary shares of USD0.0001 each as at 31 December 2019 and 2020	5,000,000	3,219

	Number of shares	Share capital
	(Thousands)	***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 (Note 16 (b))	4,554	3
As at 31 December 2019	1,853,576	1,178
Add:		
Share options exercised (Note 16 (b))	200	–
As at 31 December 2020	1,853,776	1,178

Notes to the Consolidated Financial Statements

15. SHARE PREMIUM

	2020 RMB'000	2019 RMB'000
As at 1 January	**847,899**	845,246
Share options exercised (Note 16 (b))	**127**	2,653
As at 31 December	**848,026**	847,899

16. OTHER RESERVES

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Merger reserves	**(148,895)**	(148,895)
Share-based payments (b)	**199,903**	192,522
Statutory reserves (c)	**74,372**	72,146
Capital reserves	**208,896**	208,419
Other comprehensive income	**(3,898)**	–
	330,378	324,192

Notes

(a) Merger reserves

The merger reserves represented the aggregate of consideration paid for the acquisitions of subsidiaries under common control pursuant to the reorganization of the Group which was completed on 14 February 2011 for the purpose of listing on the Stock Exchange on 23 December 2011.

Notes to the Consolidated Financial Statements

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments

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 2020, the Group granted a total of 328,250,000 share options.

These share options will be evenly vested over 3 years from the first anniversary of the grant date and exercisable within 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The numbers of the share options granted at the grant date and the exercisable share options as at 31 December 2020 and 2019 are as below:

Grant Date	**Expiry date**	**Exercise price** ***HKD***	**The granted share option number** ***(Thousands)***	**Exercisable share options 31 December 2020** ***(Thousands)***	Exercisable share options 31 December 2019 *(Thousands)*
20 February 2012	19 February 2022	1.29	26,500	**6,432**	6,432
29 March 2012	28 March 2022	1.36	7,300	**5,083**	5,083
13 June 2013	12 June 2023	4.69	67,450	**35,900**	37,390
31 August 2016	30 August 2026	0.49	130,000	**104,684**	105,084
26 September 2018	25 September 2028	0.74	60,000	**20,000**	20,000
6 December 2018	5 December 2028	0.53	37,000	**12,333**	12,333
Total		1.39	328,250	**184,432**	186,322
Weighted average remaining contractual life of options outstanding at end of period				**5.11 years**	6.10 years

Notes to the Consolidated Financial Statements

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follow:

	2020		2019	
	Average exercise price per share options *HKD*	Number of share options *(Thousands)*	Average exercise price per share options *HKD*	Number of share options *(Thousands)*
As at 1 January	1.22	250,989	1.25	264,299
Forfeited during the year	3.41	(2,190)	2.54	(8,756)
Exercised during the year	0.49	(200)	0.49	(4,554)
As at 31 December	1.20	248,599	1.22	250,989
Vested and exercisable as at 31 December	1.39	184,432	1.41	186,322

During the year, the weighted average exercise price was HKD0.72 (2019: HKD0.71).

(c) Statutory reserves

	RMB'000
As at 31 December 2018	60,501
Appropriation	11,645
As at 31 December 2019	72,146
Appropriation	2,226
As at 31 December 2020	**74,372**

Subsidiaries incorporated in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When balance of such reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of registered capital after such usage. For the years ended 31 December 2020 and 2019, 10% of statutory net profit of each entity was appropriated to this reserve. This reserve is non-distributable.

Notes to the Consolidated Financial Statements

17. BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Long-term borrowings:		
– Bank loans, secured (a)	**240,757**	114,694
– Loans from a third party institution, secured (c)	**57,381**	44,551
– Bank loans, unsecured (b)	**205**	–
	298,343	159,245
less:		
Non-current portion of long-term borrowings:		
– Bank loans, secured (a)	**211,475**	26,890
– Loans from a third party institution, secured (c)	**21,602**	20,513
Non-current portion of long-term borrowings	**233,077**	47,403
Current portion of long-term borrowings	**65,266**	111,842
Short-term bank loans, secured (d)	**193,000**	233,000

Notes to the Consolidated Financial Statements

17. BORROWINGS (CONTINUED)

Notes

(a) Long-term secured bank loans comprise:

(i) Loans totalling RMB236,000,000 (2019: RMB109,000,000) repayable by installments from 2021 to 2023, bear interest at rates ranging from 6.0% to 6.60% (2019: 6.08% to 6.60%) per annum, and are secured against the right of collecting certain trade receivables under selected service contracts of respective borrower entity of the Group.

(ii) A loan of RMB4,757,000 (2019: RMB5,694,000) repayable by installments by January 2026, bears interest at 3-month swap offer rate plus 2.75% (2019: 3-month swap offer rate plus 2.75%) per annum, and are secured against a right-of-use asset and a guarantee provided by the Company. During the year, the average interest rate was 5.25% (2019: 5.38%).

(b) During the year, the Group has obtained an unsecured long-term loan of CAD40,000 (equivalent to approximately RMB205,000) through a bank pursuant to financial relief measures provided by the Government of Canada to support businesses impacted by COVID-19. The loan is fully repayable by 31 December 2025, bears no interest from drawn down date to 31 December 2022 and 5% per annum from 1 January 2023 to 31 December 2025.

(c) The Group's long-term secured loans from a third party financial institution are repayable from 2021 to 2023, bear interest at rates ranging from 6.2% to 6.60% (2019: 6.2%), and are secured against certain machinery with carrying amount of RMB110,257,000 (2019: RMB66,807,000) and a guarantee provided by a subsidiary of the Group.

(d) Short-term secured bank loans comprise:

(i) Loans totalling RMB148,000,000 (2019: RMB193,000,000) repayable by 2021, bear interest at rates ranging from 6.00% to 6.20% (2019: 6.00% to 6.20%) per annum, and are secured against the right of collecting certain trade receivables under selected service contracts of respective borrower entity of the Group.

(ii) Loan totalling RMB45,000,000 (2019: RMB40,000,000) repayable by 2021, bears interest at rates ranging from 3.60% to 4.77% (2019: 5.22% to 5.66%) per annum, and is guaranteed by a third party guarantee company ("Guarantor"). Counter-guarantee has been provided to the Guarantor by a subsidiary of the Group through pledge of a land use right of RMB19,282,000 (2019: RMB20,309,000) and a personal guarantee by an employee of the Group.

Notes to the Consolidated Financial Statements

17. BORROWINGS (CONTINUED)

Notes (continued)

(e) Fair value

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

(f) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 3.1.

(g) The Group's borrowings are analysed as below:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
RMB	**486,381**	386,551
SGD	**4,757**	5,694
CAD	**205**	–
	491,343	392,245

18. 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.

Notes to the Consolidated Financial Statements

19. 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.

20. DEFERRED INCOME TAXATION

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Deferred income tax assets:		
– To be recovered after more than 12 months	**89,783**	88,032
– To be recovered within 12 months	**27,924**	12,964
	117,707	100,996
Deferred income tax liabilities:		
– To be settled after 12 months	**(21,991)**	(21,492)
	(21,991)	(21,492)
	95,716	79,504

Notes to the Consolidated Financial Statements

20. DEFERRED INCOME TAXATION (CONTINUED)

(a) The gross movement on the deferred income tax account is as follows:

	2020 *RMB'000*	2019 *RMB'000*
As at 1 January	**79,504**	112,738
Credited/(charged) to the income statement (Note 25)	**18,212**	(33,550)
Currency translation difference	**(2,000)**	316
As at 31 December	**95,716**	79,504

(b) The movement in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Tax losses *RMB'000*	Impairment of assets *RMB'000*	Unrealised profit* *RMB'000*	Accrual expense *RMB'000*	Total *RMB'000*
As at 31 December 2018	70,793	29,749	24,898	5,940	131,380
(Charged)/credited to the income statement	(33,358)	323	1,408	927	(30,700)
Currency translation differences	–	65	270	(19)	316
As at 31 December 2019	37,435	30,137	26,576	6,848	100,996
Credited/(charged) to the income statement	15,566	7,108	(3,676)	(287)	18,711
Currency translation differences	–	(840)	(193)	(967)	(2,000)
As at 31 December 2020	53,001	36,405	22,707	5,594	117,707

* Deferred income tax assets in relation to unrealised profit mainly resulted from the unrealised profit on intra-group transfer of property, plant and equipment and inventories.

Notes to the Consolidated Financial Statements

20. DEFERRED INCOME TAXATION (CONTINUED)

(b) The movement in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows: (continued)

Deferred income tax liabilities

	Accelerated tax depreciation *RMB'000*	Withholding tax of the unremitted earnings of certain subsidiaries* *RMB'000*	Total *RMB'000*
As at 31 December 2018	–	18,642	18,642
Charged to the income statement	–	2,850	2,850
As at 31 December 2019	–	21,492	21,492
Charged to the income statement	102	397	499
As at 31 December 2020	**102**	**21,889**	**21,991**

* Deferred income tax liabilities in relation to unremitted earnings of certain subsidiaries resulted from certain subsidiaries' accumulated profit which are expected to be distributed as dividends in the future. Pursuant to the local tax regulations where such subsidiaries operate, when such subsidiaries declare or paid dividends, withholding tax will be imposed on these dividends.

(c) Details of unrecognised deferred income tax are as follows:

(i) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB131,718,000 as at 31 December 2020 (2019: RMB122,877,000), in respect of losses amounting to RMB760,130,000 (2019: RMB669,430,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2021 and 2030.

(ii) The Board did not propose final dividend for the year ended 31 December 2020. As at 31 December 2020, the Group did not recognise deferred income tax liabilities of RMB33,223,198 (2019: RMB36,679,110) on withholding tax of unremitted earnings of certain subsidiaries as such unremitted earnings amounting to RMB664,463,966 (2019: RMB733,582,208) are expected to be retained in the respective subsidiaries for their future investment and expansion activities.

Notes to the Consolidated Financial Statements

21. OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net foreign exchange gains/(losses)	**27,849**	(9,467)
Others	**(2,299)**	1,774
	25,550	(7,693)

22. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Wages, salaries and allowances	**407,639**	398,449
Housing benefits	**17,060**	13,096
Pension costs (a)	**33,577**	51,241
Share-based payments (Note 16)	**7,420**	15,222
Welfare and other expenses	**13,443**	20,256
	479,139	498,264

Notes

(a) During the twelve months ended 31 December 2020, as a result of COVID-19 outbreak, certain provincial government authorities in the PRC have approved one-off relief of the Group's contribution to the PRC government sponsored defined-contribution pension plans for certain periods in 2020.

(b) Five highest paid individuals

	Year ended 31 December Number of individuals	
	2020	2019
Director	**3**	2
Non-director individual	**2**	3
	5	5

Notes to the Consolidated Financial Statements

22. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

Notes (continued)

(b) Five highest paid individuals (continued)

The aggregate amounts of emoluments paid and payable to the non-director individuals whose emoluments were the highest in the Group for the years are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**1,176**	2,296
Share-based payments	**1,394**	3,283
Retirement benefits and others	**104**	249
	2,674	5,828

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2020	2019
Emolument band		
HKD500,001 to HKD1,000,000	**2**	–
HKD1,000,001 to HKD1,500,000	**–**	–
HKD1,500,001 to HKD2,000,000	**–**	1
HKD2,000,001 to HKD2,500,000	**–**	1
HKD2,500,001 to HKD3,000,000	**–**	1
	2	3

During the year ended 31 December 2020, there was no emolument paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil).

Notes to the Consolidated Financial Statements

23. EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Losses/(gains) on disposal of property, plant and equipment	**737**	(701)
Sales tax and surcharges	**5,555**	4,458
Depreciation		
– Right-of-use assets (including land use rights)	**26,433**	20,145
– Property, plant and equipment	**53,703**	54,184
Amortisation of intangible assets	**2,948**	10,287
Auditor's remuneration		
– PricewaterhouseCoopers	**4,650**	4,650
– Others	**1,151**	1,180

24. 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)

Notes to the Consolidated Financial Statements

25. 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 the 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.

Notes to the Consolidated Financial Statements

25. INCOME TAX EXPENSE (CONTINUED)

Notes (continued)

(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 taxable profits of respective subsidiaries of the Group 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

26. DIVIDENDS

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

27. 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

Notes to the Consolidated Financial Statements

27. EARNINGS PER SHARE (CONTINUED)

(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

Notes to the Consolidated Financial Statements

28. CASH GENERATED FROM OPERATIONS

(a) Cash (used in)/generated from operations

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit for the year before income tax	**(100,848)**	262,737
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 6&23)	**53,703**	54,184
– net losses/(gains) on disposals (Note 23)	**737**	(701)
Right-of-use assets, including land use rights		
– depreciation charge (Note 7&23)	**26,433**	20,145
Amortisation (Notes 8)	**2,948**	10,287
Impairment losses of inventory and prepayments	**28,452**	7,030
Net impairments losses of financial and contract assets	**23,393**	1,751
Net foreign exchange (gains)/losses(Notes 21&24)	**(27,928)**	9,371
Loss on disposal of an associate	**842**	–
Interest income (Note 24)	**(813)**	(3,029)
Interest expenses on borrowings and leases (Note 24)	**34,606**	27,483
Dividends received from an associate	**(82)**	–
Share-based payments (Note 22)	**7,420**	15,222
Share of net profit of associates accounted for using the equity method	**(148)**	–
Changes in working capital:		
Inventories	**7,445**	(97,017)
Trade and note receivables	**98,226**	(295,505)
Prepayments and other receivables	**(76,354)**	53,946
Trade and note payables	**(212,987)**	205,325
Accruals and other payables	**(5,840)**	37,132
Net cash (used in)/generated from operations	**(140,795)**	308,361

(b) Non-cash investing and financing activities

Non-cash investing and financing activities on acquisition of right-of-use assets are set out in Note 7.

Notes to the Consolidated Financial Statements

28. CASH GENERATED FROM OPERATIONS (CONTINUED)

(c) Net debt reconciliation

Analysis of net debt

Net debt	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	**321,618**	588,365
Borrowings-repayable within one year	**(258,266)**	(344,842)
Borrowings-repayable after one year	**(233,077)**	(47,403)
Lease liabilities	**(64,864)**	(69,545)
Net debt	**(234,589)**	126,575
Cash and liquid investments	**321,618**	588,365
Gross debt-fixed interest rates	**(551,450)**	(456,096)
Gross debt-variable interest rates	**(4,757)**	(5,694)
Net debt	**(234,589)**	126,575

Movements in net debt

	Other assets	Liabilities from financing activities			
	Cash and cash equivalents RMB'000	Borrowing due within 1 year RMB'000	Borrowing due after 1 year RMB'000	Lease RMB'000	Total RMB'000
Net debt as at 1 January 2019	353,638	(154,532)	(142,990)	(65,665)	(9,549)
Cash flows	229,930	(76,277)	(16,233)	17,812	155,232
New Leases	–	–	–	(21,735)	(21,735)
Foreign exchange adjustments	4,797	(96)	–	43	4,744
Other non-cash movements	–	(113,937)	111,820	–	(2,117)
Net debt as at 31 December 2019	588,365	(344,842)	(47,403)	(69,545)	126,575
Cash flows	(250,888)	69,000	(173,184)	26,556	(328,516)
New Leases	–	–	–	(23,655)	(23,655)
Foreign exchange adjustments	(15,859)	(79)	–	1,780	(14,158)
Other non-cash movements	–	17,655	(12,490)	–	5,165
Net debt as at 31 December 2020	**321,618**	**(258,266)**	**(233,077)**	**(64,864)**	**(234,589)**

Notes to the Consolidated Financial Statements

29. CONTINGENCIES

As at 31 December 2020 and 2019, the Group did not have any significant contingent liabilities.

30. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for but not yet incurred is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Property, plant and equipment	**30,908**	46,410

(b) Operating lease commitments – where the Group is the lessee:

The Group leases various offices, warehouses and equipment under non-cancellable operating lease agreements in short terms. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
No later than 1 year	**25,419**	3,111

Notes to the Consolidated Financial Statements

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

The following transactions were carried out with related parties for the year ended 31 December 2020 and 2019:

(a) Transactions with related parties

(i) Sales of services

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
An associate	**19,677**	–

(ii) Balances with related parties

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Receivables due from an associate	**20,756**	–

(b) Key management compensation

Key management includes executive directors and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**5,444**	7,499
Share-based payments	**3,666**	6,089
Retirement benefits and others	**644**	1,010
	9,754	14,598

Notes to the Consolidated Financial Statements

32. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

		As at 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Interests in subsidiaries		**1,171,416**	1,190,781
Current assets			
Prepayments and other receivables		**153**	335
Cash and cash equivalents		**628**	20,927
Total assets		**1,172,197**	1,212,043
Equity and liabilities			
Share capital		**1,178**	1,178
Share premium		**848,026**	847,899
Other reserves	*Note (a)*	**412,802**	405,421
Currency translation differences		**25,012**	75,816
Accumulated losses	*Note (a)*	**(133,771)**	(138,532)
Total equity		**1,153,247**	1,191,782
Liabilities			
Non-Current liabilities		**–**	–
Current liabilities			
Accruals and other payables		**18,950**	20,261
Total liabilities		**18,950**	20,261
Total equity and liabilities		**1,172,197**	1,212,043

The balance sheet of the Company was approved by the Board of Directors on 26 March 2021 and was signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Notes to the Consolidated Financial Statements

32. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (continued)

Note

(a) Reserve movement of the Company

	Accumulated losses *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Total *RMB'000*
At 1 January 2019	(133,649)	845,246	390,881	63,198	1,165,676
Loss for the year	(4,883)	–	–	–	(4,883)
Currency translation differences	–	–	–	12,618	12,618
Share options exercised	–	2,653	(682)	–	1,971
Share-based payments	–	–	15,222	–	15,222
At 31 December 2019	(138,532)	847,899	405,421	75,816	1,190,604
At 1 January 2020	**(138,532)**	**847,899**	**405,421**	**75,816**	**1,190,604**
Profit for the year	**4,761**	**–**	**–**	**–**	**4,761**
Currency translation differences	**–**	**–**	**–**	**(50,804)**	**(50,804)**
Share options exercised	**–**	**127**	**(39)**	**–**	**88**
Share-based payments	**–**	**–**	**7,420**	**–**	**7,420**
At 31 December 2020	**(133,771)**	**848,026**	**412,802**	**25,012**	**1,152,069**

Notes to the Consolidated Financial Statements

33. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives emoluments

The remuneration of each director and the chief executive for the year ended 31 December 2020 is set out below:

	Fee *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Allowances, benefit in kind and others *RMB'000*	Total *RMB'000*
Executive Directors						
Mr. 王國強 (Mr. Wang Guoqiang)	–	624	–	40	6	670
Mr. 吳東方 (Mr. Ethan Wu)	–	527	–	53	4	584
Mr. 李強 (Mr. Li Qiang)	–	329	–	40	34	403
Mr. 武吉偉 (Mr. Wu Jiwei)*	–	650	–	38	31	719
Non-executive Directors						
Ms. 陳春花 (Ms. Chen Chunhua)	370	–	–	40	6	416
Mr. 武吉偉 (Mr. Wu Jiwei)*	58	–	–	3	3	64
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	173	–	–	–	–	173
Mr. 溫嘉明 (Mr. Wan Kah Ming)	173	–	–	–	–	173
Ms. 張渝涓 (Ms. Zhang Yujuan)	173	–	–	–	–	173
	947	2,130	–	214	84	3,375

* Mr Wu Jiwei has been re-designated from an executive director to a non-executive director with effect from 8 December 2020. During the year, remuneration to Mr Wu Jiwei also included an amount of RMB1,093,000 relating to non-cash share-based payments, representing amortisation of the options valued on respective grant date, over a three year period.

Notes to the Consolidated Financial Statements

33. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executives emoluments (continued)

The remuneration of each director and the chief executive for the year ended 31 December 2019 is set out below:

	Fee *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Allowances, benefit in kind and others *RMB'000*	Total *RMB'000*
Executive Directors						
Mr. 王國強 (Mr. Wang Guoqiang)	–	651	–	48	6	705
Mr. 吳東方 (Mr. Ethan Wu)	–	651	–	63	3	717
Mr. 李強 (Mr. Li Qiang)	–	480	–	38	88	606
Mr. 武吉偉 (Mr. Wu Jiwei)	–	2,000	–	38	88	2,126
Non-executive Directors						
Ms. 陳春花 (Ms. Chen Chunhua)	931	–	–	48	5	984
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	264	–	–	–	–	264
Mr. 溫嘉明 (Mr. Wan Kah Ming)	264	–	–	–	–	264
Ms. 張渝涓 (Ms. Zhang Yujuan)	264	–	–	–	–	264
	1,723	3,782	–	235	190	5,930

During the year, remunerations to Mr Wang Guoqiang, Mr. Ethan Wu, Mr. Li Qiang, Mr. Wu Jiwei, Ms Chen Chunhua, Mr Wu Kwok Keung Andrew, Mr. Wan Kah Ming and Mr. Zhang Yujuan also included RMB23,000, RMB23,000, RMB154,000, RMB2,083,000, RMB23,000, RMB23,000, RMB23,000 and RMB23,000 relating to non-cash share-based payments, representing amortisation of the options valued at respective grant dates, over a three year period.

Notes to the Consolidated Financial Statements

33. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year ended 31 December 2020, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2019: nil).

(c) Directors' termination benefits

During the year ended 31 December 2020, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2019: nil).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2020, no consideration was provided to or receivable by third parties for making available director's services (2019: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2019: nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: nil).

SPT Energy Group Inc.
華油能源集團有限公司 *

* For identification purpose only