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

ANNUAL REPORT 2022

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
Ms. Chen Chunhua

Independent Non-Executive Directors

Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming (Resigned on 31 December 2022)
Mr. Ma Xiaohu (Appointed on 10 June 2022)

AUDIT COMMITTEE

Mr. Wu Kwok Keung Andrew *(Chairman)*
Ms. Chen Chunhua
Mr. Wan Kah Ming (Resigned on 31 December 2022)
Mr. Ma Xiaohu (Appointed on 8 December 2022)

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. Lai Siu Kuen (Appointed on 10 June 2022)
Ms. Ho Siu Pik (Resigned on 10 June 2022)

COMPANY SECRETARY

Ms. Lai Siu Kuen
(FCG, HKFCG) (Appointed on 10 June 2022)
Ms. Ho Siu Pik (Resigned on 10 June 2022)

COMPANY WEBSITE

www.sptenergygroup.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

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

LEGAL COUNSEL

Morrison & Foerster
33/F, Edinburgh Tower
The Landmark
15 Queen's Road 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	**2022**	2021	2020	2019	2018
Revenue	**1,757,162**	1,588,799	1,289,267	1,949,459	1,471,649
Other (losses)/gains, net	**(7,640)**	4,895	25,550	(7,693)	(28,947)
Operating costs	**(1,696,654)**	(1,540,296)	(1,379,218)	(1,648,674)	(1,315,791)
Operating profit/(loss)	**52,868**	53,398	(64,401)	293,092	126,911
Finance costs, net	**(37,441)**	(41,993)	(36,595)	(30,355)	(30,804)
Share of net profit of an associate accounted for using the equity method	**819**	470	148	–	–
Profit/(loss) before income tax	**16,246**	11,875	(100,848)	262,737	96,107
Profit/(loss) for the year	**7,457**	4,187	(98,404)	200,127	76,639
Attributable to:					
Owners of the Company	**13,241**	8,795	(91,189)	198,926	81,798
Non-controlling interests	**(5,784)**	(4,608)	(7,215)	1,201	(5,159)
Dividends proposed after balance sheet date	**–**	–	–	–	–

Financial Summary

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2022**	2021	2020	2019	2018
Assets					
Non-current assets	**650,446**	647,188	679,011	657,748	521,081
Current assets	**2,232,112**	2,139,501	2,025,330	2,473,726	1,938,916
Total assets	**2,882,558**	2,786,689	2,704,341	3,131,474	2,459,997
Total equity	**1,225,104**	1,205,640	1,231,371	1,499,569	1,251,412
Liabilities					
Non-current liabilities	**85,445**	286,897	301,728	117,630	161,632
Current liabilities	**1,572,009**	1,294,152	1,171,242	1,514,275	1,046,953
Total liabilities	**1,657,454**	1,581,049	1,472,970	1,631,905	1,208,585
Total equity and liabilities	**2,882,558**	2,786,689	2,704,341	3,131,474	2,459,997

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 2022 (the "Reporting Year") to the shareholders of the Company.

During the Reporting Year, the Group's revenue amounted to RMB1,757.2 million and the profit attributable to the owners of the Company amounted to RMB13.2 million.

Chairman's Statement

REVIEW ON THE MARKETING AND OPERATION AND MANAGEMENT

Looking back to 2022, the COVID-19 pandemic (the "Pandemic") continued globally, which still had material and adverse impact on the world. Meanwhile, the unrest factors in the world order, including geopolitical conflicts and superpower game, caused the global economic turmoil and slowed down the expected growth of the world economy. The global energy layout is undergoing a profound change, by which both of new energy and fossil energy were effected. Under the background of "carbon neutrality and carbon peaking" ("Dual Carbon") , more and more countries, organizations and leading energy companies accelerated their progress on transformation and upgrading, and boosted new energy layout; leading oil field services (the "OFS") providers also took actions successively to open a new era of green, low-carbon and sustainable development.

In 2022, China overcame the impact of the Pandemic, and the economy development had an amazing performance generally with a GDP of RMB120 trillion, entering into a new phase. Energy companies of China insisted on conducting business by themselves, and major breakthroughs and discoveries had been made in the oil and gas exploration, which maintained the strategic focus. The Report to the 20th National Congress of the Communist Party of China gave a new blueprint for the development of new energy system of China, which is the action guideline to the transformation and upgrading for the energy industry. With the rapid development of the clean energy industry, China is leading the world in terms of the development of the non-fossil energy from tidal power stations to Carbon Capture, Utilization and Storage ("CCUS") projects with million tonnes capacity, and has advanced further to the completion of the world's largest clean energy corridor.

Under such profound reformation in the industry, the Group analyzed the situation, adjusted the strategy, reset the market position and set the development goals. By seizing the favourable opportunity brought by the transformation of energy structure and supportive policies, the Group tackled difficulties, sought breakthroughs to ensure the overall improved operating performance. In response to the opportunities and challenges, the Group took the following specific measures:

Firstly, the Group deepened efforts to broaden sources of income while reducing expenditure, reduce costs while increasing efficiency, and continued to improve management efficiency. The Group has set up specific plans for implementation and facilitated the steady and effective implementation of its plan steadily to promote the quality development of the Company. Through organization reconstruction and application of new technologies, the Group was able to realize the flat and delicacy management and to explore its potential and improve the efficiency to maintain stability. The Group strengthened the control over the projects during operation, managed the budgets generally and managed costs delicately to ensure the achievement of anticipated goals. The Group is committed to continuously enhancing its ability to resist risks and maintain sustainable development. The Group cuts costs and increases profits, enhance economic efficiency and improve construction efficiency to cope with changes in the external environment, thus ensuring the sustainability and development of the enterprise. In consideration of the requirement of the corporate governance, the Group also further improved the risk control and management mechanism and enhanced the internal control and governance level as well as awareness of risk control.

Chairman's Statement

Secondly, the Group continued to implement the strategy of "technology-driven development". Through various channels such as independent research and development, technology introduction and integration of technology resources, the Group continued to promote the development and enhancement of its technological capabilities and developed a series of new technological solutions. During the Reporting Year, the Group's efforts in the development and introduction of new technologies and techniques in the areas of oil reservoir, drilling, completion, workover and fracturing provided a guarantee for the growth of the Group's production value and efficiency.

Thirdly, the Group continued to develop regional markets and actively explore emerging markets with customer demand as the guiding principle. In the face of fierce competition in the oil services industry, optimisation of capital expenditure structure by customers, low service prices and the adverse impact caused by the recurring Pandemic, the Group continued to adopt a business strategy of "led by technology, early deployment", continuously consolidated and deepened business partnerships in regional markets and continued to optimise the presence in the overseas markets. Against the backdrop of accelerated energy transformation by our customers, the Group continued to integrate its advantageous resources, enhance its business layout, promote the expansion of emerging markets and low-carbon projects from the strategic perspective of diversified industrial construction, promote the synergistic development of our traditional business and new energy business and achieve a decisive breakthrough.

Fourthly, the Group continued to do a good job in the normalisation of epidemic prevention and control as well as emergency preparedness to ensure normal production order, production efficiency and staff safety under the Pandemic. The Pandemic prevention and control team of the Group strictly enforced China's control policies, closely monitored overseas epidemic developments and adjusted epidemic prevention strategies in a timely manner to effectively ensure production efficiency, operational efficiency and the safety of employees' lives and health.

Fifthly, the Group strictly fulfilled its environmental, social and governance ("ESG") responsibilities and integrated ESG and sustainable development concepts into its strategies and operations by setting up a reasonable and effective ESG risk management and internal control system. In terms of human resources, the Group developed a pool of talents, optimised the talent structure in accordance with its strategy; and we also enhanced and improved our performance management system; kept optimising our global human resources business system. The Group established a sunshine platform and a clean platform, with a focus on the development and growth of our employees and creation of a first-class management team.

During the Reporting Year, the oil services industry gradually entered an upward cycle as global investment in oil services increased. Despite the difficulties faced by the oil services industry as a whole, the Group worked hard together to combat the Pandemic, stabilise production, expand the market, seek innovation and seek transformation. It firmly grasped the upward trend of the industry and enhanced its core competitiveness.

Chairman's Statement

PROSPECTS

Currently, growth of major economic entities in the world is slow, and the demand for oil is gradually recovering and coming out of the haze of the Pandemic. The global oil supply in 2023 may increase or slow down under the circumstances of "small steps" in investment of oil and gas, decrease in supply from Russia, continuous reduction output in OPEC and slow increase production in the United States. It is expected that the market will continue to maintain at a tight balance situation.

China's economic growth has obvious comparative advantages in terms of potential space and room for development; the fundamentals sustaining its long-term growth have remained and still performed as a positive role in global economy as growth engines. It is expected that China will play a leading role in global increasing demand of petroleum in 2023 with the recovery in China's petroleum consumption as usual. We believe that the world economy's vitality will be restored, and the recovery of consumption demand in China will certainly inject strong impetus into the world after removing the restrictions of Pandemic.

The British Petroleum (the "BP") World Energy Outlook 2023 (the "Outlook") emphasizes that fossil energy will continue to play an important role in the energy mix, and energy safety and economy should also be considered in accelerating the transition to green and low-carbon development. The Outlook points out that the natural decline in production from existing oil and gas production sites signifies continuous upstream investment in oil and natural gas in the next thirty years. BP expects that oil demand will start to decline in the next decade, but will continue to play an important role in the global energy system in the next fifteen to twenty years. Nevertheless, it is imperative for all countries to accelerate green and low-carbon development in 2023, whether in line with the global trend of accelerating the response to climate change, or in response to the shortage of energy supply and accelerating the process of economic recovery, it is imperative for all countries to accelerate green and low-carbon development in 2023.

As an oil and gas company, we are more fully aware of the signification of carbon emission reduction and incorporate it into the strategic overall planning, and throughout the whole process of investment and operation decision-making, business structure adjustment and optimization, and production and operation arrangement. The Group actively responded to the national call. Based on the long-term development of the enterprise, proceeded with the industrial layout of CCUS from the strategic height of diversified industrial construction, the Group established the industrial transformation plan and work objectives. After a long period of efforts and exploration, the Group established a platform for technology information integration and resource sharing with the top scientific research institutes in China's CCUS industry, and quickly built up the management advantage of production-education-research-practice integration. Leveraging on its complete technical system, excellent technical strength and high-level operation ability, the Company won the bid for the one-million-tonne CCUS project in early 2023, which achieved ground zero breakthrough in the market in this field. The customers' high recognition of the Group's competence and reputation in the CCUS field has opened up a new prospect for the Group to achieve new breakthroughs in this field. In the future, the Group will take the realization of green and low-carbon development as its specific actions and measures to actively and steadily reduce carbon emissions; and design the development path in the field of new energy to realize transformation steadily by the transition of production mode.

Chairman's Statement

In terms of traditional business expansion, the Group is committed to strengthening the expansion of oilfield block projects. At the beginning of the year, the Group and its partner were jointly awarded the exploration and development rights of the Jabung Tengah block in Indonesia for a period of thirty years. The block covers an area of more than 8,000 square kilometers, and the region is generally rich in oil and gas, with an optimistic prospect. As a major breakthrough achievement of the Group, it is promising to change the survival and development ecology of enterprises in a relatively short period of time and become the pillar business, providing a basic guarantee for the Group's sustained and healthy development.

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. Only by steady development and perseverance will we be able to go further. We will strive to move forward with determination to achieve steady development so as to bring better return of investment to our shareholders.

Wang Guoqiang
Chairman of the Board

Management Discussion and Analysis

BUSINESS REVIEW

During the Reporting Year, the Pandemic has kept resurfacing, but the mass vaccination has led to a general reduction in severe disease and mortality rates. Given such reduction, most countries decided to change their decisions about the Pandemic. To be specific, many countries, including China, began to further loosen their epidemic prevention policies to accelerate the return to the normal running of work and life. In 2022, the global economy saw a significant slowdown in growth due to the resurgence of the Pandemic, inflationary pressures and geopolitical shocks. For the global oil and gas market, energy supply tensions emerged in many parts of the world, and the security of oil and gas supply once again attracted attention. Geopolitical events triggered a sharp rise in international oil and gas prices and violent fluctuations. To respond to the rising oil prices and the realistic need to secure energy supply, global oil companies had to adjust their capital expenditures on exploration and extraction, thus driving the gradual recovery of industry prosperity. To this end, the oil services industry ushered in a steady development stage. Meanwhile, the oil services industry is still facing a complex market pattern and fierce market competition against the background of energy structural change.

In the face of the severe challenges and complex industry situation brought about by the resurgence of the Pandemic in 2022, the Group faced up to the difficulties and sought breakthroughs, and seized opportunities to promote its development. Eliminating the adverse impact of the internal and external environment, the Group fully leveraged its strengths to combat risks, ensuring its steady operation. During the Reporting Year, the Group continued to improve its revenue and profit level, recording revenue of RMB1,757.2 million, an increase of RMB168.4 million or 10.6% over last year; and profit for the Reporting Year of RMB7.5 million, an increase of RMB3.3 million or 78.6% over last year. The Group continued to integrate its advantageous resources, enhance its business layout, promote the expansion of emerging markets and low-carbon projects from the strategic perspective of diversified industrial construction, promote the synergistic development of our traditional business and new energy business and achieve a decisive breakthrough. The Group has always adopted a prudent financial policy and adhered to its asset-light operating strategy, achieving sustained year-on-year growth in results, fully demonstrating the Group’s strong risk-resilience, operational flexibility and sustainable development capability.

Management Discussion and Analysis

REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,757.2 million, representing an increase of RMB168.4 million or 10.6% as compared to previous year. The analysis of the Group's revenue by business segment is as follows:

	For the year ended 31 December		
	2022	2021	Change
	RMB'000	*RMB'000*	*(%)*
Revenue			
Reservoir	**692,350**	693,965	(0.2%)
Drilling	**500,821**	567,631	(11.8%)
Well completion	**422,255**	279,191	51.2%
Other	**141,736**	48,012	195.2%
Total	**1,757,162**	1,588,799	10.6%

During the Reporting Period, with the increase in international oil prices, the operating performance of oil companies increased significantly, capital expenditures continued to increase, the demand for oil in the oil market saw a gradual recovery, and the Group's revenue has achieved steady growth. In particular, revenue from reservoir segment accounted for 39.4% of the total revenue, representing a decrease of RMB1.6 million or 0.2% as compared to previous year. Revenue from drilling segment accounted for 28.5% of the total revenue, representing a decrease of RMB66.8 million or 11.8% as compared to previous year. Revenue from well completion segment accounted for 24.0% of the total revenue, representing an increase of RMB143.1 million or 51.2% as compared to previous year. Revenue from other segments accounted for 8.1% of the total revenue, representing an increase of RMB93.7 million or 195.2% as compared to the previous year. The revenue from reservoir segment remained basically unchanged as compared to the previous year. The slight decrease in revenue from drilling segment was mainly due to the Group' improvement in business structure, and scale-down of part of drilling businesses involving significant assets deployment. The significant increase in revenue from well completion segment was attributable to the increase in domestic and overseas well completion business and fracturing operation business.

RESERVOIR SERVICE SEGMENT

	For the year ended 31 December		
	2022	2021	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from reservoir services			
Overseas	**242,957**	240,430	1.1%
PRC	**449,393**	453,535	(0.9%)
Total	**692,350**	693,965	(0.2%)

Management Discussion and Analysis

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

During the Reporting Year, the Group's reservoir segment recorded revenue of RMB692.4 million, representing a decrease of RMB1.6 million or 0.2% as compared to previous year. In 2022, reservoir segment in China has recorded revenue of RMB449.4 million, representing a decrease of RMB4.1 million or 0.9% as compared to previous year, and accounted for 64.9% of the total revenue of reservoir segment. As for overseas reservoir segment, it recorded revenue of RMB243.0 million in 2022, representing an increase of RMB2.5 million or 1.1% as compared to previous year, and accounted for 35.1% of the total revenue of reservoir segment. The revenue from this segment remained basically unchanged compared to last year.

DRILLING SERVICE SEGMENT

	For the year ended 31 December		
	2022 *RMB'000*	2021 *RMB'000*	Change *(%)*
Revenue from drilling services			
Overseas	**248,106**	168,881	46.9%
PRC	**252,715**	398,750	(36.6%)
Total	**500,821**	567,631	(11.8%)

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 Group's drilling service segment recorded revenue of RMB500.8 million, representing a decrease of RMB66.8 million or 11.8% as compared to previous year. In 2022, drilling segment in China has recorded revenue of RMB252.7 million, representing a decrease of RMB146.0 million or 36.6% as compared to previous year, and accounted for 50.5% of the total revenue of drilling segment. Such decrease was mainly attributable to the decrease in coalbed methane drilling business in Sichuan and Chongqing, drilling fluid service and special well business in Xinjiang. As for overseas drilling segment, it recorded revenue of RMB248.1 million, representing an increase of RMB79.2 million or 46.9% as compared to previous year, and accounted for 49.5% of the total revenue of drilling segment. The growth was attributable to the increase in overseas workover operations and drilling business.

Management Discussion and Analysis

WELL COMPLETION SERVICE SEGMENT

	For the year ended 31 December		
	2022	2021	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from well completion services			
Overseas	**126,764**	111,888	13.3%
PRC	**295,491**	167,303	76.6%
Total	**422,255**	279,191	51.2%

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

During the Reporting Year, well completion service segment recorded revenue of RMB422.3 million, representing an increase of RMB143.1 million or 51.2% as compared to previous year. Among which, well completion segment in China recorded revenue of RMB295.5 million, representing an increase of RMB128.2 million or 76.6% as compared to previous year, and accounted for 70.0% of the total revenue of well completion segment. Such increase was mainly due to the increase in well completion business in Xinjiang and Sichuan-Chongqing region. In terms of overseas well completion segment, it recorded revenue of RMB126.8 million, representing an increase of RMB14.9 million or 13.3% as compared to previous year, and accounted for 30.0% of the total revenue of well completion segment. The increase was mainly due to the increase in well completion business in Indonesia and fracturing operation in Kazakhstan.

OTHER SEGMENT

	For the year ended 31 December		
	2022	2021	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from other segments			
Overseas	**44,031**	6,751	552.2%
PRC	**97,705**	41,261	136.8%
Total	**141,736**	48,012	195.2%

Currently, revenue from other segments of the Group mainly includes revenue generated from sale of natural gas and sale of quality edible alcohol.

During the Reporting Year, other segment recorded revenue of RMB141.7 million, representing an increase of RMB93.7 million or 195.2% as compared to the previous year. Among which, revenue from the Group's other segment in China amounted to RMB97.7 million, representing an increase of RMB56.4 million or 136.8% as compared to the previous year, and accounted for 68.9% of the total revenue of other segment, mainly attributable to the increase in natural gas sales business in Xinjiang. Revenue from overseas markets amounted to RMB44.0 million, representing an increase of RMB37.3 million or 552.2% as compared to the same period of previous year, and accounted for 31.1% of the total revenue of other segment, which was mainly due to the increase in sales business of edible alcohol project in Ghana, Africa.

Management Discussion and Analysis

MARKET ENVIRONMENT

During the Reporting Year, the Pandemic has exerted varying degrees of negative influence on global consumption, investment, imports and exports, resulting in a slow down of global economic growth. The turmoil throughout the world has resulted in complex and severe energy supply and demand increase at the international level. Brent and WTI crude oil futures prices showed an inverted "V" trend, with an annual amplitude of over 80%. Natural gas prices achieved the largest increase in history and many countries experienced energy crises. The tight fundamental balance in the oil market was not reversed as the Organization of Petroleum Exporting Countries ("OPEC+") entered production cut mode again to support oil prices after a record production cut ended. Global oil and gas exploration and development re-entered a ramp-up phase in 2022, driven by rising demand to address energy security concerns. It is expected that in 2023, global economic growth will slow down even when the impact of the Pandemic has been diminished. World oil demand will remain resilient and global energy supply will remain tight, with countries still placing energy security as a core issue.

At the same time, the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) reached a consensus on a green and low-carbon energy transition and energy security, and global climate cooperation entered a critical stage of implementation. In 2022, global investment in the energy transition broke a trillion dollars for the first time, with investment in renewable energy, nuclear energy, energy storage and carbon capture and storage (CCS) accounting for half of the total. International oil giants are trying to find new opportunities for future development in the energy transition and increase presence in the new energy sources.

With the recovery in crude oil prices, upstream companies have strong incentives to increase production, global oil and gas companies have increased their willingness to invest and the prosperity in the oil services industry has been driven by an increase in capital expenditure. The three largest international oil services companies also achieved improved results in 2022 and they focused on accelerating the application of digital and innovative technologies to transform the traditional energy sector, promoting the clean-up of the traditional energy sector and the efficient and stable synergistic development of the new energy sector. In 2023, as the global economy recovers, energy demand picks up and crude oil prices remain high, global oil companies are expected to take advantage of the opportunity to adjust capital expenditure on exploration and extraction and to implement plans to increase reserves and production, indicating that the oil service industry will continue to be prosperous.

OVERSEAS MARKET

The Group's overseas operations are primarily located in Kazakhstan and Turkmenistan in Central Asia, Indonesia and Singapore in Southeast Asia, Canada in North America, the Middle East and Africa. During the Reporting Year, the recurrence of the Pandemic and geopolitical conflicts led to a global economic contraction and a global energy crisis, as a result of which the pattern of energy supply and demand and the price system were affected severely. Chronic underinvestment in the traditional energy sector has led to limited growth in energy supply capacity. In October 2022, OPEC+ entered into production cut mode again after announcing an increase in production in August, with a strong willingness to limit production to protect prices. The high level of oil and gas prices has created a good market opportunity for international oil companies to improve their operating performance. During the Reporting Period, the five major international oil companies all achieved record operating results. Stimulated by high oil prices and the practical need to secure energy supply, oil companies are stepping up investment in the upstream sector to increase oil and gas production capacity and enhance supply capacity, which in turn brings more job opportunities to the oil services industry.

Management Discussion and Analysis

The Group overcame the adverse impact on the Company arising from the spread of the epidemic overseas, weathered the competitive market pressure faced by the global oil and gas industry during the transition period, and seized the opportunity period of the oil services industry rebound to make new leaps in its overseas business. In 2022, China vigorously promoted multilateral diplomacy, and the establishment and consolidation of energy cooperation relations with countries along the "Belt and Road" became a "ballast" for energy diplomacy. China and Kazakhstan were among the first countries to sign bilateral cooperation documents and to carry out in-depth cooperation on the "Belt and Road". The energy sector has always been an important component of the bilateral practical cooperation between the two countries. As a key overseas market for the Group, Kazakhstan continues to contribute significant output and profits to the Group. The political situation in Kazakhstan was turbulent in the beginning of the year, and due to the impact of the Russian-Ukrainian conflict, labour costs, overheads and other expenses in the region all rose significantly. Through measures such as increasing the settlement ratio, raising prices and efficiency, improving the completion rate of contracts and controlling cost increases, the Group effectively ensured the project profitability and the passive situation was reversed. The subsidiary Kazakhstan overcame difficulties and exceeded its output value target, laying a solid foundation for the Group's performance. As one of the first service providers entering the Turkmenistan gas market, the Turkmenistan operation has established a good brand reputation through its professional and quality technical services and has always played an important role in first-class international gas projects. During the Reporting Period, the output profit target of the Turkmenistan operation was exceeded, while the successful application of a series of new technologies laid the foundation for the next step. The overall business service quality in the Middle East has been steadily improving with high customer recognition. On the basis of maintaining the existing market, we are gradually promoting more business types, and the type of engineering services has now been gradually expanded from a single dynamic monitoring service in the early stage to a number of areas such as repair, completion and oil testing, and the order book has been steadily increased. In 2022, the Group won the bid for joint exploration and development rights of Jabung Tengah oil and gas block in Indonesia for a period of 30 years. As a major breakthrough of the Group's strategic business, it is expected to become a pillar business of the Group and provide a foundation for the Group's sustainable and healthy development. The breakthrough in the manufacturing capability of high-end completion tools at the Global R&D Centre in Singapore and the large-scale application of well completion tools are the highlights of the well completion segment in 2022. The Group is preparing for recruiting global agents to expand the market and continuously enhance the international market presence. The Group continuously produce and sell the high-end electronic pressure gauges and accessories for downhole monitoring in North America. The Ugandan Bonded Warehouse in Africa funded by us has obtained the business license from government. Oil services businesses in African markets, including South Sudan also achieved breakthrough for some projects, laying a good foundation for the further expansion of market. After a full year of production operations at the Ghana Alcohol Factory, the supply of raw materials became more adequate. Through equipment renovation, process improvement and fuel replacement and other measures, the production capacity of the alcohol production line was significantly enhanced and production costs were significantly reduced . With alcohol demand exceeding supply, higher sales prices have also been achieved.

Management Discussion and Analysis

DOMESTIC MARKET

During the Reporting Year, China's oil and gas industry maintained its strategic focus in the face of dramatic changes in the global oil and gas market, downward pressure on the world economy and the evolving world changes that have been unprecedented in a century. The report of the 20th National Congress of the Party proposed "accelerating the planning and construction of a new energy system", drawing a new blueprint for the future development of China's energy system. Chinese oil companies continued to promote the "Seven-Year Action Plan" to increase oil and gas reserves and production, and the country's oil and gas exploration and development made significant new progress – oil production returned to 200 million tonnes, making a major contribution to enhancing national energy security. In 2022, under the strong impetus of the National Energy Administration, domestic oil and gas companies continued their strategic objective of "increasing reserves and production", and capital expenditure on exploration and development continued to rise, contributing to the steady growth of domestic oil and gas production. "Under the 14th Five-Year Plan and beyond, "building a new energy system that is clean, low-carbon, safe and efficient, and improving the ability to secure energy supply" has become an important part of transforming economic development and safeguarding national energy security, guided by the goals of high-quality development and the carbon peaking and carbon neutrality ("dual carbon") strategy. China's oil and gas industry will further increase its development efforts, accelerate the construction of a new energy system, and strive to enhance its energy production and security capacity to ensure that energy supply remains firmly in its own hands and achieve a new leap forward. The domestic oilfield services market is expected to continue to grow steadily as the three major domestic oil companies' operating results increase significantly and capital expenditure continues to increase.

During the Reporting Year, oil and gas production from the Tarim Oilfield in Xinjiang reached a record high of 33.1 million tonnes, further consolidating the Tarim Oilfield's strategic position as an important energy production base in China. Xinjiang has always been one of the Group's key markets, and the Group has been developing the Xinjiang market relying on the CNPC Tarim Oilfield, Xinjiang Oilfield and Tuha Oilfield. During the Reporting Period, the Group's determination and technical strength have helped to develop the "Underground Everest" in the Shunbei Oil and Gas Field, and completed most of the pressure testing work for a "1,000-ton well". The strength, quality and efficiency of the well test were highly recognized by the client, and the Company became a priority partner in the testing of key wells and highly-difficult wells. Despite the rise in oil prices, the substantial increase in revenue and profit and the increase in investment in 2022, the customer still insisted on effective price control, implemented meticulous management, promoted cost reduction and efficiency enhancement, and changed its development mode from investment-driven operation to technology and innovation-driven operation, resulting in low engineering service prices and exceptionally fierce competition in the market. The Group seized the opportunity to expand its business, and through continuous technical innovation, tackled difficulties and identified major directions to ensure an increase in workload. During the Reporting Year, the Group's well completion business in Xinjiang continued to maintain its leading position in the region. It successfully developed and formed a series of nano oilfield chemicals under its own brand name HYBEOR®, on the basis of which it successfully developed high-performance oilfield recovery enhancement solutions such as HYSPRINGTM. This technology has filled the gap in China and will bring the Group a more stable market share in high-pressure oil and gas fields such as Tarim. With its well workover and fishing technology services, the Group continued to take a lead in the slim hole complex fishing business and open-hole dredging of ultra-long horizontal wells in the Tarim Oilfield, Shunbei Oilfield and Southwest Oil and Gas Field in China. Two of the Group's subsidiaries in Xinjiang were accredited as "Innovative Small and Medium-sized Enterprises" in the Xinjiang Uygur Autonomous Region, signifying the high professional level, strong innovation capability and great development potential of the Group.

Management Discussion and Analysis

During the Reporting Year, significant improvement has been witnessed in the Sichuan and Chongqing markets in terms of well completion business. Riding on such incremental momentum as a whole, it is our intention to keep consolidating the existing market share and exploring new markets. Among them, the wellhead project in Chongqing broke the bottleneck of the Group's wellhead business in the Sichuan and Chongqing region and laid the foundation for the development of the wellhead market in the future. The promotion of new technologies and new processes represented by re-fracturing in the fracturing stimulation project has brought about an increase in the operating profit of the Group. The secondary fracturing stimulation solution was applied in Fuling shale gas wells, producing obvious stimulation effect, and has been implemented for five well times. In respect of drilling speed-up technology, the Group integrated the existing rotary steering and other speed-up tools according to the needs of customers, and carried out relevant technical preparation and proposal demonstration, and successfully completed the operation of multiple wells.

In recent years, the Group has actively explored the business cooperation in the field of offshore oil and gas exploration and development, and has achieved great progress. The business strategy and development plan of China National Offshore Oil Corporation Limited ("CNOOC") shows that in 2023, CNOOC will implement the strategy of concurrent development of oil and gas as well as the stabilization of oil and incrementation of gas, while deepening the Bohai Sea and accelerating the South China Sea to realize an unconventional development, and actively tackling deep-seated coalbed methane. During the Reporting Year, the Group successfully renewed the tight gas block drilling service project of China United Coalbed Methane Corp. Ltd. ("CUCBM") after winning the tender for the first time since 2021. The Group completed the first deep coal seam horizontal well in the Shenfu block of CUCBM, setting a new record for CUCBM, which was highly praised by customers and was awarded the honorary title of "Zhonglian Shenfu Iron Army". The Group also assisted CUCBM to win the first prize of CNOOC's Reserve Special Award for the "Major Field Breakthrough in Deep Coal Seam Exploration in Linxing-Shenfu District, Ordos Basin" Project. The Group also stood out and was awarded as the "Outstanding Contractor of CUCBM in 2022." CUCBM has been actively implementing the 14th Five-Year Plan for CBM and the Group's seven-year plan for increasing reserves and production of coalbed methane, and planned to implement the project to increase the reserves of on-land unconventional natural gas by 10 million cubic meters, and actively promote the integration of exploration and development. By focusing on the implementation of the Shenfu Reserve Zone, it is expected that the Group will achieve development by leaps and bounds in the future. The Group will continue to promote the cooperation relationship with CUCBM, seize the opportunity to assist CUCBM to implement the strategic deployment of coalbed methane, and strive to obtain a larger share in the CNOOC land market. The Group will continue to leverage on its technological advantages and increase the promotion and application of mature technologies in Bohai Sea, such as enhanced water flooding, increased reserves and discovery of potential oil and underwater production systems. In addition, the Group further promoted deepwater/deep formation exploration, enhanced oil recovery, heavy oil/low permeability development technology research, and carried out market expansion work closely following the strategic deployment of customers to deploy in the South China Sea market.

Management Discussion and Analysis

During the Reporting Year, the Group's unconventional oil and gas and other businesses continued to achieve breakthroughs, won the bid for supporting steel wire operation technical services in terms of injection-production well completion and well killing for gas storage in Jintan, gas storage dynamic testing service in Jintan and Liuzhuang by virtue of its outstanding technical solutions and strong technologies. In 2022, the Group achieved a record of 100,000 meters of drilling footage in the Shanxi Coal Bed Methane project. The Group has recorded no accidents and a number of drilling records throughout the year, which has won many awards from the property owners. In order to actively respond to China's dual carbon targets, the Group has been actively following up and participating in a number of CCUS projects from Yulin Chemical Co. ltd, a subsidiary of National Energy Investment Group. Up to the date of this report, the Group has won the bid for the Yulin project and has made a good foundation for future work.

To sum up, in 2022, against the backdrop of the repeated Pandemic, the extremely turbulent international oil and gas market and the global energy transition, the Group achieved steady development and made breakthroughs in both domestic and overseas markets. The Group will constantly develop new technology and partnership while consolidating existing oil service markets, in a bid to improve its influence in the field of new energy, continuously explore emerging markets, and proactively seek a self-transformation path to a green and low-carbon style, as it is believed that we will eventually embrace a more sustainable and net zero future.

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

It has been three years since the Group emphasized the "technology-driven" development strategy in early 2020. During the period, the Group has been constantly promoting the development and improvement of the Group's technological capabilities, cultivating a number of technological brands and forming a series of new technological solutions by various means such as R&D, introduction and integration of technology resources. Under the context of poor pricing of traditional oil-field service and declining profits among companies in the same industry, new technologies contributed to increasing portion of the profits generated from the Group's operation. It became the key strategy of the Group to stabilize growth and promote efficiency and played an irreplaceable role in achieving the Group's operating results.

In terms of oil reservoirs, the application of nanotechnology and materials is at the forefront of oilfield recovery technology today. The Group's efforts in continuous tracking and absorbing advanced technological achievements in this field with a global approach enabled it to achieve breakthrough development in 2022 by developing and forming a series of nano-oil-field chemicals with HYBEOR® as its own brand. On this basis, the Group have successfully developed high-performance oilfield enhanced oil recovery solutions such as HYSPRINGTM, which have been successfully applied to the old post-third recovery wells of CNOOC Bohai Oilfield, as well as the production enhancement of heavy oil in Xinjiang Oilfield and an oil field in Africa. All the measures have resulted in a significant increase in the Group's production and a promising market prospect, which may become a new growth point for the Group's profit and output value in recent years. In addition, the success of non-oxidation environmental protection unplugging technology which was put into trial in 2021, solved the difficult problem of failure in injection and production in enhanced oil recovery. In 2022, it has also expanded its application in Dagang Oilfield and CNOOC Bohai Oilfield, and will continue to expand the application area. The ultra-high pressure 140MPa pressure-volume-temperature (PVT) sampler has been developed and trialed and is scheduled to be commercialized in February 2023. This technology has filled the gap in China and will bring a relatively stable market share to the Group in high-pressure oil and gas fields such as Tarim.

Management Discussion and Analysis

In terms of well workover, a good development situation has now been formed for fishing tools (one batch is being put into use, one batch is being reserved and one batch is being researched and developed). In terms of well workover and fishing technical services, the Group continued to lead the domestic slim hole complex fishing business and open-hole dredging of ultra-long horizontal wells in Tarim Oilfield, Shunbei Oilfield and Southwest Oil and Gas Field, and set a new record for the operating depth of 8,390.26m. The Group entered the African market for the first time in 2022 and will enter the Indonesian market in 2023, forming a new growth point for its international business. In the case of treatment for damaged well casings (damaged casing treatment) for shale gas block, the Group has completed the development and demonstration of comprehensive solutions for damaged casing treatment, which has been highly recognized by customers and is expected to be commercially available in the first half of 2023 in Sichuan area. Such technology targets a large number of shale gas wells with broad market, which will become a new growth point for the Group's workover business. The chemical plugging technology for casing wells lost circulation, as a supporting tool for the above damaged casing treatment plan, has been successfully applied in Changning and other oilfields for multiple wells, which solved the pressure problem of continued fracturing after plugging. In 2023, such technology will continue to be applied to various oil fields such as Dagang Oilfield, and reliable supporting will also be provided for damaged casing treatment.

In terms of well completion, the breakthrough in manufacturing capacity of high-end well completion tools of ENECAL ("Enecal PTE. Limited"), one of the Group's subsidiaries, and the large-scale application of well completion tools, are a highlight of the well completion segment in 2022. First of all, the ultra-high pressure 25,000 PSI downhole safety valve, after several years of independent research and development, trial production, testing and trial, has been mass-produced, and the products have been shipped after bulk orders obtained through bidding. In addition, the scale of manufacturing and application of conventional well completion tools has been fully upgraded. Such tools, combined with the well completion service of the Company, have been applied to oil fields in Southeast Asia, Central Asia, the Middle East and other regions. It is worth pointing out that in 2022, the Group won a three-year well completion tool and service contract for an offshore oilfield of Indonesia's national oil company through bidding against a number of world-class suppliers, marking that the Group has become an integrated solution provider in well completion tool research and development, manufacturing and technical service. These landmark developments will bring breakthrough development to SPT's well completion business.

In terms of fracturing and production increase, the Group kept integrating the secondary stimulation technology for old shale gas wells, and continued to expand the scope of application. The oilfield chemical products such as microbial nano fracturing fluid and neutral solid acid have been evaluated in Party A's laboratory with superior performance indicators. Pilot experiments will be carried out in 2023 and are able to be fully promoted when experiments succeed.

Management Discussion and Analysis

In addition to the above, cutting-edge technologies for enhanced oilfield recovery with HYBEOR® nanotechnology as a symbol, plus well completion business update marked by the upgrading of completion tool manufacturing, both made the highlights in the Group's R&D and manufacturing in 2022 and has formed a model of technology-driven business growth with R&D as the starting point. The development of other technologies has also shown a stepwise development, with the R&D and the market having mutual promotion momentum. The market is promising in the future.

HUMAN RESOURCES

Based on the Group's finalised five-year strategic plans and business objectives for 2022, the major details of the human resources work in 2022 are as follows:

1. In terms of strategic manpower allocation, based on the Group's strategic needs, on the one hand, the talent layout should be prepared in advance, and at the same time, the talent structure should be optimized according to the business and operation development;

2. Continued to adopt a compound talent recruitment and promotion system to improve comprehensive manpower efficiency;

3. Continued to push ahead with performance-oriented management system;

4. Continued to leverage the advantages of the online learning platform for the Group's training system by "management sand table course" to effectively improve the management's overall thinking of "manage people and affairs"; by "workplace efficiency improvement training camp", "Pandemic rehabilitation care course", "daily technical classes" and "high-quality new course express" and other courses to comprehensively carry out online and offline training and talent development projects. In 2022, the total participants of the Group's training sessions were 14,585, totaling 123,883 training hours cumulatively, which basically covered all business regions and project departments domestically and abroad.

5. Faced the international situation and the impact of the Pandemic, the global business system for human resources shall be continue to be optimized to ensure the safety of employees.

6. As of 31 December 2022, the Group had a total of 4,331 employees, representing a decrease of 173 employees from 4,504 employees as at 31 December 2021. The actual labour costs of the Group in 2022 were controlled within the budget range set at the beginning of this year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, revenue of the Group was RMB1,757.2 million, representing a year-on-year increase of RMB168.4 million, or 10.6%, as compared with that of RMB1,588.8 million for the previous year. The increase was mainly due to the expansion of operating activities of the Group.

Management Discussion and Analysis

Other (losses)/gains, net

For the year ended 31 December 2022, other losses, net of the Group were RMB7.6 million, as compared with other gains, net of RMB4.9 million for the previous year. The change was mainly due to the fluctuations in foreign exchange rates.

Material costs

For the year ended 31 December 2022, material costs of the Group were RMB482.8 million, representing a year-on-year increase of RMB127.9 million, or 36.0%, as compared with that of RMB354.9 million for the previous year. The increase was mainly due to the expansion of the operating activities of the Group.

Employee benefit expenses

For the year ended 31 December 2022, employee salary expenses of the Group were RMB591.9 million, representing a year-on-year increase of RMB54.9 million, or 10.2%, as compared with that of RMB537.0 million for the previous year. The increase was mainly due to the increase in staff costs resulting from expansion of the operating activities of the Group.

Short-term and low-value lease expenses

For the year ended 31 December 2022, short-term and low-value lease expenses of the Group were RMB113.6 million, representing a year-on-year increase of RMB19.5 million, or 20.7%, from RMB94.1 million for the previous year. The increase was mainly due to the expansion of the operating activities of the Group.

Transportation costs

For the year ended 31 December 2022, transportation costs of the Group were RMB28.6 million, representing a year-on-year decrease of RMB13.9 million, or 32.7%, as compared with that of RMB42.5 million for the previous year. The decrease was mainly due to the decrease in transportation rates.

Depreciation and amortisation

For the year ended 31 December 2022, depreciation and amortisation of the Group was RMB74.1 million, representing a year-on-year decrease of RMB1.1 million, or 1.5%, as compared with that of RMB75.2 million for the previous year. The decrease was mainly due to certain fixed assets becoming fully depreciated.

Technical service expenses

For the year ended 31 December 2022, technical service expenses of the Group were RMB151.7 million, representing a year-on-year decrease of RMB75.0 million, or 33.1%, as compared with that of RMB226.7 million for the previous year. The decline was mainly due to the decrease in subcontracting business.

Management Discussion and Analysis

Impairment losses of assets

For the year ended 31 December 2022, impairment losses of assets of the Group were RMB33.0 million, while the impairment losses of assets of the Group were RMB20.4 million for the previous year, representing a year-on-year increase of RMB12.6 million or 61.8%. The increase in impairment losses of assets was mainly due to the Group's more cautious consideration on provision for bad debts.

Others

For the year ended 31 December 2022, other operating costs of the Group were RMB221.1 million, representing a year-on-year increase of RMB31.6 million or 16.7%, as compared with that of RMB189.5 million for the previous year. The increase was mainly due to the increase of travel expenses and office fees as a result of the gradual recovery of overseas business and increase of manpower.

Operating profit

Based on the above reasons, operating profit of the Group during the Period was RMB52.9 million, compared with the operating profit of RMB53.4 million for the previous year.

Finance costs, net

For the year ended 31 December 2022, finance costs, net of the Group were RMB37.4 million, representing a year-on-year decrease of RMB4.6 million, or 11%, as compared with that of RMB42.0 million for the previous year. The decrease was mainly due to the decrease in interest expenses as a result of the decreased financing efforts by the Group.

Income tax expense

For the year ended 31 December 2022, income tax expense was RMB8.8 million, compared with the income tax expense of RMB7.7 million for the previous year. The increase was mainly due to the expansion of the operating activities of the Group.

Profit for the year

As a result of the explanations above, profit of the Group for the Reporting Year was RMB7.5 million, while profit for the previous year was RMB4.2 million. The increase was mainly due to the expansion of the operating activities of the Group.

Management Discussion and Analysis

Profit attributable to equity holders of the Company

For the year ended 31 December 2022, profit attributable to equity holders of the Company was RMB13.2 million, while profit attributable to equity holders of the Company for the previous year was RMB8.8 million.

Property, plant and equipment

As at 31 December 2022, the property, plant and equipment was RMB430.1 million, representing an increase of RMB27.6 million, or 6.9%, from RMB402.5 million as at 31 December 2021. The increase was mainly due to the purchase of new equipment to meet the needs of business during the Reporting Year.

Right-of-use assets

As at 31 December 2022, the carrying value of right-of-use assets amounted to RMB60.9 million, representing a decrease of RMB29.8 million, or 32.9%, from RMB90.7 million as at 31 December 2021. The decrease was mainly due to the amortisation of the right-of-use assets and the derecognition upon early termination of certain lease contracts on machinery and equipment.

Intangible assets

As at 31 December 2022, intangible assets were RMB15.9 million, representing a decrease of RMB1.5 million, or 8.6%, as compared with that of RMB17.4 million for the previous year. The decrease was mainly due to the amortisation in the current period.

Deferred income tax assets

As at 31 December 2022, deferred income tax assets were RMB115.3 million, representing a decrease of RMB1.4 million, or 1.2%, from RMB116.7 million as at 31 December 2021.

Prepayments and other receivables

As at 31 December 2022, non-current portion of prepayments and other receivables was RMB0.3 million, representing a decrease of RMB5.0 million, or 94.3%, from RMB5.3 million as at 31 December 2021. The decrease was mainly due to the recognition of the equipment purchased by the Group. Current portion of prepayments and other receivables was RMB208.6 million, representing a decrease of RMB5.4 million, or 2.5%, from RMB214.0 million as at 31 December 2021. The decrease was mainly due to the recovery of part of other receivables for disposal of equipment by the Group.

Inventories

As at 31 December 2022, inventories were RMB556.7 million, representing an increase of RMB49.4 million, or 9.7%, from RMB507.3 million as at 31 December 2021. The increase was mainly due to the expansion of the operating activities of the Group.

Management Discussion and Analysis

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

As at 31 December 2022, contract assets, trade and note receivables were RMB1,172.1 million, representing an increase of RMB142.8 million, or 13.9%, from RMB1,029.3 million as at 31 December 2021. The increase was mainly due to the increase in revenue during the Reporting Year. As at 31 December 2022, contract liabilities, trade and note payables amounted to RMB787.2 million, representing an increase of RMB69.1 million, or 9.6%, from RMB718.1 million as at 31 December 2021. The increase was mainly due to the expansion of the operating activities of the Group.

Liquidity and capital resources

As at 31 December 2022, cash and bank deposits of the Group, comprising cash and cash equivalents and restricted bank deposits, were RMB294.7 million, representing a decrease of RMB94.1 million, or 24.2%, from RMB388.8 million as at 31 December 2021. The decrease was mainly due to the expansion of the operating activities of the Group and the purchase of equipment and materials to meet business needs.

As at 31 December 2022, short-term borrowings and current portion of long-term borrowings of the Group were RMB499.5 million while the long-term borrowings were RMB43.0 million. As at 31 December 2021, short-term borrowings and current portion of long-term borrowings of the Group were RMB352.8 million while the long-term borrowings were RMB225.1 million. As at 31 December 2022, 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 2022, current lease liabilities of the Group amounted to RMB11.4 million and non-current lease liabilities amounted to RMB16.6 million. As at 31 December 2021, current lease liabilities of the Group amounted to RMB28.2 million and non-current lease liabilities amounted to RMB35.8 million.

As at 31 December 2022, gearing ratio of the Group was 46.6%, representing a decrease of 6.6% as compared with 53.2% as at 31 December 2021. 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 2022, the total number of ordinary shares of the Company in issue was 1,853,775,999.0 shares (31 December 2021: 1,853,775,999.0 shares). As at 31 December 2022, equity attributable to the equity holders of the Company was RMB1,234.8 million, representing an increase of RMB41.3 million, or 3.5%, as compared with RMB1,193.5 million as at 31 December 2021.

Significant investment held

As at 31 December 2022, the Group did not hold any significant investment.

Management Discussion and Analysis

Acquisitions and disposals of subsidiaries and associates

During the Reporting Year, QUINTUS OIL & GAS PTE. LTD (as buyer), a subsidiary of the Group, entered into a purchase and sales agreement with SLAMET HARTANTO (as vendor) to acquire 95% equity interest in PT CIPTA NIAGA GEMILANG ("CNG") at a cash consideration of IDR29,428,800,000. Pursuant to the agreement, the acquisition of CNG was completed in September 2022 and CNG became a subsidiary of the Group, and its financial results are consolidated into the financial statements of the Group accordingly.

Save for the aforementioned investments, the Company had no other significant investments, nor had any material acquisitions and disposals of subsidiaries and associates.

Assets pledged to secure bank borrowings

As at 31 December 2022, the Group pledged parts of its right-of-use assets and trade and note receivables to secure the bank borrowings of the Group. The carrying values of assets pledged are as follows:

	As at 31 December 2022 ***RMB' 000***	As at 31 December 2021 *RMB' 000*
Right-of-use assets	**3,509**	3,873
Trade and note receivables	**146,760**	461,500

Assets pledged to secure the loans from a third party institution

Loans from a third party financial institution of the Group are expiring from 2022 to 2023 and are secured by certain machinery with a carrying amount of RMB160,255,000 (2021: RMB93,051,000), and guaranteed by one subsidiary of the Group.

Foreign exchange risk

Fluctuations in exchange rates of USD have exposed the Group to foreign currency exchange risk. Currently, the Group mainly operates in the PRC, Kazakhstan, Singapore, Canada and Indonesia. Certain sales to and purchases from overseas are denominated in USD. On average, the exchange rate of USD against RMB increased by 4.3% in 2022 as compared with last year, but such movement did not have a significant impact on the overall business of the Group. However, as a result of the impact of exchange rate changes above, the Group reflected a translation gain of RMB29.5 million in other comprehensive income.

Management Discussion and Analysis

Contingent liabilities

As at 31 December 2022, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2022, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2022, the Group had capital expenditure commitments of RMB112.9 million, while operating leases were mainly lease of offices, warehouses and equipment and amounted to RMB37.1 million.

OUR PLANS

In 2023, with the optimization of global epidemic prevention and control measures, the outlook for oil demand will be much brighter. In response to the tight energy supply and acceleration of economic recovery process, it is imperative for countries around the world to accelerate green and low-carbon development. In order to adapt to new trends, face new opportunities and cope with new challenges, the Group will actively adjust its direction, change its ideas and continue to focus its efforts on the following areas in 2023:

1. The Group will seize the profound reform in the global energy market, the continuous advancement of energy transformation and the national call for the planning and construction of a system for new energy source, the enhancement of the resource production and support capacities to ensure that energy supply remains firmly in its own hands. Customers' demand for promoting the development of high-end, intelligent and low-carbon industry chain will be focused by expanding overseas markets, exploring emerging markets and laying out strategic markets, based on the development of domestic market. While continuing to carry out technological innovation on traditional business to achieve emission reduction and decarbonization, the Group will promote the strategic transformation of the Group's business and expand into new areas in energy with its own advantages as a breakthrough, and to develop extensive cooperation to promote new energy business as the new growth engine of the Group as soon as possible.

2. The Group will continue to adhere to the long-term strategy of "technology leading the development of enterprises and innovation driving the bright future". Technological innovation is a momentum for development, while quality and efficiency improvement is fuel for development. The Group will continue to utilize cutting-edge and advanced technical solutions to satisfy customers' increasing service and emission reduction requirements by empowering sustainable development with technological innovation. The Group will attach great importance to individual technological innovation and the improvement of capability to provide oil and gas companies with full business process of centralized, integrated and comprehensive energy technology service solutions in the process of energy transformation. The Group will continue to promote the participation in projects and technologies to effectively enhance market competitiveness, thereby enhancing the market position of the Group.

Management Discussion and Analysis

3. The Group will continue to innovate corporate management ideology, to develop accurate self-development direction for improving the level of management, the business layout, and the ability to resist risks. The Group will continue to actively implement refined management, promote project management, integrate resources to increase quality and efficiency while reducing expenditure and costs, thereby improving profitability. By strengthening the coordination of production organization, the Group carried out the practice of management and business model innovation to enhance core competitiveness and strengthen personalized development. Through the establishment of a comprehensive risk management and control mechanism and a cost management and control system, the Group will ensure the safety level of cash flow, enhance the flexibility of operation and the ability to resist risks.

4. The Group will continuously forge an echelon of exceptionals comprising high-end technical talents as well as various market talents, with an aim to build a team of talents with high comprehensive quality, extreme professional level and ability to operate international projects. Relying on major technology projects, the Group accelerates the cultivation of innovative teams and leading talents. The Group will continue to recommend outstanding technical innovation talents as project leaders to stimulate the innovation vitality of technical personnel; continue to promote the construction of performance management system, create a platform with transparency and fairness, continue to care for the health of employees, inspire employees' enthusiasm, display their capabilities and realize self-worth.

5. The Group will continue to establish a long-term ESG management mechanism to integrate ESG into corporate decision-making and operations. The Group will build a sound internal and external environment for the development of the Group by enhancing its corporate governance capabilities, information disclosure capabilities and social communication capabilities, while fulfilling its social responsibilities for green and low-carbon development.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 60, 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 38 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 51, 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 31 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 in February 2006.

Li Qiang (李強), aged 47, is an executive Director and chief financial officer of the Company. He is primarily responsible for internal monitoring affairs of the Group including planning and operations, capital operation and information disclosure. Mr. Li has 25 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), specializing 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 51, has been an executive Director of the Company since 26 March 2019, and was re-designated as a non-executive Director since 8 December 2020. Since October 2021, He has been a deputy president and chief finance officer of Baoshihua Home Investment Management Company Limited* (寶石花家園投資管理有限公司). He served as the senior vice president of the Company to assist the chief executive officer of the Company to expand the strategic blueprint and explore new markets and new businesses from 25 September 2018 to 8 December 2020. 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 has served as the vice chairman of Enterprise Financial Management Association of China since 8 August 2020. 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 59, 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. From September 2016 to 3 August 2022, 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) from 20 July 2020 to 29 August 2022. 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 a master's degree in the Business Administration School of National University of Singapore in October 2000.

Directors' and Senior Management's Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wu Kwok Keung Andrew (胡國強), aged 69, 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. Currently, he is a member of the Hong Kong Institute of Certified Public Accountants.

Zhang Yujuan (張渝涓), aged 49, 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.

Ma Xiaohu (馬小虎), aged 60, has been an independent non-executive Director of the Company since 10 June 2022 and a member of the Audit Committee of the Company. Mr. Ma has over 35 years of experience in the legal industry, specialising in commercial disputes and arbitration, PRC equity transactions, venture capital, private equity investment, PRC domestic and overseas investment, real estate development and financing. He has been a senior partner of Beijing Huizhong Law Firm since July 2019. Prior to that, he worked at Morrison & Foerster from July 1994 to June 2019 where his last position was a partner. Mr. Ma also worked as a professional lawyer at China Legal Affairs Center and China Legal Service (H.K.) Ltd., all under the Ministry of Justice of the PRC from September 1987 to June 1994. Mr. Ma obtained a bachelor's degree and a master's degree in laws from Peking University in 1984 and 1987, respectively.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Liu Dongqin (劉東勤), aged 53, has been the vice president of the Group since 15 January 2020, mainly in charge of the Group's marketing and operation management system. 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 approximately 30 years of experience in the petroleum industry. He served as the director of the Drilling Technology Institute (鑽井工藝室) and the director of the Drilling Institute (鑽井所) under Drilling Technology Institute, PetroChina North China Oilfield (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 42, has been the vice president of the Group since June 2018, in charge of the Group's management system, human resources system, management information system 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 60, has been the vice president of the Group since November 2019, fully in charge of the management of Sichuan-Chongqing region, the Indonesia operation and the drilling plant of the Group. Mr. Luo has more than 30 years of experience in the petroleum industry internationally and domestically. 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 57, 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. Mr. Zhao has more than 30 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 55, has been the vice president of the Group since May 2018, primarily being responsible for the business in the Middle East and the factory in Singapore of the Group. Mr. Gao has more than 20 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 64, 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 30 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) Company (中油國際中亞公司) and the deputy general manager of CNPC International (Aketobin) Company from February 2017 to January 2019.

Chen Jian (陳劍), aged 47, has been the vice president of the Group since September 2022, mainly in charge of investment and financing work and in charge of the development of new energy business of the Group. Ms. Chen joined the Group in 2009 and held the positions of finance manager, deputy financial controller, investment and finance director and investor relations 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. (康明斯發動機(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.

Li Xiaopeng (李曉鵬), aged 49, has been the vice president of the Group since January 2022, mainly in charge of businesses in African Region and PPS China, and the implementation of key overseas markets and projects. Mr. Li joined the Group in 1999 and held the positions of customer management of president office, former deputy manager of marketing department of west part of the Company and director of Urumqi Office, general manager of South Caspian Region and general manager of Turkmenistan Branch, deputy general manager of the companies of the Group in Central Asia, director of Group's marketing and expansion. He has extensive experience in market expansion and management with over 15 years of management experience in overseas companies.

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 2022.

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 2022 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 11 to 28 of this annual report. No important events affecting the Group have occurred since the end of the financial year ended 31 December 2022. 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

As a responsible listed company, the Group adheres to the development concept of "Green and Low-carbon". We always attach great importance to environmental protection by implementing energy conservation and emission reduction management throughout the process, and facilitates the efficient utilization of resources with focus on protection of ecology and natural resources, striving to realize green development and build an environment-friendly enterprise, so as to establish a brand image of green and environmentally friendly enterprise.

1. Environmental protection objective

Clean water and lush mountains are natural resources that require our joint endeavors. Our Group adheres to the green development concept, with the environmental protection policy of "Respect for Nature and Care for Environment" and taking environmental protection as the inherent responsibility for our Company, to strictly control the emission of all kinds of pollutions, promoting energy conservation and emission reduction and optimizing the use of resource, so as to reduce waste emissions and the negative impact of our operations on the environment.

The Group curbed incidents of environmental pollution and ecological destruction and had no major events in respect of environmental violations resulting in lawsuits or corresponding penalties during the reporting period, achieving the target of "zero" environmental incidents.

Report of the Directors

2. Fulfilling the responsibilities of environmental protection

The Group strictly abides by the Law on Energy Conservation of the People's Republic of China and other laws and regulations, while eliminating energy waste. We strive for implementation of energy conservation and emission reduction during the process of project implementation and daily operation through cultural publicity, administrative management, technological transformation and other methods.

Through entering into the Letter of Responsibilities for Environmental Assessment in 2022, 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 inspections on regular basis, whereby environmental protection responsibilities were effectively fulfilled.

The Group promotes business and technology innovation for trying to reduce the waste of resources while enhancing the recycling of resources and utilization of new energy. In addition to management of project construction and measures of energy conservation and technological transformation, the Group publicizes and implements environmental protection culture among its employees in daily work, so as to strengthen employees' awareness of environmental protection and build an operation concept of clean production to promote the green operation of the Company. The Group advocates all employees to carry out energy-saving and emission reduction practices to fulfill green and sustainable operations by making environmental protection bulletin board, putting up and hanging environmental protection slogans, pushing articles related to green operation on WeChat public account and holding environmental protection cultural activities, etc.

Moreover, the Group requests its employees to form an awareness of environmental protection and carry out energy conservation and emission reduction. We encourage green travel among our employees, encouraging them to commute by gas or electric bus; request our employees to make full use of consumptions and recycle waste paper and other materials. We pursue a green office by putting up reminder of energy and water conservation in our office and project sites, conducting various energy conservation and environmental protection publicity activities periodically and setting up energy saving publicity board and other measures. The Group continues to carry out digital transformation for daily office and business operation, providing Cloud-Hub APP for both PC and mobile devices to achieve paperless office.

Report of the Directors

3. Environmental management system

The Group actively promotes the development of the environmental management system and strictly complies with the PRC national laws and local regulations such as the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Waste, the Noise Pollution Prevention and Control Law of the People's Republic of China, as well as the relevant national environmental laws and regulations where the projects are located, and actively builds and improves the energy-saving and environmental protection 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.

The Group effectively manages the waste water, waste gas, solid waste and noise generated in the operation process through engineering management, equipment and technology transformation and environmental protection promotion and other means to ensure compliance with emissions and green operations related regulations. In order to prevent random disposal of waste, the Group has adopted a series of strict engineering management measures. In terms of dust pollution prevention, the Group conducts semi-enclosed management of construction sites to reduce the risk of dust emission. In terms of water pollution, the Group treats the generated sewage and discharges it into designated areas or urban pipelines after reaching the discharge standards. In terms of noise pollution, the Group requires to avoid construction at night or during normal rest times as much as possible, and take effective sound insulation measures according to the actual situation to minimize the interference and impact on nearby residents. In respect of hazardous waste management, the Group have set up the management system, management ledgers and emergency plans. We collect such materials in a unified manner, and entrust its treatment to qualified disposal plants. In respect of non-hazardous waste management, the Group collect and process such waste generated from production and operation in a unified manner.

4. Application of environmental technology

The Group continues to expand the application of environmental protection technology. In the production, construction and operation process, we consistently keep implementing the energy-saving and emission-reduction philosophy, promoting new materials, processes, technologies and equipment to eliminate outdated processes and equipment, and effectively improving energy efficiency. We also reduce our consumption of water by replacing fresh water with reclaimed water and rainwater, recycling the water used in production, using water-saving appliances, inspecting and maintaining the water supply system and other measures. The Group is committed to the technical transformation of equipment and facilities, so as to control dust dispersion and noise pollution at the source and to reduce emissions of waste through the application of innovative technologies.

Report of the Directors

5. Green operational requirements of clients and respective regions

Implementing the concept of green engineering and environmental protection, the Group integrates the green strategy into various segments of production and operation. In terms of project design, construction and procurement, according to the climatic conditions and landform characteristics such as temperature and humidity of the project area, we carefully designed energy-saving and environment-friendly process schemes for engineering projects in different geographical locations, with energy-saving engineering facilities. Based on the absorption of foreign advanced technology and summarizing the practical experience of the same type of business at home and abroad, we tailor-made engineering projects that are most in line with the green design concept for our customers to minimize the impact on the environment from its production and operation activities to achieve green production, so as 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 2022, due to the continuous impact of the Pandemic, the global consumption, investment, imports and exports all faced with negative shocks to varying degrees, resulting in the slow growth of global economy. Regional turbulence caused the complex and severe situation in supply and demand of international resources. The world economy continues to recover unevenly for a period of time, and downside risks cannot be ignored. Oil supply and demand remain in a tight balance with greater uncertainty, and extreme weather, geopolitics or black swan events may trigger significant volatility in the international oil market. In addition, the global energy transition is accelerating towards green and low-carbon energy, and the proportion of investment in upstream exploration and development of oil and gas in the traditional energy sector is gradually decreasing, which will have a negative impact on the oilfield service industry, and may bring certain negative effects to the Group's domestic and overseas business.

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.

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

In the domestic market, due to the characteristic of oil and gas market in the PRC, the Group mainly provides services to CNPC and its affiliates. 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 2021 and 2022, revenue generated from CNPC and its affiliates accounted for 72.3% and 69.5% 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 conducted case by case on a fair basis.

Report of the Directors

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 2022, 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 2022 are set out in the consolidated income statement on page 97 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2022 (for the year ended 31 December 2021: nil).

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 2022, purchases from the Group's five largest suppliers accounted for 27.9% (2021: 28.7%) of the Group's total purchases and purchases from the largest supplier accounted for 14.4% (2021: 18.6%).

For the year ended 31 December 2022, the Group's sales to its five largest customers accounted for 56.4% (2021: 55.4%) of the Group's total sales and sales to the largest customer accounted for 27.8% (2021: 37.0%).

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.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2022 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 47 to 51 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 2022 or subsisted at the end of the year 2022.

RESERVES

Details of movements in the reserves of the Company during the Reporting Year are set out from pages 99 to 100 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2022, reserves available for distribution of the Company, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,263.1 million (as at 31 December 2021: RMB1,263.1 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2022 are set out in Note 16 to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2022 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
Ms. Chen Chunhua

Independent non-executive Directors:

Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming (Resigned on 31 December 2022)
Mr. Ma Xiaohu (Appointed on 10 June 2022)

In accordance with Article 108 of the Articles of Association of the Company (the "Articles of Association"), Mr. Ethan Wu, Mr. Wu Kwok Keung Andrew and Mr. Li Qiang 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 29 to 33 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.

Report of the Directors

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 2022.

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

The related party transactions of the Group for the year ended 31 December 2022 are detailed in Note 30 to the consolidated financial statements, and the transactions thereunder are also the connected transactions/continuing connected transactions under Chapter 14A of the Listing Rules. The Company has confirmed that it had complied with the disclosure requirements in Chapter 14A of the Listing Rules.

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 2022.

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 2022 are set out in Note 21 to the consolidated financial statements.

Report of the Directors

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 21 and Note 32 to the consolidated financial statements.

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

As at 31 December 2022, 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 (the "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)	2,500,000 (L)	0.13%
Mr. Wu Kwok Keung Andrew	Beneficial owner (Note 3)	2,500,000 (L)	0.13%
Mr. Li Qiang	Beneficial owner (Note 3)	11,000,000 (L)	0.59%
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%

Report of the Directors

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. 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.

Save as disclosed above, as at 31 December 2022, 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 2022 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 corporates.

Report of the Directors

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

As at 31 December 2022, 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)	7.57%
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 (Note 3)	Trustee	651,484,000 (L)	35.14%
Greenwoods Asset Management Hong Kong Limited (Note 4)	Interest of controlled corporation	119,000,000 (L)	6.42%
Jiang Jinzhi (Note 4)	Interest of controlled corporation	119,000,000 (L)	6.42%
Invest Partner Group Limited (Note 4)	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 and Truepath Trust which are discretionary trusts holding the shares in the Company on trust for Elegant Eagle Investments Limited and Red Velvet Holdings 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 and Truepath 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 2022, 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 2022, 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 2022.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2022, 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 2022, 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 as set out in Note 30 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.

Report of the Directors

SHARE OPTION SCHEME

The Company adopted a share option scheme on 1 December 2011 (the "Existing Share Option Scheme"), which will be expired on the tenth anniversary of its adoption. To enable the Company to continue to grant share options to eligible participants as incentives or rewards for their contributions to the success of the Group, the shareholders at the annual general meeting held on 10 June 2021 had resolved to terminate the Existing Share Option Scheme and a new share option scheme (the "New Share Option Scheme") has been adopted.

As at 31 December 2022, 221,817,666 share options under the Existing Share Option Scheme remain outstanding and exercisable. No options can be granted under the Existing Share Option Scheme upon its expiration, but all options granted previously will remain exercisable in accordance with the Existing Share Option Scheme.

1. Purpose

The New Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules. The purpose of the New Share Option Scheme is to enable the Group to grant share options to selected Eligible Participants (as defined below) as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity").

2. Participants

The Board may, at its absolute discretion, offer to grant an option to the following persons (collectively the "Eligible Participants") to subscribe for such number of new shares as the Board may determine:

(a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, or any of its subsidiaries or Invested Entities;

(b) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entities; and

(c) any other person (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) 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 maximum number of shares in respect of which options may be granted under the New Share Option Scheme shall not in aggregate exceed 10% of the issued share capital of the Company as at the annual general meeting held on 10 June 2022 (i.e. a total of 185,377,599 shares).

Report of the Directors

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 New 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 New 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 7 days inclusive of the day on which such offer was made. The amount payable by the grantee 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 New Share Option Scheme shall be a price solely determined by the Board and notified to the 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 options.

9. Life of the New Share Option Scheme

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 10 June 2021, subject to the early termination provisions contained in the New Share Option Scheme. Since 31 December 2022, the remaining life of the New Share Option Scheme is approximately 8 years and 5 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 New Share Option Scheme does not exceed 10% of the issued share capital of the Company as at the annual general meeting held on 10 June 2021. The Company may at any time refresh such limit, subject to the issuance of a circular and the shareholder's approval 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.

Report of the Directors

Movements of the share options under the Company's Existing Share Option Scheme during the year ended 31 December 2022 are as follows:

	Number of share options								
Grantees	Outstanding as at 1 January 2022	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2022	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	0	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. Wu Kwok Keung Andrew	1,000,000 (Note 2)	–	–	–	1,000,000	0	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	0	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

Report of the Directors

Grantees	Outstanding as at 1 January 2022	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2022	Date of grant	Date of expiry	Exercise price per share
	Number of share options								
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
Employees	5,196,000 (Note 1)	–	–	–	5,196,000	0	20/02/2012	19/02/2022	HK$1.292
	333,334 (Note 2)	–	–	–	333,334	0	29/03/2012	28/03/2022	HK$1.360
	26,090,000 (Note 3)	–	–	–	4,920,000	21,170,000	13/06/2013	12/06/2023	HK$4.694
	82,267,666 (Note 4)	–	–	–	600,000	81,667,666	31/08/2016	30/08/2026	HK$0.490
	49,300,000 (Note 5)	–	–	–	–	49,300,000	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	**235,435,000**	**–**	**–**	**–**	**13,617,334**	**221,817,666**			

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 2022 under the Existing Share Option Scheme and the New Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2022, the Group has not made any charity or 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 2022.

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 53 to 69 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 2022.

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, 23 March 2023

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 the 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.

During the year ended 31 December 2022 (the "Year"), the Group has complied with all provisions of the CG Code. In December 2021, the Stock Exchange published the conclusions to its consultation on "Review of Corporate Governance Code and Associated Listing Rules". The amended Listing Rules and new CG Code have come into effect on 1 January 2022, and regulations thereunder will be applicable to the Corporate Governance Report for the financial year beginning on or after 1 January 2022. Most of the new requirements under the amended CG Code are the same as the corporate governance practices adopted by the Company over the years. The Company has complied all new requirements and updated certain existing requirements, and certain new requirements have been adopted and implemented, including but not limited to updating the Board Diversity Policy, Dividend Policy, Nomination Policy for directors and shareholders' communication policy; adoption and implementation of anti-corruption and complaints policy, setting up the Board's independence assessment mechanism, etc., to reflect the relevant new requirements. The provisions under the updated CG Code will be fully complied in the 2023 annual report of the Company. the Company will continue to review and improve its corporate governance practices to ensure the compliance with the CG Code.

CORPORATE CULTURE AND STRATEGY

The Company is a provider of comprehensive oilfield service, which is committed to solving various problems arising from exploring and developing petroleum and natural gas via advanced technology and high-quality tools and products in order to enhance the efficiency and reduce the production costs. Meanwhile, we are making in transitioning toward a pathway of renewable energy business. We are fully aware that the stakeholders are enormously important to the Board and the Group as a whole, pursuing the provision of high-quality and reliable products, services and solutions, and continue to create value for the stakeholders through sustainable growth and development. The core values set out by the Board of the Company will give guidance for the ethics and behaviors of employees, business and activities, ensuring that these values are intertwined with our vision, mission, policy and business strategy of the Company:

(1) cultural identity: the whole employees will jointly fulfill the greater missions entrusted to them by the times;

(2) integrity and honesty: to build a transparent, well-regulated and fair platform with mutual trust;

(3) consistent goal: to fully align with the strategy of the Group to achieve goals;

(4) efficient execution: to take pride in achieving performance goals;

(5) reform with strong commitment: to unite as one to build industry benchmark with ability to resist industry risks and driving force for sustainable development.

Corporate Governance Report

The Group will continue to review, and where necessary, make adjustment to its business strategy, and closely follow up the evolving market conditions to ensure that the measures will be taken quickly and actively to respond to the changes and meet market demand, so as to promote the sustainable development of the Group.

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. Ma Xiaohu. 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 43 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.

During the year of 2022, 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 brings the fairly strong independence elements in its compositions.

Corporate Governance Report

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	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 (Resigned on 31 December 2022)	Independent Non-executive Director	√	√
Mr. Ma Xiaohu (Appointed on 10 June 2022)	Independent Non-executive Director	√	√

Corporate Governance Report

Chairman and Chief Executive Officer

Under the code provision C.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 2022 annual general meeting on 10 June 2022 (the "2022 AGM"), Mr. Wang Guoqiang, Mr. Wu Jiwei and Mr. Wan Kah Ming 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 2023 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 notices 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 (the 2022 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	4/4	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 (Resigned on 31 December 2022)	4/4	1/1
Mr. Ma Xiaohu (Appointed on 10 June 2022)	3/3	0/0

During the Reporting Year, the Chairman of the Company held a meeting with the independent non-executive Directors without the presence of other Directors.

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 Company has a system in place which can ensure the Board has access to independent viewpoints and opinions. This system includes regular closed meetings between the Chairman of the Board and the independent non-executive Directors. The Board reviews the system annually and considers such system effective and adequate.

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.

Anti-Corruption Policy

The anti-corruption policy has been adopted by the Group on 24 March 2022. The system is formulated in order to maintain the integrity and dedication of all employees of the Group, prevent and eliminate the fraud to protect the interests of the Company and individuals from infringement. The Group is committed to maintaining a high standard of integrity and ethical business conduct, and expects and encourages its employees and those with business dealings with the Group to report any suspected impropriety, misconduct or malpractice within the Company. Any convictions will be reported to the Board and the Audit Committee.

Anti-corruption policies are regularly reviewed and updated to comply with applicable laws, regulations and industry best practices.

Corporate Governance Report

Whistleblowing Policy

The whistleblowing policy has been adopted by the Group on 24 March 2022. The whistleblowing policy aims to foster ethical conduct and good corporate governance in the Group, so as to prevent employees from neglecting their duties, engaging in malpractice for personal gains, or abusing their powers by taking advantage of their position to abuse their power in violation of the Group's management system. Any convictions will be reported to the Board and the Audit Committee.

For the year ended 31 December 2022, no incidents of fraud or misconduct that had a significant impact on the financial statements or the entire operations of the Group were identified. The Audit Committee reviews the whistleblowing policy annually to ensure its effectiveness.

The Board's Independence Assessment Mechanism

On 25 August 2022, the Group has adopted a policy on the independence assessment mechanism of the Board (the "Board Independence Assessment Mechanism"). The Board's Independence Assessment Mechanism is established to ensure the strong independence of the Board of the Group, so that it can provide independent and objective monitoring on strategic issues and performance matters, and continuously improve and develop the processes and procedures of the Board and its committees. The Board will review the implementation and effectiveness of the mechanism annually.

For the year ended 31 December 2022, the Company has received an annual confirmation of independence from each of the independent non-executive Directors and the Company considers such independent non-executive Directors to be independent pursuant to rule 3.13 of the Listing Rules.

During the year ended 31 December 2022, the Board reviewed the implementation and effectiveness of the Board Independence Assessment Mechanism and the results were satisfying.

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.

Corporate Governance Report

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 24 March 2022 and 8 December 2022 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.

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.

Corporate Governance Report

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.

Board and Employee Diversity

Board-level

In accordance with the Board Diversity Policy, when reviewing and assessing the qualification of appropriate candidates as the director of the Company, the Nomination Committee will consider from diversity perspectives and take reference to the business mode and special needs of the Company, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The appointment of all Board members 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 Nomination Committee will review the policy from time to time as appropriate to ensure that the policy is effectively executed.

For the year ended 31 December 2022, the Board currently comprises of 6 male members and 2 female members. The Nomination Committee is of the view that the Board has sufficient diversity of gender, therefore the Board did not set any measurable goals. The Group also reviewed the members, structure and composition of the Board and believes that the Board's structure is reasonable; all members of the Board have made contributions 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; and the non-executive Directors and independent non-executive Directors are experts in the areas of corporate operation, investment, law and financial management.

Employee-level

For the year ended 31 December 2022, the Group has 8 senior management members, of which six are male, accounting for 75% of the senior management; and two are female, accounting for 25% of the senior management.

For the year ended 31 December 2022, the Group has a total of 4,331 employees, of which 3,433 are male, accounting for 79.27% of the total number of employees; and 898 are female, accounting for 20.73% of the total number of employees.

The Company ensures that the recruitment and selection of personnel at all levels are conducted in accordance with appropriate framework procedures to attract candidates with diverse backgrounds for the Group's engagement. The Group plans to cultivate employees with a broader and more diverse background as well as rich work experience and skills, with a view to promote them to senior management and directorships over time.

Corporate Governance Report

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 24 March 2022 and 8 December 2022 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.

Details of the remuneration by band of the 8 members of the senior management of the Group, whose biographies are set out on pages 32 to 33 of this annual report, for the Reporting Year are set out below:

Remuneration band (RMB)	Number of individual
0 – 500,000	1
500,001 – 1,000,000	3
1,000,001 – 1,500,000	3
1,500,001 – 2,000,000	1

Corporate Governance Report

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. Ma Xiaohu. 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;
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and
- To review the Environmental, Social and Governance Report and disclosures therein.

During the Year, three meetings of the Audit Committee were held on 24 March 2022, 25 August 2022 and 8 December 2022 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 (Resigned on 31 December 2022)	3/3
Mr. Ma Xiaohu (Appointed on 8 December 2022)	1/1

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 written terms of reference is available on the websites of the Company and the Stock Exchange.

As at 24 March 2022, 25 August 2022 and 8 December 2022, the Audit Committee met with the external auditor and discussed matters relating to audit and internal control.

Corporate Governance Report

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 2022 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 2022, 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 risk management work plan and internal audit plans and carried out risk assessment of the overall operations of the Group after taking into account on various factors including changes in organisational structure and new market business expansion. 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 Group enhances overall risk control and 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.

The risk management department reports to the Audit Committee on issues revealed during the audit at least twice each year 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.

Corporate Governance Report

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 five areas including strategies, finance, market, operation and legal compliance 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 have been reported to the Board via the Audit Committee and have 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 2022, which covers the areas including strategies, finance, market, operations and legal compliance. 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 risk management and internal control.

Corporate Governance Report

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.

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 2022, fees of RMB4.65 million were paid or payable to the Company's auditor, PricewaterhouseCoopers, for their audit services rendered. No non-audit services are rendered by PricewaterhouseCoopers for the reporting period.

COMPANY SECRETARY

The Company has appointed Lai Siu Kuen ("Ms. Lai ") as its company secretary. Ms. Lai is a director of the corporate services department of Tricor Services Limited and is in close collaboration and connection with Mr. Li Qiang, an executive director and the chief financial officer of the Company. For the year ended 31 December 2022, Ms. Lai has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rule.

Corporate Governance Report

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. In order to develop and maintain an on-going relationship between the Company and Shareholders, the Company has established a range of channels of communication such that Shareholders may express their views on various matters affecting the Company, and the Company may solicit and understand the views of the Shareholders and the Company's stakeholders, such channels including annual general meetings, annual reports, interim reports, announcements, notices of meetings, circulars and proxy forms. The Company also encourage the shareholders to direct any queries about their shareholdings, share registration and related matters to the share registrar of the Company at the relevant time and at any time make a request for the Company's information to the extent that such information is publicly available.

The annual general meeting (the "AGM") of the Company provides an 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.

The notice of AGM will be distributed to all shareholders at least 20 clear business days prior to the AGM. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of Directors. Details of the proposed resolutions will be contained, where necessary, in circulars of the Company. The chairman of the AGM shall exercise his/her power under the Articles of Association to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll will be explained at the meeting. Poll results will be posted on the websites of the Company and the Stock Exchange after the meeting.

A shareholders' communication policy was adopted pursuant to CG Code which aims at building a meaningful dialogue and two-way interaction with shareholders. Moreover, active approaches have been taken to ensure such dialogue and feedback is being considered in the Board's decisions. The Board understands that the shareholder's ownership enables them to elect responsible directors. The implementation and effectiveness of a shareholders' communication policy is subject to Board's review on a regular basis and is subject to amendment as and when appropriate to ensure its effectiveness. The shareholders' communication policy will be reviewed from time to time, but at least once a year, by the Board. 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. A dedicated Investor Relations section is available on the Company's website on which information relating the Group is updated on a regular basis. Information relating to the Group that has been disclosed on the Stock Exchange will also be published on the Company's website thereafter so as to ensure that Shareholders and potential investors can gain timely access to such information.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

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

All resolutions put forward at general 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 general meeting. At the 2022 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.

Corporate Governance Report

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 2022, there is no significant change in constitutional documents of the Company.

The PRC, 23 March 2023

Environmental, Social and Governance Report

I. ABOUT THIS REPORT

SPT Energy Group Inc. (Stock Code: 01251) hereby presents the Environmental, Social and Governance Report 2022 (the "Report") of the Company and its subsidiaries (collectively, the "Group" or "SPT Energy" hereafter) to demonstrate the concepts and practices of the Company in environmental, social and governance ("ESG") 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 2022 to 31 December 2022.

(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;
- "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 Group's stakeholders consist of governments, investors, customers, employees, suppliers, partners, media and community. The Group has established a diversified communication mechanism for different stakeholders, to understand their expectations and respond to their concerns. The communication mechanism includes: site visit and survey, accepting supervision and inspection, reporting daily management, convening conference, executing contracts, visiting customers, staff training, staff activity, performance management, bidding and tendering, appraisal and investigation, negotiation, communication and interview and enterprises publicity, etc.

III. QHSE MANAGEMENT

In 2022, member companies of the Group were compliant with the requirements of laws and regulations, in particular, each of Beijing Huayou Youqi (北京華油油氣公司) and Beijing Huayou Xianfeng (北京華油先鋒公司) obtained the approval for the extension of QHSE certification, Shaanxi Huayou (陝西華油公司) obtained the recertification of the work safety permit(安全生產許可證) and Sinopetroleum Technology Inc. passed the recertification audit of the work safety permit for offshore(海上作業安全生產許可證).

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" and "Standardisation Law of the People's Republic of China", and other relevant laws and regulations of the country where the operation is located to ensure that the product and technology service quality is within control, and was certified by 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

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, which is beneficial for the Group to enhance its brand value.

As of 31 December 2022, 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 received any complaints or charges.

The Group has formulated and strictly implemented the Regulation on Trade Secrets which safeguards privacy and information security and employees have to enter into 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 strictly abides by the Environmental Protection Law of the People's Republic of China, the Law on Energy Conservation of the People's Republic of China and other environmental laws and regulations in the countries where it operates, while reducing the impact of its course of business on the species diversity and ecosystem.

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 including 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*

As to 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 waste recycling 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, the Group aims at reducing the emission of greenhouse gas and its major measures 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 emission of greenhouse gas has been reduced.

	Index	**Year ended 31 December 2022**	Year ended 31 December 2021	change
Major Emissions	Nitrogen oxide (kg)	**7,180.2**	5,811.7	1,368.5
	Sulphur oxide (kg)	**42.0**	36.8	5.2
	Particulates (kg)	**687.0**	557.6	129.4

	Index	**Year ended 31 December 2022**	Year ended 31 December 2021	change
Greenhouse Gas Emissions	Carbon dioxide (kg)	**3,449,501.0**	3,605,438.9	(155,937.9)
	Carbon dioxide equivalent in methane (kg)	**1.4**	1.6	(0.2)
	Carbon dioxide equivalent in nitrous oxide (kg)	**89.6**	100.8	(11.2)
	Gross greenhouse gas emissions (kg)	**3,449,592.0**	3,605,541.3	(155,949.3)
	Greenhouse gas emissions per million yuan of revenue (kg/RMB million)	**1,963.2**	2,269.4	(306.2)

Environmental, Social and Governance Report

	Index	Year ended 31 December 2022	Year ended 31 December 2021	change
Non-Hazardous Wastes	Domestic wastes (tonne)	**1,066.2**	1,045.5	20.7
	Domestic wastes discharge per million yuan of revenue (tonne/RMB million)	**0.6**	0.7	(0.1)
	Domestic wastewater (tonne)	**36,831.8**	33,122.0	3,709.8
	Domestic wastewater discharge per million yuan of revenue (tonne/RMB million)	**21.0**	20.8	0.2

3.2.2 Resources Conservation

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

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 procurement, green workplace, green energy consumption and green travel.

As to production operations, the Group advocates for water recycling and saving while raising staff's awareness of water, and the equipment is not allowed to have water dripping and leakage. As of 31 December 2022, there was no wastage of water resources.

Environmental, Social and Governance Report

	Index		Year ended 31 December 2022	Year ended 31 December 2021	change
Energy Consumption	Electricity (kwh)		5,434,580.5	5,678,532.7	(243,952.2)
	Electricity consumption per million yuan of revenue (kwh/RMB million)		3,092.8	3,574.1	(481.3)
	Gas (m^3)		389,915.7	438,724.0	(48,808.3)
	Gas consumption per million yuan of revenue (m^3/RMB million)		221.9	276.4	(54.5)
	Oil (m^3)	Diesel	2,323.4	1,882.3	441.1
		Gasoline	289.1	409.7	(120.6)
		Engine oil	110.8	79.8	31.0
	Oil consumption per million yuan of revenue (m^3/RMB million)		1.55	1.5	0.05
	Paper (piece)		882,633.0	1,155,010.0	(272,377.0)
	Paper consumption per million yuan of revenue (piece/RMB million)		502.3	727.0	(224.7)

	Index	Year ended 31 December 2022	Year ended 31 December 2021	change
Water Consumption	Water consumption for production (m^3)	211,155.0	119,672.3	91,482.7
	Water consumption for production per million yuan of revenue (m^3/RMB million)	120.2	75.3	44.9
	Water consumption for domestic and office use (m^3)	34,481.2	32,909.8	1,571.4
	Water consumption for domestic and office use per million yuan of revenue (m^3/RMB million)	19.6	20.7	(1.1)

	Index	Year ended 31 December 2022	Year ended 31 December 2021	change
Packaging Material Consumption	Cartons (kg)	2,968.7	2,100.0	868.7

Environmental, Social and Governance Report

3.2.3 Environment and Climate Change

Through measures such as using clean energy, increasing the operation efficiency, the Group is able to reduce energy use and greenhouse gas emissions, so as to actively respond to the issue of climate change. As of 31 December 2022, the emission of carbon dioxide, methane and nitrous oxide decreased by 155,937.9kg, 0.2kg and 11.2kg, respectively. The total greenhouse gas emissions decreased by 155,949.3kg, greenhouse gas emissions per million yuan of revenue decreased by 306.2kg; in terms of energy, electricity consumption decreased by 243,952.2kwh, natural gas consumption decreased by 48,808.3m^3, gasoline consumption decreased by 120.6m^3; in terms of resources, paper waste reduced by 272,377pieces.

Environmental, Social and Governance Report

3.3 Occupational Health and Safety Management

3.3.1 Pandemic Prevention and Control

In 2022, the Pandemic situation at home and abroad was still complex and severe. In order to continue to normalize epidemic prevention and control, the Group released daily Pandemic statistics; actively cooperated with the government and relevant departments in screening people with overlapping spatial-temporal trajectories; paid close attention to changes in the overseas Pandemic situation; and strengthened the management of business trip approval, so as to ensure the life and health of all employees.

The Group resolutely implemented the epidemic prevention and control policies and satisfied the requirements of the Group and its customers in all projects domestically and overseas, and strictly controlled the epidemic prevention and control work. While it was difficult for front line operators to change shifts due to the epidemic, we strived to achieve both epidemic prevention and production by ensuring the safety, stability and orderly progress of various works while building a strong line of defense against the epidemic.

3.3.2 Revision and Release of Safety Management System

(1) In order to strengthen the management of contractors, clarify the safety management of relevant parties such as engineering construction, outsourcing inspection and maintenance and business contractors, effectively control and reduce the safety risks in the operation process, and prevent accidents of personal injury and property loss, the Company formulates the Contractor Safety Management System and Assessment Measures.

(2) In order to further strengthen the functions of the resident representatives, enhance the supervision and management of the production process of the drilling team, the Company formulates the Management Measures for the Resident Representatives based on the actual situation.

(3) In order to strengthen the management of production safety, regulate the safety behaviors of employees (including employees of contractors and subcontractors) to avoid and eliminate the occurrence of production safety accidents, the Company formulates the Eight Prohibitions on Safety Production of The Group by reference to the relevant content in relation to safety production bans and red lines (life-preserving clauses) of other domestic and overseas oil and gas enterprises, on the basis of the actual business development of the Group.

Environmental, Social and Governance Report

3.3.3 Safety Training and Education

In order to standardize safety training and education and improve employees' safety awareness and production safety skills, the Group organizes three-level safety education and training for new employees, regularly carries out targeted trainings covering well control management, emergency management, operating procedures, accident cases, etc. Special operation personnel are required to take up their posts after obtaining certificates on completing trainings and examinations.

With an aim to encourage self-learning awareness of employees and continuously enrich safety knowledge so as to improve the safety management level of the Group, through the Group's online learning platform, the Safety Commission Office produces and publishes safety training courses on a weekly basis for all employees of the Group to learn and empower safety awareness.

3.3.4 Major Safety Inspection on the Group

During the summer and winter safety inspections of the Group, domestic and foreign inspection teams are established. The domestic inspection teams are led by the Group's safety director to carry out comprehensive inspections, and the foreign inspection teams are led by regional security directors to organize inspections. Such inspections are carried out in three stages: self-inspection by each project department, random inspection by the Group's safety inspection leading group, followed by summary and commentary.

For the safety hazards identified during the inspection, the person responsible for the rectification and the rectification measures are identified 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 "Safety Violation Penalty Notice" will be given. Through carrying out routine safety inspections, the Group ensures its safety production objectives are met.

Environmental, Social and Governance Report

3.3.5 Carry out Safety Year Activities, with the Theme of "I Can Keep Me Safe"

In 2022, the safety committee of the Group, focused on improving emergency drill capabilities and "Personal Health Protection for Epidemic Prevention and Control", and carried out activities with the theme of "I Can Keep Me Safe". Through a series of activities, all employees of the Group have become practitioners of "I Can Keep Me Safe", in order to facilitate the realization of the annual business objectives of the Group. Major activities adopted include:

(1) Signing the Safe Production Commitment Letter for all employees;

(2) Organizing regional discussions and compiling the requirements and practices on how to meet "I Can Keep Me Safe" in the process of safe production and epidemic prevention and control;

(3) Providing safety trainings for personnel in key positions;

(4) Conducting risks identification;

(5) Carrying out emergency drills to improve practical capability.

3.3.6 Carrying Out Emergency Drills to Improve Practical Capabilities

In order to improve practical capability against emergencies, to ensure timely and orderly emergency rescue in the state of emergency, to prevent the situation from escalating, and to minimize the casualties, property losses and environmental damage, the Group requires each project department to organize a comprehensive emergency plan drill or a special emergency plan drill at least once a year, and on-site disposal plan drill at least once every six months, including emergency drills for blowout prevention, prevention of hydrogen sulfide, fire accidents, traffic accidents, etc. The frequency of the said emergency drill for each project department to conduct according to the actual situation shall not be lower than the aforementioned.

3.3.7 Work Injury Statistics

Number of deaths due to work in the past three years (2022 inclusive)	0
Percentage of deaths due to work in the past three years (2022 inclusive)	0
Number of work days lost due to work-related injuries in 2022	90

Environmental, Social and Governance Report

IV. EMPLOYEES' RIGHTS AND INTERESTS

4.1 Legal Employment

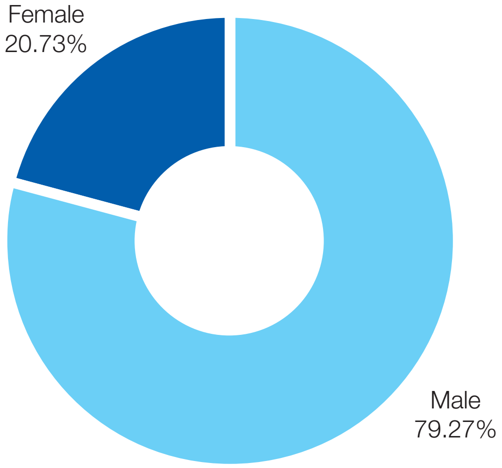
The Group complies with the state laws and local laws in relation to recruitment. These laws and regulations include: the Labour Law of the People's Republic of China, the Employment Contract Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Minors, the Provisions on the Prohibition of Using Child Labour, the Provisions on Special Protection of Minors and the Labour Law of the Republic of Kazakhstan, etc. The Group undertakes not to use forced labour, pledged labour (including bonded labour), indentured labour or non-voluntary prison labour and not to be involved in slavery nor labour trafficking. All work must be performed voluntarily and employees have the right to leave or terminate its employment contract immediately. No employment condition should require any employees to hand in any personal identification, passport or VISA issued by the government. No expenses other than those required to be charged under relevant laws and regulations should be charged to the employees and the charges must be disclosed publicly. Child labour is strictly prohibited at any stage of production or manufacturing. Wages paid to employees shall comply with the labour laws applicable to the places of employment and wage payment receipts must be issued to employees in the form of wage slip or other similar papers in a timely manner. No brutal or inhumane action and any threat of the following actions can be taken against the employees, including any form of sexual harassment, sexual abuse, physical punishment, mental or physical oppression or verbal abuse. The human resources department of the Group requires applicants to present valid ID documentation upon recruitment and carries out background checks as appropriate based on the information provided. As of 31 December 2022, the Group had no labour disputes or any non-compliance with laws and regulations relating to child labour or forced labour.

Environmental, Social and Governance Report

As of 31 December 2022, the employee structure and number of separations of the Group are as follows:

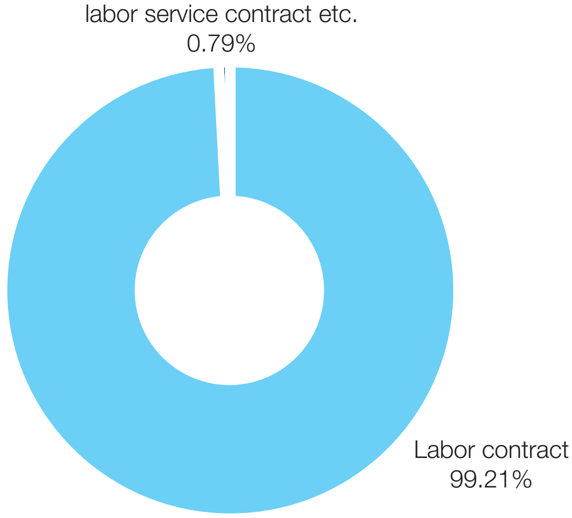
Total workforce by gender, employment type, age group and region (number of employees at the beginning of the period: 4,504 number of employees at the end of the period: 4,331)

Gender



	Number of employees
Male	3,433
Female	898
Total	4,331

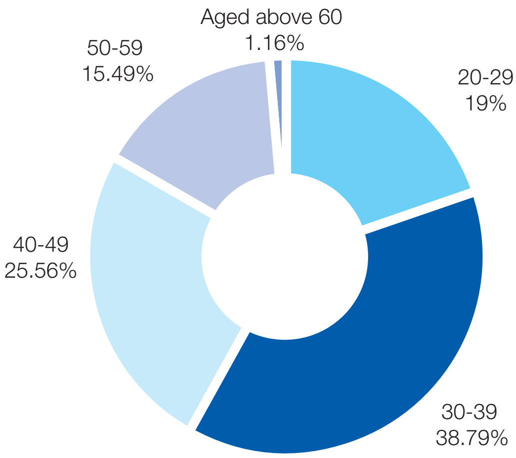
Employment Type



	Number of employees
Labor contract	4,297
labor service contract etc.	34
Total	4,331

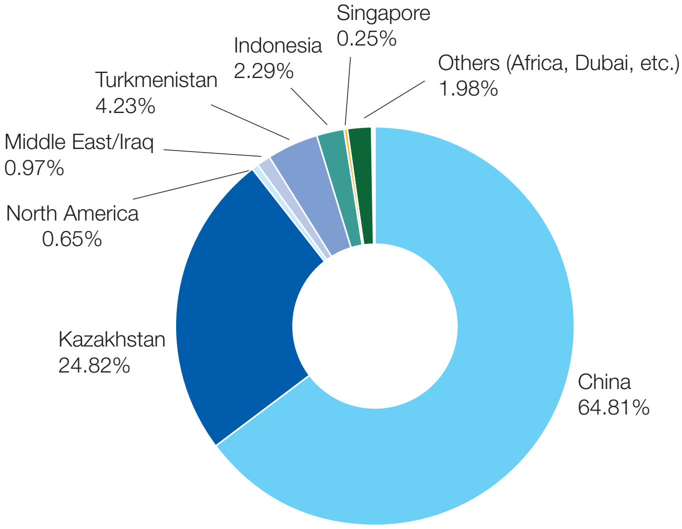
Environmental, Social and Governance Report

Age Group



	Number of employees
20-29	823
30-39	1,680
40-49	1,107
50-59	671
Aged above 60	50
	Total 4,331

Region

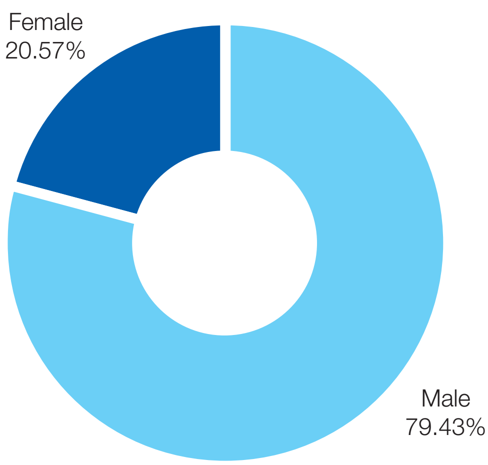


	Number of employees
China	2,807
Kazakhstan	1,075
North America	28
Middle East/Iraq	42
Turkmenistan	183
Indonesia	99
Singapore	11
Others (Africa, Dubai, etc.)	86
	Total 4,331

Environmental, Social and Governance Report

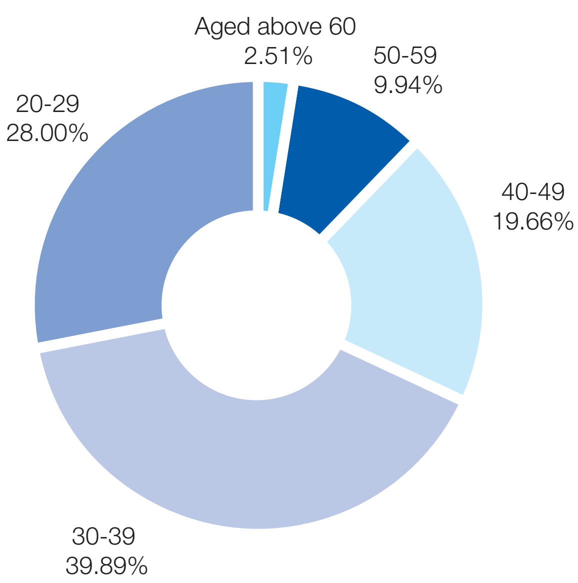
Employee turnover rate by gender, age group and region (turnover rate= number of separations at the current period/(number of employees at the end of the period+ number of separations at the current period))

Gender



Employee turnover rate by gender	
Male	16.84%
Female	16.70%

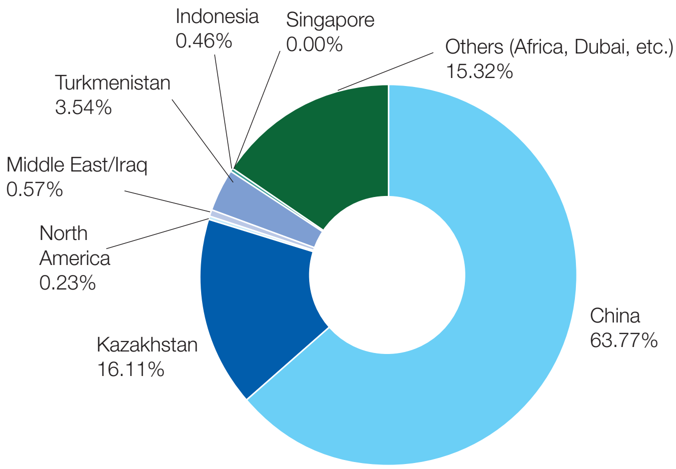
Age group



Employee turnover rate by age group	
Aged above 60	30.56%
50-59	11.48%
40-49	13.45%
30-39	17.20%
20-29	22.94%

Environmental, Social and Governance Report

Region



	Employee turnover rate by region
China	16.58%
Kazakhstan	11.60%
North America	6.67%
Middle East/Iraq	10.64%
Turkmenistan	14.49%
Indonesia	3.88%
Singapore	0.00%
Others (Africa, Dubai, etc.)	60.91%

4.2 Development and Training

Based on the Group's relatively sound and complete training system, in 2022, we will be committed to further developing the construction of talent training system and course system; focusing on giving full play to the advantages of the online learning platform system and completing various online training programs related to, among others, management, technology, project, operation, safety and orientation training for new employees in line with the requirements of Pandemic control. The Group also carries out online and offline "Management Sand Table Course" (經營沙盤課程) for the management of companies in all regions of the Group to effectively improve the overall thinking of "Manage People and Affairs" (管人理事) of regional companies at management level; by "Workplace Efficiency Improvement Training Camp" (職場效能提升訓練營), "Pandemic Rehabilitation Care Course" (疫情康復關懷課程), "Daily Technical Classes" (技術每日益課) and "High-quality New Course Express" (精品新課速遞) and other courses to comprehensively carry out online and offline training and talent development projects.

From January to December 2022, attendance in the training reached 14,585 and the training covered all business regions and project departments domestically and abroad with 123,883 training hours cumulatively.

4.2.1 Online Training Programs

In order to accelerate the training of talents, the Group launched 22 "New Employee Learning Path"(新員工學習路徑), 32 "New Lesson Express"(新課速遞) and 43 "Lesson of the Day"(每日益課).

4.2.2 Offline Training Programs

To stay in line with the requirements of epidemic control, the Group continued to carry out 2 "New Employee Training"; 10 "Training on Efficiency Improvement of Various Functional Departments" at the headquarters; 3 "Management Training Camp"-Goal-directed Management Simulation Trainings for managers at headquarters and regional companies. New employees, technical training and safety training in all regions of the regiment were conducted in an orderly manner according to the regional business development.

Environmental, Social and Governance Report

V. RESPONSIBILITIES 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.

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.

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 services entity, 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 2022, the number of suppliers by region of the Group is as follows:

Year	Total number of suppliers for the year from January to December	Overseas region	In China	Distribution of major cities in China				
				Xinjiang	Sichuan and Chongqing	Beijing	Tianjin	Others
2022	955	489	466	115	73	65	61	152

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 2022, there were no incidents of corruption, bribery, extortion, fraud or money laundering.

Environmental, Social and Governance Report

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.

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 also conducts off-office auditing on regional company heads, department heads and other personnel with economic responsibilities. 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, Rules for Handling Employee Violations and Risk Management Requirements Regarding the Appointment of Senior Management.

The Group has put forward a code of conduct for the management team and lifted a ban as "Eight Prohibitions". Also, the Group actively promoted corruption-free and integrity campaign and regularly provide related trainings, aiming to improve the integrity awareness of all employees and their ability to identify fraud, ultimately preventing the occurrence of fraud.

5.3 Social Responsibility

In the process of providing oil-field technical services, 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.

Independent Auditor's Report

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"), which are set out on pages 95 to 180, comprise:

- the consolidated balance sheet as at 31 December 2022;
- 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 significant accounting policies and other explanatory information.

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 2022, 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.

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Independent Auditor's Report

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)

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 People's Republic of China (the "PRC") region

- Provision for inventories

Independent Auditor's Report

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)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the carrying amounts of machinery and equipment in the PRC region 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 2022, the carrying amount of machinery and equipment in the PRC region amounted to RMB196 million. During the year ended 31 December 2022, 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.	In addressing this matter, we performed the following procedures: • 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.

Independent Auditor's Report

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)

Key Audit Matter	How our audit addressed the Key Audit Matter
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 2022 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 have identified this as a key audit matter.	• 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; (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 key estimates and assumptions used in the management's 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.
(incorporated in the Cayman Islands with limited liability)

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 2022, the carrying amount of inventories amounted to RMB557 million, which was stated net of a provision of RMB80 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 2022 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 have identified this as a key audit matter.	In addressing this matter, we 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 key estimates and assumptions used in the management's assessment of provision for inventories were supported by available evidence.

Independent Auditor's Report

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)

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

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)

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.

Independent Auditor's Report

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)

- 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 Hon Chong Heng.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2023

Consolidated Balance Sheet

		As at 31 December	
	Note	**2022** ***RMB'000***	2021 *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	*6*	**430,071**	402,533
Right-of-use assets	*7*	**60,890**	90,731
Intangible assets	*8*	**15,875**	17,384
Investments in an associate	*9(b)*	**3,472**	2,840
Deferred income tax assets	*19*	**115,301**	116,674
Financial assets at fair value through other comprehensive income	*3.3(i)*	**8,368**	11,688
Other non-current assets	*9(a)(i)*	**16,145**	–
Prepayments and other receivables	*12*	**324**	5,338
		650,446	647,188
Current assets			
Inventories	*10*	**556,669**	507,280
Contract assets	*5*	**32,731**	30,096
Trade and note receivables	*11*	**1,139,377**	999,247
Prepayments and other receivables	*12*	**208,610**	214,029
Restricted bank deposits	*13*	**17,189**	29,434
Cash and cash equivalents	*13*	**277,536**	359,415
		2,232,112	2,139,501
Total assets		**2,882,558**	2,786,689
Equity			
Equity attributable to the Company's equity holders			
Share capital	*14*	**1,178**	1,178
Share premium		**848,026**	848,026
Other reserves	*15*	**335,409**	332,812
Currency translation differences		**(525,073)**	(554,995)
Retained earnings		**575,241**	566,485
		1,234,781	1,193,506
Non-controlling interests		**(9,677)**	12,134
Total equity		**1,225,104**	1,205,640

Consolidated Balance Sheet

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*16*	**43,035**	225,099
Non-current lease liabilities	*7*	**16,618**	35,807
Deferred income tax liabilities	*19*	**25,792**	25,991
		85,445	286,897
Current liabilities			
Borrowings	*16*	**375,295**	292,903
Current portion of long-term borrowings	*16*	**124,253**	59,889
Contract liabilities	*5*	**53,460**	44,776
Trade and note payables	*17*	**733,759**	673,355
Accruals and other payables	*18*	**218,990**	144,195
Current income tax liabilities		**54,809**	50,842
Current portion of lease liabilities	*7*	**11,443**	28,192
		1,572,009	1,294,152
Total liabilities		**1,657,454**	1,581,049
Total equity and liabilities		**2,882,558**	2,786,689

The accompanying notes on pages 102 to 180 are an integral part of these consolidated financial statements.

The financial statements on pages 95 to 180 were approved by the Board of Directors on 23 March 2023 and were signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Consolidated Income Statement

		Year ended 31 December	
	Note	**2022** **RMB'000**	2021 RMB'000
Revenue	*5*	**1,757,162**	1,588,799
Other (losses)/gains, net	*20*	**(7,640)**	4,895
Operating costs			
Material costs		**(482,754)**	(354,883)
Employee benefit expenses	*21*	**(591,885)**	(537,018)
Short-term and low-value lease expenses	*7*	**(113,575)**	(94,055)
Transportation costs		**(28,572)**	(42,502)
Depreciation and amortisation	*22*	**(74,074)**	(75,237)
Technical service expenses		**(151,736)**	(226,672)
Net impairment losses of financial and contract assets	*3*	**(28,349)**	(10,282)
Impairment losses of inventories and prepayments	*10,12*	**(4,640)**	(10,141)
Others		**(221,069)**	(189,506)
		(1,696,654)	(1,540,296)
Operating profit		**52,868**	53,398
Finance income	*23*	**642**	721
Finance costs	*23*	**(38,083)**	(42,714)
Finance costs, net		**(37,441)**	(41,993)
Share of net profit of an associate accounted for using the equity method		**819**	470
Profit before income tax		**16,246**	11,875
Income tax expense	*24*	**(8,789)**	(7,688)
Profit for the year		**7,457**	4,187
Attributable to:			
Owners of the Company		**13,241**	8,795
Non-controlling interests		**(5,784)**	(4,608)
		7,457	4,187
Earnings per share for the profit attributable to the owners of the Company (RMB)			
Basic earnings per share	*26*	**0.007**	0.005
Diluted earnings per share	*26*	**0.007**	0.005

The accompanying notes on pages 102 to 180 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

		Year ended 31 December	
	Note	**2022**	2021
		RMB'000	*RMB'000*
Profit for the year		**7,457**	4,187
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**(33,772)**	(8,719)
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**63,282**	(16,752)
Changes in fair value of equity investments at fair value through other comprehensive income		**(3,319)**	(4,030)
Total comprehensive income/(loss) for the year		**33,648**	(25,314)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**39,844**	(21,306)
Non-controlling interests		**(6,196)**	(4,008)
		33,648	(25,314)
Total comprehensive income/(loss) for the year		**33,648**	(25,314)

The accompanying notes on pages 102 to 180 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 2022		1,178	848,026	332,812	(554,995)	566,485	1,193,506	12,134	1,205,640
Comprehensive income/(loss)									
Profit/(Loss) for the year		–	–	–	–	13,241	13,241	(5,784)	7,457
Other comprehensive (loss)/income		–	–	(3,319)	29,922	–	26,603	(412)	26,191
Total comprehensive (loss)/income		–	–	(3,319)	29,922	13,241	39,844	(6,196)	33,648
Transactions with owners in their capacity as owners									
Transfer to statutory reserves	*15(c)*	–	–	4,485	–	(4,485)	–	–	–
Non-controlling interests on acquisition of subsidiary		–	–	–	–	–	–	688	688
Transaction with non-controlling interests	*30(a)*	–	–	1,431	–	–	1,431	(16,303)	(14,872)
Transactions with owners in their capacity as owners		–	–	5,916	–	(4,485)	1,431	(15,615)	(14,184)
Balance as at 31 December 2022		1,178	848,026	335,409	(525,073)	575,241	1,234,781	(9,677)	1,225,104

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 2021		1,178	848,026	330,378	(528,924)	562,342	1,213,000	18,371	1,231,371
Comprehensive income/(loss)									
Profit/(loss) for the year		–	–	–	–	8,795	8,795	(4,608)	4,187
Other comprehensive (loss)/income		–	–	(4,030)	(26,071)	–	(30,101)	600	(29,501)
Total comprehensive (loss)/income		–	–	(4,030)	(26,071)	8,795	(21,306)	(4,008)	(25,314)
Transactions with owners in their capacity as owners									
Share-based payments	*21*	–	–	2,289	–	–	2,289	–	2,289
Transfer to statutory reserves	*15(c)*	–	–	4,652	–	(4,652)	–	–	–
Transactions with non-controlling interests		–	–	(477)	–	–	(477)	(2,229)	(2,706)
Transactions with owners in their capacity as owners		–	–	6,464	–	(4,652)	1,812	(2,229)	(417)
Balance as at 31 December 2021		1,178	848,026	332,812	(554,995)	566,485	1,193,506	12,134	1,205,640

The accompanying notes on pages 102 to 180 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	*27*	**14,863**	27,569
Income tax paid		**(10,254)**	(14,901)
Net cash generated from operating activities		**4,609**	12,668
Cash flows from investing activities			
Purchases of property, plant and equipment		**(24,482)**	(11,924)
Proceeds from disposal of property, plant and equipment		**3**	89
Proceeds from disposal of an associate in prior years		**219**	–
Transactions with non-controlling interests		**–**	(1,452)
Decrease/(increase) in restricted bank deposits		**12,245**	(2,097)
Cash flow from other investing activities		**–**	14,440
Partial payment of consideration for acquisition of a subsidiary, net of cash acquired		**(377)**	7,411
Interest received		**637**	626
Dividends received from an associate		**187**	178
Dividends received from investment in financial assets at fair value through other comprehensive income		**581**	1,004
Net cash (used in)/generated from investing activities		**(10,987)**	8,275
Cash flows from financing activities			
Proceeds from draw down of borrowings		**583,198**	444,465
Repayments of borrowings		**(618,176)**	(352,687)
Interest paid		**(29,598)**	(37,295)
Principal elements of lease payments		**(15,611)**	(25,452)
Payments of financing fee and deposits		**(5,990)**	(7,480)
Net cash (used in)/generated from financing activities		**(86,177)**	21,551
Net (decrease)/increase in cash and cash equivalents		**(92,555)**	42,494
Cash and cash equivalents at beginning of the year		**359,415**	321,618
Effects of exchange rate changes on cash and cash equivalents		**10,676**	(4,697)
Cash and cash equivalents at end of the year		**277,536**	359,415

The accompanying notes on pages 102 to 180 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 and its subsidiaries (collectively 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 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 are approved for issue by the Board of Directors on 23 March 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are prepared for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

2.1.1 Compliance with IFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Hong Kong Companies Ordinance Cap. 622 ("HKCO").

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 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 amendments for the first time for their annual reporting period commencing 1 January 2022:

• Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
• Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
• Amendments to IFRS 3	Reference to the Conceptual Framework
• Annual Improvements to IFRS Standards 2018-2020	

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, amendments to accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2022 and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on its 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.

Where 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.

(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 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.

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.

(c) Licenses

Separately acquired licenses are shown at historical cost. Licenses acquired in a business combination are initially recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. The Group amortises licenses using the straight-line method over 20 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, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as separate line item in the statement of profit or loss.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investments and other financial assets (continued)

(c) Measurement (continued)

Debt instruments (continued)

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

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.

2.11 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 estimated costs necessary to make the sale.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Trade receivables

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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Borrowings (continued)

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.

2.17 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.

2.18 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)

2.18 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 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual 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, which are defined contribution pension plans.

(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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 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 options granted is recognised as an employee benefits expense with a corresponding increase in equity. 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.

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 to the subsidiary undertakings. 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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 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. 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. Revenue for the goods is recognised at a point in time when the goods is delivered and the customer has accepted the goods.

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 progress payment, a contract asset is recognised. If the progress payments exceed the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised with the amount to which the Group has a right to receive.

(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)

2.21 Dividend income

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

2.22 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.

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)

2.22 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, e.g. 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.

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 term.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 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.

2.24 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 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

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 2022, 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 profits increase/(decrease) during the financial year:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
RMB against USD		
– Weakened 5%	**15,394**	20,226
– Strengthened 5%	**(15,394)**	(20,226)

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2022		31 December 2021	
	USD	**Others**	USD	Others
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Cash	**61,021**	**4,074**	66,724	3,816
Trade receivables	**50,628**	**600**	63,604	834
Other receivables	**6,891**	**2,269**	11,216	1,477
Trade payables	**(28,980)**	**(6,754)**	(18,281)	(489)
Other payables	**(10,478)**	**(32,999)**	(5,687)	(2,607)
Borrowings	**(16,367)**	**(3,509)**	(8,607)	(4,173)

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 fixed rates, which expose the Group to fair value interest rate risk.

The carrying amounts and fair values of non-current portion of long-term borrowings are as below:

	31 December 2022		31 December 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Long-term borrowings (non-current)	**43,035**	**43,377**	225,099	226,388

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 a group basis. The carrying amounts of cash and cash equivalents, restricted bank deposits, trade and notes receivables and other receivables (other than 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. Sales to China National Petroleum Corporation ("CNPC"), a PRC state-owned enterprise with a high credit rating, along with its related entities, represented approximately 69.5% of the Group's revenue for the year (2021: 72.3%). 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, with a credit period of six months in general. The Group's historical experience in the collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provisions for trade and other receivables have been made.

The Group's 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. Details of the Group's cash and cash equivalents and restricted bank deposits are set out below:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
PRC – State owned listed banks	**68,728**	55,403
PRC – Other listed banks	**49,239**	182,209
Kazakhstan government-owned banks	**67,836**	75,966
Singapore listed banks	**78,928**	33,223
Canada listed banks	**7,036**	24,078
Other listed banks	**18,137**	15,117
Others	**128**	53
Total	**290,032**	386,049

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets and contract assets

The Group has the following financial assets and contract assets that are subject to IFRS 9's expected credit loss model:

(1) Cash and cash equivalents and restricted bank deposits

The Group's cash and cash equivalents and restricted bank deposits are subject to the impairment requirements of IFRS 9. The identified impairment loss was not material.

(2) Trade and note receivables and contract assets

Note receivables

Based on management's assessment by taking into account default history and forward looking factors, the expected credit loss for notes receivable is not material. Therefore no provisions for impairment are recognised for note receivables under IFRS 9.

Trade receivables and contract assets

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

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 which 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.

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 and contract assets (continued)

(2) Trade and note receivables and contract assets (continued)

On that basis, the loss allowances for trade receivables and contract assets are set out below:

31 December 2022	**Up to 6 months**	**6 months - 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Expected loss rate	**1.43%**	**1.81%**	**9.82%**	**18.82%**	**52.77%**	
Gross carrying amount	**792,865**	**74,570**	**151,226**	**28,555**	**188,755**	**1,235,971**
Loss allowance	**11,353**	**1,351**	**14,846**	**5,374**	**99,599**	**132,523**

31 December 2021	Up to 6 months	6 months - 1 year	1-2 years	2-3 years	Over 3 years	Total
Expected loss rate	0.10%	0.90%	6.48%	20.85%	88.29%	
Gross carrying amount	747,165	50,043	43,816	109,117	95,518	1,045,659
Loss allowance	747	450	2,839	22,751	84,333	111,120

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 and contract assets (continued)

(2) Trade and note receivables and contract assets (continued)

The closing loss allowances for trade receivables and contract assets reconciled to the opening loss allowances are set out below:

	Contract assets		Trade receivables	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loss allowances				
As at 1 January	**741**	1,325	**110,379**	106,142
Provision for impairment	**291**	–	**26,751**	11,426
Reversal	**–**	(584)	**(128)**	(631)
Receivables written off during the year as uncollectible	**–**	–	**(5,971)**	(5,966)
Exchange difference	**–**	–	**460**	(592)
As at 31 December	**1,032**	741	**131,491**	110,379

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.

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 and contract assets (continued)

(3) Other receivables

Other receivables primarily include cash advances to the employees, tender 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.

The closing loss allowances for other receivables reconcile to the opening loss allowances are set out below:

	Other receivables	
	2022	2021
	RMB'000	*RMB'000*
Loss allowances		
As at 1 January	**3,370**	5,274
Provision for impairment	**1,360**	435
Exchange difference	**13**	(33)
Receivables written off during the year as uncollectible	**–**	(1,942)
Reversal	**–**	(364)
As at 31 December	**4,743**	3,370

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

The following losses were recognised in profit or loss in relation to financial and contract assets:

	2022 *RMB'000*	2021 *RMB'000*
Impairment losses on trade receivables and contract assets	**27,042**	11,426
Impairment losses on notes receivable	**75**	–
Impairment losses on other receivables	**1,360**	435
Reversal	**(128)**	(1,579)
Net impairment losses on financial and contract assets	**28,349**	10,282

(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 *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total contractual cash flows *RMB'000*	Carrying amount liabilities *RMB'000*
As at 31 December 2022						
Borrowings	**512,128**	**43,449**	**1,988**	**–**	**557,565**	**542,583**
Trade and note payables	**733,759**	**–**	**–**	**–**	**733,759**	**733,759**
Accruals and other payables	**76,200**	**–**	**–**	**–**	**76,200**	**76,200**
Lease liabilities	**12,088**	**4,967**	**9,587**	**10,112**	**36,754**	**28,061**
Total	**1,334,175**	**48,416**	**11,575**	**10,112**	**1,404,278**	**1,380,603**
As at 31 December 2021						
Borrowings	363,377	222,292	7,442	65	593,176	577,891
Trade and note payables	673,355	–	–	–	673,355	673,355
Accruals and other payables	46,533	–	–	–	46,533	46,533
Lease liabilities	32,638	13,263	15,875	11,329	73,105	63,999
Total	1,115,903	235,555	23,317	11,394	1,386,169	1,361,778

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. 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 are as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Gross debt	**570,644**	641,890
Total equity	**1,225,104**	1,205,640
Gross debt to equity ratio	**46.6%**	53.2%

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

(i) Fair value hierarchy

This section explains the judgements 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 2022	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial assets at FVOCI				
– Equity securities	**8,368**	**–**	**–**	**8,368**

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 JUDGEMENTS

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 judgements 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

As set out in Note 2.9, property, plant and equipment, right-of-use assets and other non-current assets should be tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units have been determined based on the 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 and fair value less cost of disposal will need to be revised. This may have an impact on the Group's results of operation and balance sheet.

(b) Impairment of inventories

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

(c) Impairment of financial assets and contract assets

The loss allowances for financial assets and contract assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the loss allowances for financial assets and contract assets are set out in Note 3.1(b)(ii)(iii).

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 four reportable segments: drilling, well completion, reservoir and others. These reporting segments comprise respective services performed in these areas and related ancillary manufacturing activities.

(a) Revenue

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Drilling	**500,821**	567,631
Well completion	**422,255**	279,191
Reservoir	**692,350**	693,965
Others*	**141,736**	48,012
	1,757,162	1,588,799

* Others include the sales of alcohol and gas.

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 RMB1,221,325,000(2021: RMB1,148,043,000) 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 2022 and 2021 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2022					
Revenue from external customers	**500,821**	**422,255**	**692,350**	**141,736**	**1,757,162**
Time of revenue recognition					
– At a point in time	**8,928**	**245,042**	**71,078**	**141,736**	**466,784**
– Over time	**491,893**	**177,213**	**621,272**	**–**	**1,290,378**
EBITDA	**71,872**	**62,879**	**114,443**	**9,527**	**258,721**

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2021					
Revenue from external customers	567,631	279,191	693,965	48,012	1,588,799
Time of revenue recognition					
– At a point in time	6,228	115,093	72,361	48,012	241,694
– Over time	561,403	164,098	621,604	–	1,347,105
EBITDA	76,580	40,810	110,801	255	228,446

Disclosure of liabilities has not been included here because these liabilities balances are not allocated to segments.

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment information on total assets as at 31 December 2022 and 31 December 2021 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Others *RMB'000*	Total *RMB'000*
As at 31 December 2022					
Segment assets	**790,961**	**819,427**	**588,061**	**77,084**	**2,275,533**
Unallocated assets					**607,025**
Total assets					**2,882,558**
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**32,718**	**8,192**	**32,585**	**47,414**	**120,909**

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Others *RMB'000*	Total *RMB'000*
As at 31 December 2021					
Segment assets	841,144	750,610	439,332	75,136	2,106,222
Unallocated assets					680,467
Total assets					2,786,689
Additions to non-current assets (other than financial instruments and deferred income tax assets)	23,327	7,495	8,979	454	40,255

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
EBITDA for reportable segments	**258,721**	228,446
Unallocated expenses		
– Share-based payments	**–**	(2,289)
– Other (losses)/gains, net	**(7,640)**	4,895
– Unallocated overhead expenses	**(123,320)**	(101,947)
	(130,960)	(99,341)
	127,761	129,105
Depreciation and amortisation	**(74,074)**	(75,237)
Finance costs	**(38,083)**	(42,714)
Finance income	**642**	721
Profit before income tax	**16,246**	11,875

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Segment assets for reportable segments	**2,275,533**	2,106,222
Unallocated assets		
– Deferred income tax assets	**115,301**	116,674
– Unallocated inventories	**41,889**	43,148
– Unallocated prepayment and other receivables	**143,270**	117,268
– Restricted bank deposits	**17,189**	29,434
– Cash and cash equivalents	**277,536**	359,415
– Financial assets at fair value through other comprehensive income	**8,368**	11,688
– Investments in an associate	**3,472**	2,840
	607,025	680,467
Total assets per balance sheet	**2,882,558**	2,786,689

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	
	2022	2021
	RMB'000	*RMB'000*
PRC	**1,095,303**	1,060,850
Kazakhstan	**361,180**	297,325
Turkmenistan	**60,220**	86,383
Canada	**44,556**	45,312
Indonesia	**71,443**	43,321
Middle East	**47,021**	30,812
Others	**77,439**	24,796
	1,757,162	1,588,799

The following table shows the non-current assets other than deposits and other receivables, investments in an associate, 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	
	2022	2021
	RMB'000	*RMB'000*
PRC	**295,157**	308,643
Kazakhstan	**53,513**	55,242
Middle East	**47,587**	54,465
Indonesia	**19,524**	438
Singapore	**19,203**	18,950
Turkmenistan	**14,170**	19,045
Canada	**4,958**	7,291
Others	**69,192**	50,678
	523,304	514,752

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	
	2022	2021
	RMB'000	*RMB'000*
Current contract assets	**33,763**	30,837
Loss allowance	**(1,032)**	(741)
Total contract assets	**32,731**	30,096
Current contract liabilities	**53,460**	44,776
Total contract liabilities	**53,460**	44,776

(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	
	2022	2021
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year		
– Drilling	**4,919**	82
– Well completion	**–**	1,802
– Reservoir	**112**	1,774
– Other	**34,189**	–
Total	**39,220**	3,658

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	
	2022	2021
	RMB'000	*RMB'000*
Within one year	**666,149**	610,471
More than one year but not more than two years	**317,737**	339,386
More than two years	**106,081**	103,809
Total	**1,089,967**	1,053,666

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 2021						
Opening net book value	89,103	255,717	4,892	10,362	52,180	412,254
Additions	5,602	5,750	6,622	11,627	19,895	49,496
Depreciation charge	(7,529)	(34,929)	(3,205)	(6,068)	–	(51,731)
Disposals	(697)	(1,646)	(371)	(3,631)	–	(6,345)
Transfer upon completion	13,227	39,038	–	–	(52,265)	–
Currency translation differences	789	(7,102)	2,870	2,302	–	(1,141)
Closing net book value	100,495	256,828	10,808	14,592	19,810	402,533
At 31 December 2021						
Cost	167,856	645,969	61,033	113,511	19,810	1,008,179
Accumulated depreciation and impairment	(67,361)	(389,141)	(50,225)	(98,919)	–	(605,646)
Net book value	100,495	256,828	10,808	14,592	19,810	402,533
Year ended 31 December 2022						
Opening net book value	**100,495**	**256,828**	**10,808**	**14,592**	**19,810**	**402,533**
Additions	**1,007**	**18,961**	**5,871**	**7,793**	**42,324**	**75,956**
Depreciation charge	**(7,622)**	**(34,901)**	**(7,185)**	**(6,871)**	**–**	**(56,579)**
Disposals	**(503)**	**(2,246)**	**(798)**	**(678)**	**–**	**(4,225)**
Transfer upon completion	**893**	**–**	**–**	**–**	**(893)**	**–**
Currency translation differences	**2,349**	**6,870**	**2,074**	**1,093**	**–**	**12,386**
Closing net book value	**96,619**	**245,512**	**10,770**	**15,929**	**61,241**	**430,071**
At 31 December 2022						
Cost	**172,325**	**662,091**	**67,509**	**122,226**	**61,241**	**1,085,392**
Accumulated depreciation and impairment	**(75,706)**	**(416,579)**	**(56,739)**	**(106,297)**	**–**	**(655,321)**
Net book value	**96,619**	**245,512**	**10,770**	**15,929**	**61,241**	**430,071**

Notes:

(a) For the year ended 31 December 2022, depreciation expenses amounting to RMB56,579,000 (2021: RMB51,731,000) have been charged in operating costs.

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (continued)

(b) Certain property, plant and equipment have been secured for the Group's borrowings, details of which have been set out in Note 16(b).

(c) As at 31 December 2022, the Group's machinery and equipment in the PRC region amounted to approximately RMB196 million (2021: RMB215 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 2022 ***RMB'000***	31 December 2021 *RMB'000*
Right-of-use assets		
Buildings	**30,489**	38,893
Land use rights		
– Located in the PRC*	**18,863**	19,345
– Outside of the PRC	**8,694**	8,098
Machinery and equipment	**2,844**	22,888
Vehicle	**–**	1,507
	60,890	90,731
Lease liabilities		
Current lease liabilities	**11,443**	28,192
Non-current lease liabilities	**16,618**	35,807
	28,061	63,999

* 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 2022, land use rights have a remaining period of 40 years.

During the year, additions to the right-of-use assets were RMB28,808,000 (2021: RMB24,725,000).

Notes to the Consolidated Financial Statements

7. LEASES (CONTINUED)

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

The income statement shows the following amounts relating to leases:

	Notes	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets			
Buildings		**7,170**	13,557
Land use rights		**736**	726
Machinery and equipment		**6,573**	12,462
Vehicle		**1,507**	1,507
	22	**15,986**	28,252
Interest expense (included in finance cost)	*23*	**2,257**	3,519
Expense relating to short-term and low-value lease		**113,575**	94,055

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

	2022 RMB'000	2021 RMB'000
Payments of principal elements of lease	**15,611**	25,452
Payments of interest expense of lease	**2,257**	3,519
Payments of short-term and low-value lease	**113,575**	94,055
	131,443	123,026

(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	2 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.

Notes to the Consolidated Financial Statements

8. INTANGIBLE ASSETS

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

	Technology *RMB'000*	Computer software *RMB'000*	License* *RMB'000*	Total *RMB'000*
Year ended 31 December 2021				
Opening net book value	359	2,947	–	3,306
Additions	–	304	–	304
Acquisition of a subsidiary	–	45	15,114	15,159
Amortisation charge	(159)	(1,017)	(189)	(1,365)
Exchange differences	(20)	–	–	(20)
Closing net book value	180	2,279	14,925	17,384
At 31 December 2021				
Cost	17,241	7,238	15,114	39,593
Accumulated amortisation and impairment	(17,061)	(4,959)	(189)	(22,209)
Net book value	180	2,279	14,925	17,384
Year ended 31 December 2022				
Opening net book value	**180**	**2,279**	**14,925**	**17,384**
Amortisation charge	**(70)**	**(683)**	**(756)**	**(1,509)**
Closing net book value	**110**	**1,596**	**14,169**	**15,875**
At 31 December 2022				
Cost	**17,241**	**7,238**	**15,114**	**39,593**
Accumulated amortisation and impairment	**(17,131)**	**(5,642)**	**(945)**	**(23,718)**
Net book value	**110**	**1,596**	**14,169**	**15,875**

* This represents license rights for sales of natural gas in certain area of the PRC.

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 2022:

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	
				2022	2021	**2022**	2021
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%
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%	**-**	–
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%	**-**	–
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%
新疆能源(集團)華油技術服務有限公司 (Xinjiang Energy (Group) Huayou Technology Service Co. Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB50,000,000	**100%**	100%	**-**	–
廊坊華油能源技術服務集團有限公司 (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%	**-**	–

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 2022: (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	
				2022	2021	2022	2021
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%	-	–
Enecal PTE. Limited	Singapore, Limited liability entity	Manufacturing, Singapore	SGD3,550,000	100%	63%	-	37%
M-Tech service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT87,200	100%	100%	-	–
OS Technology Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%	100%	-	–
Pioneer Petrotech Services Inc.	Canada, Limited liability entity	Manufacturing, Canada	CAD15	100%	100%	-	–
PT. Enecal Indonesia	Indonesia, Limited liability entity	Oil field services, Indonesia	USD6,000,000	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 2022: (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	
				2022	2021	2022	2021
SINOSTONE BIOETHANOL MANUFACTURING LIMITED	Ghana, Limited liability entity	Manufacturing, Ghana	GHS 12,000,000	60%	60%	40%	40%
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%	100%	-	–
PT CIPTA NIAGA GEMILANG(i)	Indonesia, Limited liability entity	Oil and gas exploration and mining, Indonesia	RP12,000,000,000	95%	–	5%	–

* Registered as sino-foreign equity joint venture under the PRC law
** Registered as wholly foreign owned enterprises under the PRC law

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, materially contribute to the revenue, profit before income tax of the Group or hold a material portion of the assets of the Group.

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) On 12 September 2022, QUINTUS OIL&GAS PTE. LTD. acquired 95% equity interest in PT CIPTA NIAGA GEMILANG ("CNG") at a cash consideration of RP 29,428,800,000 (equivalent to RMB13,756,000). CNG is principally engaged in oil and gas exploration and mining. On 28 December 2022, the Ministry of Energy and Mineral Resources of Indonesia announced that CNG and PT RUKUN RAHARJA TBK ("RUKUN"), an independent third party, successfully won a joint bid and were awarded the exploration and development rights of Jabung Tengah oil and gas block in Indonesia for a period of 30 years. As a result of this acquisition, unproved reserves amounting to RMB16,145,000 was recognised and presented in other non-current assets.

(ii) Material non-controlling interests

As at 31 December 2022, the non-controlling interests in respect of subsidiaries were not material.

(b) Associate

The following is a list of the associate of the Group at 31 December 2022:

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
			2022	2021	
新疆博塔油田技術服務有限公司 (Xinjiang Bota Oilfield Technology Service Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	**24%**	24%	Equity method

10. INVENTORIES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Project materials and consumables	**486,766**	492,762
Project-in-progress	**149,782**	91,817
	636,548	584,579
Less: provision for inventories	**(79,879)**	(77,299)
	556,669	507,280

Notes to the Consolidated Financial Statements

10. INVENTORIES (CONTINUED)

The cost of inventories recognised as an expense and included in "operating costs" amounted to RMB482,754,000 (2021: RMB354,883,000).

Movements of provision for inventories are as follows:

	2022 *RMB'000*	2021 *RMB'000*
As at 1 January	**(77,299)**	(70,631)
Provision	**(4,348)**	(10,252)
Write-off	**2,157**	2,915
Exchange difference	**(389)**	669
As at 31 December	**(79,879)**	(77,299)

11. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2022 *RMB'000*	2021 *RMB'000*
Trade receivables (a)	**1,202,208**	1,014,822
Less: loss allowance	**(131,491)**	(110,379)
Trade receivables-net	**1,070,717**	904,443
Notes receivable (a)	**68,735**	94,804
Less: loss allowance	**(75)**	–
Notes receivable-net	**68,660**	94,804
	1,139,377	999,247

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	
	2022	2021
	RMB'000	*RMB'000*
Up to 6 months	**837,346**	821,048
6 months – 1 year	**65,794**	44,183
1 – 2 years	**151,212**	41,653
2 – 3 years	**28,157**	107,475
Over 3 years	**188,434**	95,267
Trade and note receivables, gross	**1,270,943**	1,109,626
Less: loss allowance	**(131,566)**	(110,379)
Trade and note receivables, net	**1,139,377**	999,247

(c) Certain trade and note receivables have been pledged for the Group's bank borrowings, details of which have been set out in Note 16(a)(i), (d)(i).

Notes to the Consolidated Financial Statements

12. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**101,855**	109,077
Prepayment for taxes	**46,001**	38,694
Less: loss allowance	**(4,953)**	(4,661)
Total non-financial assets	**142,903**	143,110
Deposits and other receivables (a)	**70,450**	74,289
Less: loss allowance	**(4,743)**	(3,370)
Total financial assets	**65,707**	70,919
	208,610	214,029
Non-current		
Prepayment for equipment and machinery	**323**	4,104
Deposits and other receivables	**1**	1,234
Total non-financial assets	**324**	5,338
Total	**208,934**	219,367

Note:

(a) The fair values of deposits and other receivables approximated their carrying values.

Notes to the Consolidated Financial Statements

13. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Restricted bank deposits (a)	**17,189**	29,434
Cash and cash equivalent		
– Cash on hand	**4,693**	2,800
– Deposits in banks	**272,843**	356,615
	277,536	359,415
	294,725	388,849

Note:

(a) As at 31 December 2022 and 2021, the restricted bank deposits were held as securities for tendering or performing oil service projects, which will be released upon completion of the tender or contract.

14. SHARE CAPITAL

	Number of shares	**Share capital**
	(Thousands)	***RMB'000***
Authorised:		
Ordinary shares of USD0.0001 each as at 31 December 2021 and 2022	5,000,000	3,219
Issued and fully paid:		
Ordinary shares of USD0.0001 each as at 31 December 2021 and 2022	1,853,776	1,178

Notes to the Consolidated Financial Statements

15. OTHER RESERVES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Merger reserves (a)	**(148,895)**	(148,895)
Share-based payments (b)	**202,192**	202,192
Statutory reserves (c)	**83,509**	79,024
Capital reserves	**209,850**	208,419
Changes in fair value of equity investments at fair value through other comprehensive income	**(11,247)**	(7,928)
	335,409	332,812

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.

(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.

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.

Notes to the Consolidated Financial Statements

15. OTHER RESERVES (CONTINUED)

Notes: (continued)

(b) Share-based payments (continued)

The numbers of the share options granted at the grant date and the exercisable share options as at 31 December 2022 and 2021 are as below:

Grant Date	Expiry date	Exercise price *HKD*	The granted share option number *(Thousands)*	Exercisable share options 31 December 2022 *(Thousands)*	Exercisable share options 31 December 2021 *(Thousands)*
20 February 2012	19 February 2022	1.29	26,500	–	5,764
29 March 2012	28 March 2022	1.36	7,300	–	2,333
13 June 2013	12 June 2023	4.69	67,450	27,350	32,270
31 August 2016	30 August 2026	0.49	130,000	99,168	99,768
26 September 2018	25 September 2028	0.74	60,000	58,300	58,300
6 December 2018	5 December 2028	0.53	37,000	37,000	37,000
Total		1.08	328,250	221,818	235,435
Weighted average remaining contractual life of options outstanding at end of years				4.18 years	4.92 years

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

	2022		2021	
	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	**1.16**	**235,435**	1.20	248,599
Forfeited	**4.24**	**(5,520)**	1.89	(13,164)
Expired	**1.31**	**(8,097)**	–	–
As at 31 December	**1.08**	**221,818**	1.16	235,435
Vested and exercisable as at 31 December	**1.08**	**221,818**	1.16	235,435

Notes to the Consolidated Financial Statements

15. OTHER RESERVES (CONTINUED)

Notes: (continued)

(c) Statutory reserves

	RMB'000
As at 31 December 2020	74,372
Appropriation	4,652
As at 31 December 2021	79,024
Appropriation	4,485
As at 31 December 2022	**83,509**

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. This reserve is non-distributable.

Notes to the Consolidated Financial Statements

16. BORROWINGS

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Long-term borrowings:		
– Bank loans, secured (a)	**63,009**	213,373
– Bank loans, unsecured	**–**	300
– Loans from a third party financial institution, secured (b)	**94,392**	62,223
– Loans from third parties, unsecured (c)	**9,887**	9,092
	167,288	284,988
less:		
Non-current portion of long-term borrowings:		
– Bank loans, secured (a)	**2,649**	191,111
– Bank loans, unsecured	**–**	300
– Loans from a third party financial institution, secured (b)	**40,386**	24,596
– Loans from third parties, unsecured (c)	**–**	9,092
Non-current portion of long-term borrowings	**43,035**	225,099
Current portion of long-term borrowings	**124,253**	59,889
Short-term borrowings:		
– Bank loans, secured (d)	**231,330**	232,903
– Bank loans, unsecured	**–**	10,000
– Loans from a third party financial institution, unsecured	**–**	50,000
– Loans from a third party financial institution, secured (e)	**22,000**	–
– Loans from third parties, unsecured (f)	**121,965**	–
	375,295	292,903

Notes:

(a) Long-term secured bank loans comprise:

(i) Loans totalling RMB59,500,000 (2021: RMB209,500,000) bear interest at rates ranging from 6.0% to 6.60% (2021: 6.0% to 6.60%) per annum, and are secured against the right of collecting certain trade receivables.

(ii) A loan of RMB3,509,000 (2021: RMB3,873,000) bears interest at 3-month swap offer rate plus 3.5% (2021: 3-month swap offer rate plus 3.5%) per annum, and are secured against a right-of-use asset and a guarantee provided by the Company. During the years ended 31 December 2022, the average interest rate was 5.77% (2021: 3.93%).

Notes to the Consolidated Financial Statements

16. BORROWINGS (CONTINUED)

Notes: (continued)

(b) The Group's long-term secured loans from a third party financial institution bear interest at rates ranging from 5.80% to 7.81% (2021: 6.2% to 6.60%), and are secured against certain machinery with carrying amount of RMB160,255,000 (2021: RMB93,051,000) and a guarantee provided by a subsidiary of the Group.

(c) The Group's long-term unsecured loans from third parties bear interest at a rate of 15% per annum (2021: 15%).

(d) Short-term secured bank loans comprise:

(i) Loans totalling RMB87,260,000 (2021: RMB207,903,000) bear interest at a rate of 6.00% (2021: 6.00% to 6.10%) per annum, and are secured against the right of collecting certain trade receivables.

(ii) Loans totalling RMB33,200,000 (2021: RMB25,000,000) bear interest at rates ranging from 3.92% to 4.65% (2021: 3.85% to 4.05%) per annum, and guaranteed by third party guarantee companies.

(iii) Loans totaling RMB110,870,000 bear interest ranging from 2.31% to 5.45% per annum, with counter-guarantees provided by subsidiaries of the Group.

(e) The Group's short-term secured loan from a third party institution bears interest at a rate of 5.65% per annum (2021:5.85%), with a right-of-use asset pledge of RMB18,863,000.

(f) The Group's unsecured loans from third parties bear interest ranging from 0% to 8% per annum.

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
RMB	**522,707**	565,111
USD	**16,367**	8,607
SGD	**3,509**	3,873
CAD	**–**	300
	542,583	577,891

Notes to the Consolidated Financial Statements

16. BORROWINGS (CONTINUED)

Notes: (continued)

(h) The maturities of the Group's total borrowings at the balance sheet date are as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**499,548**	352,792
1 year to 2 years	**41,245**	217,636
2 years to 5 years	**1,790**	7,400
Over 5 years	**–**	63
	542,583	577,891

17. TRADE AND NOTE PAYABLES

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Up to 6 months	**519,586**	427,445
6 months to 1 year	**38,558**	81,903
1 – 2 years	**63,272**	49,851
2 – 3 years	**21,449**	64,693
Over 3 years	**90,894**	49,463
	733,759	673,355

18. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Payroll and welfare payable	**112,763**	63,845
Taxes other than income taxes payable	**30,027**	33,817
Other payables – related parties (Note 30(a))	**14,872**	–
Other payables for purchase of property, plant and equipment	**13,869**	8,703
Other payables	**47,459**	37,830
	218,990	144,195

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

Notes to the Consolidated Financial Statements

19. DEFERRED INCOME TAXATION

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Deferred income tax assets:		
– To be recovered after more than 12 months	**89,882**	90,504
– To be recovered within 12 months	**25,419**	26,170
	115,301	116,674
Deferred income tax liabilities:		
– To be settled after 12 months	**(25,603)**	(25,802)
– To be settled within 12 months	**(189)**	(189)
	(25,792)	(25,991)
	89,509	90,683

(a) 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	Impairment of assets	Unrealised profit*	Accrued expense	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
As at 1 January 2021	53,001	36,405	22,707	5,594	117,707
(Charged)/credited to the income statement	(1,206)	460	952	(295)	(89)
Currency translation differences	–	(303)	(420)	(221)	(944)
As at 31 December 2021	51,795	36,562	23,239	5,078	116,674
(Charged)/credited to the income statement	(2,558)	3,585	(451)	(2,473)	(1,897)
Currency translation differences	–	103	365	56	524
As at 31 December 2022	**49,237**	**40,250**	**23,153**	**2,661**	**115,301**

* 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

19. DEFERRED INCOME TAXATION (CONTINUED)

(a) 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*	Valuation surplus upon acquisition of a subsidiary *RMB'000*	Total *RMB'000*
As at 1 January 2021	102	21,889	–	21,991
(Credited)/charged to the income statement	(14)	282	(47)	221
Acquisition of a subsidiary	–	–	3,779	3,779
As at 31 December 2021	88	22,171	3,732	25,991
(Credited)/charged to the income statement	(22)	12	(189)	(199)
As at 31 December 2022	**66**	**22,183**	**3,543**	**25,792**

* 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.

(b) 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 RMB131,813,000 as at 31 December 2022 (2021: RMB142,178,000), in respect of losses amounting to RMB603,361,000 (2021: RMB691,362,000) that can be carried forward against future taxable income and will expire between 2023 and 2032.

(ii) As at 31 December 2022, the Group did not recognise deferred income tax liabilities of RMB33,177,000 (2021: RMB33,488,000) relating to withholding tax of unremitted earnings of certain subsidiaries totalling approximately RMB663,541,000 (2021: RMB669,764,000) as such unremitted earnings are expected to be retained in the respective subsidiaries for their future investment and expansion activities.

Notes to the Consolidated Financial Statements

20. OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Net foreign exchange (losses)/gains	**(16,151)**	1,701
Others	**8,511**	3,194
	(7,640)	4,895

21. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Wages, salaries and allowances	**485,112**	432,607
Housing benefits	**18,409**	18,043
Pension costs*	**75,411**	69,400
Share-based payments (Note 15)	**–**	2,289
Welfare and other expenses	**12,953**	14,679
	591,885	537,018

* There was no forfeited contribution during the years ended 31 December 2022 and 2021 available for reducing the Group's contributions as at 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements

21. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Five highest paid individuals

	Year ended 31 December Number of individuals	
	2022	2021
Director	**3**	2
Non-director individual	**2**	3
	5	5

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	
	2022 ***RMB'000***	2021 *RMB'000*
Salaries and other short-term benefits	**2,551**	3,075
Share-based payments	**–**	806
Retirement benefits and others	**186**	295
	2,737	4,176

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2022	2021
Emolument band		
HKD500,001 to HKD1,000,000	**–**	2
HKD1,000,001 to HKD1,500,000	**1**	1
HKD1,500,001 to HKD2,000,000	**1**	–
	2	3

Note: Non-cash share-based payments are not considered in the determination of emolument bands.

Notes to the Consolidated Financial Statements

22. EXPENSES BY NATURE

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
(Gains)/losses on disposal of property,plant and equipment	**(3,916)**	1,201
Sales tax and surcharges	**5,447**	5,223
Depreciation		
– Right-of-use assets (include land use rights) (Note 7)	**15,986**	28,252
– Property, plant and equipment (Note 6)	**56,579**	45,620
Amortisation of intangible assets (Note 8)	**1,509**	1,365
Auditor's remuneration		
– PricewaterhouseCoopers	**4,650**	4,650
– Others	**979**	1,237

23. FINANCE COSTS, NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Finance income:		
– Interest income from bank deposits	**637**	625
Net foreign exchange gains on financing activities	**5**	96
Finance income	**642**	721
Interest expense:		
– Bank borrowings	**(27,890)**	(28,094)
– Interest paid for lease liabilities	**(2,257)**	(3,519)
– Other borrowings	**(5,106)**	(7,935)
Bank charges and others	**(2,830)**	(3,166)
Finance costs	**(38,083)**	(42,714)
Finance costs, net	**(37,441)**	(41,993)

Notes to the Consolidated Financial Statements

24. INCOME TAX EXPENSE

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Current income tax (a)	**7,091**	7,378
Deferred income tax	**1,698**	310
Income tax expense	**8,789**	7,688

Notes:

(a) Current income tax

(i) The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

(ii) PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in PRC for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the years ended 31 December 2022 and 2021, 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) The Group's subsidiaries established in Singapore are subject to Singapore profits tax at a rate of 17% (2021: 17%).

(iv) The corporate income tax rate for subsidiaries established in Kazakhstan is 20%. Income tax is charged on all business income generated in Kazakhstan with relief for tax deductible expenses (2021: 20%).

(v) The corporate income tax rate for subsidiaries established in Canada is 25% (2021: 25%).

(vi) Taxation on profits generated in other locations has been provided at the rate of taxation prevailing in the countries in which those profits arose.

Notes to the Consolidated Financial Statements

24. INCOME TAX EXPENSE (CONTINUED)

Notes: (continued)

(b) The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Profit before income tax	**16,246**	11,875
Tax calculated at domestic tax rates applicable in respective countries	**(451)**	5,399
Expenses not deductible for taxation purposes	**2,379**	2,856
Income not subject to taxation	**(123)**	(70)
Utilisation of previously unrecognised tax losses	**(11,831)**	(13,523)
Losses not recognised as deferred income tax assets	**18,851**	12,868
Withholding tax relating to unremitted retained earnings	**258**	282
Additional deduction of research and development expense	**(294)**	(124)
Income tax expense	**8,789**	7,688

25. DIVIDENDS

The Board did not propose a final dividend for the year ended 31 December 2022 (2021: Nil).

26. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2022	2021
Profit attributable to owners of the Company (RMB'000)	**13,241**	8,795
Weighted average number of ordinary shares in issue (thousands)	**1,853,776**	1,853,776
Basic earnings per share (RMB per share)	**0.007**	0.005

Notes to the Consolidated Financial Statements

26. 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.

The share options in issue have not been included in the calculation of the diluted earnings per share, as the exercise prices of those share options are higher than the average annual market price of the Company's shares. Accordingly, these share options had no dilutive effect during the year ended 31 December 2022 and the diluted earnings per share is the same as the basic earnings per share during the year ended 31 December 2022.

27. CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Profit for the year before income tax	**16,246**	11,875
Adjustments for:		
Depreciation charge		
– Property, plant and equipment (Note 6, 22)	**56,579**	45,620
– Right-of-use assets (include land use rights) (Note 7, 22)	**15,986**	28,252
Amortisation (Note 8)	**1,509**	1,365
(Gains)/losses on disposals, net (Note 22)	**(3,916)**	1,201
Impairment losses of inventories and prepayments	**4,640**	10,141
Net impairments losses of financial and contract assets	**28,349**	10,282
Net foreign exchange losses/(gains) (Notes 20, 23)	**16,146**	(1,797)
Interest income (Note 23)	**(637)**	(625)
Interest expenses on borrowings and leases (Note 23)	**35,253**	39,548
Share-based payments (Note 21)	**–**	2,289
Share of net profit of an associate accounted for using the equity method	**(819)**	(470)
Changes in working capital:		
Inventories	**(51,969)**	(77,548)
Trade and note receivables	**(166,242)**	17,593
Prepayments and other receivables	**5,340**	833
Trade and note payables	**14,541**	(24,058)
Accruals and other payables	**43,857**	(36,932)
Net cash generated from operations	**14,863**	27,569

(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

27. CASH GENERATED FROM OPERATIONS (CONTINUED)

(c) Net debt reconciliation

(i) Analysis of net debt

	2022 *RMB'000*	2021 *RMB'000*
Cash and cash equivalents	**277,536**	359,415
Borrowings – repayable within one year	**(499,548)**	(352,792)
Borrowings – repayable after one year	**(43,035)**	(225,099)
Lease liabilities	**(28,061)**	(63,999)
Net debt	**(293,108)**	(282,475)
Cash and liquid investments	**277,536**	359,415
Gross debt-fixed interest rates	**(567,135)**	(638,017)
Gross debt-variable interest rates	**(3,509)**	(3,873)
Net debt	**(293,108)**	(282,475)

Notes to the Consolidated Financial Statements

27. CASH GENERATED FROM OPERATIONS (CONTINUED)

(c) Net debt reconciliation (continued)

(ii) Movements in net debt

	Other assets	Liabilities from financing activities			
	Cash and cash equivalents	Borrowing due within 1 year	Borrowing due after 1 year	Lease	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at 1 January 2021	321,618	(258,266)	(233,077)	(64,864)	(234,589)
Cash flows	42,494	(48,884)	(42,894)	25,452	(23,832)
Lease changes	–	–	–	(24,089)	(24,089)
Foreign exchange adjustments	(4,697)	(96)	–	(498)	(5,291)
Accrued interest expenses	–	(2,154)	–	–	(2,154)
Reclassification of amounts to current portion	–	(43,392)	43,392	–	–
Payments of financing fee and deposits	–	–	7,480	–	7,480
Net debt as at 31 December 2021	359,415	(352,792)	(225,099)	(63,999)	(282,475)
Net debt as at 1 January 2022	359,415	(352,792)	(225,099)	(63,999)	(282,475)
Cash flows	(92,555)	90,927	(55,949)	15,611	(41,966)
Lease changes	–	–	–	22,194	22,194
Foreign exchange adjustments	10,676	(5)	–	(1,867)	8,804
Accrued interest expenses	–	(5,655)	–	–	(5,655)
Reclassification of amounts to current portion	–	(232,023)	232,023	–	–
Payments of financing fee and deposits	–	–	5,990	–	5,990
Net debt as at 31 December 2022	**277,536**	**(499,548)**	**(43,035)**	**(28,061)**	**(293,108)**

28. CONTINGENCIES

The Group has contingent liabilities in respect of claims or other legal procedures arising in its ordinary course of business from time to time. As at 31 December 2022 and 2021, the Directors did not anticipate that any material liabilities will arise from the contingent liabilities other than those provided for in the financial statements.

Notes to the Consolidated Financial Statements

29. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Property, plant and equipment	**32,239**	25,183
Exploration and evaluation	**80,685**	–

(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	
	2022	2021
	RMB'000	*RMB'000*
No later than 1 year	**37,101**	42,551

30. 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.

Other than those disclosed elsewhere in these financial statements, the following transactions were carried out with related parties for the year ended 31 December 2022 and 2021:

(a) Transactions with related parties

As at 31 December 2021, the issued share capital of a subsidiary of the Company, Enecal PTE. Limited, included preference shares amounting to SGD 3,200,000 (equivalent to RMB16,302,000) held by several companies owned by the Controlling Shareholders and two other shareholders of Enecal PTE. Limited ("Preference Shareholders"). 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 were reflected as "Non-controlling interests" at 31 December 2021.

Notes to the Consolidated Financial Statements

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

On 21 January 2022, pursuant to the exclusive Call Option Agreement entered into between SPT Energy (Hong Kong) Limited ("SPT HK") and several companies ("Non-controlling Shareholders") owned by Preference Shareholders as stated above which was disclosed in the prospectus of the Company dated 14 December 2011, SPT HK has exercised the call options with respect to Non-controlling Shareholders. Accordingly, SPT HK shall acquire a total of 350,000 preference shares from Non-controlling Shareholders by way of an instrument of transfer at a total consideration of SGD3,200,000 (the "Transactions"). As at the date on which this set of financial statements were authorised for issue, the Transactions have been completed with consideration yet to be paid.

The effect of this transaction is summarised as follows:

	As at 31 December 2022 *RMB'000* Unaudited
Carrying amount of non-controlling interests acquired	**16,303**
Consideration paid to non-controlling interests	**(14,872)**
Difference between the consideration and the non-controlling interests acquired, which is recorded in other reserves within equity attributable to the owners of the Company	**(1,431)**

(b) Key management compensation

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

	Year ended 31 December	
	2022 ***RMB'000***	2021 *RMB'000*
Salaries and other short-term benefits	**13,319**	11,924
Share-based payments	**–**	1,224
Retirement benefits and others	**1,251**	1,126
	14,570	14,274

Notes to the Consolidated Financial Statements

31. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		**1,215,343**	1,154,677
Current assets			
Prepayments and other receivables		**22**	443
Cash and cash equivalents		**739**	1,628
Total assets		**1,216,104**	1,156,748
Equity and liabilities			
Share capital		**1,178**	1,178
Share premium		**848,026**	848,026
Other reserves	*Note (a)*	**415,091**	415,091
Currency translation differences		**71,542**	8,260
Accumulated losses	*Note (a)*	**(145,397)**	(134,335)
Total equity		**1,190,440**	1,138,220
Liabilities			
Non-Current liabilities		**–**	–
Current liabilities			
Accruals and other payables		**25,664**	18,528
Total liabilities		**25,664**	18,528
Total equity and liabilities		**1,216,104**	1,156,748

The balance sheet of the Company was approved by the Board of Directors on 23 March 2023 and was signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Notes to the Consolidated Financial Statements

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

Balance sheet of the Company (continued)

Note:

(a) Reserve movements 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 2021	(133,771)	848,026	412,802	25,012	1,152,069
Loss for the year	(564)	–	–	–	(564)
Currency translation differences	–	–	–	(16,752)	(16,752)
Share-based payments	–	–	2,289	–	2,289
At 31 December 2021	(134,335)	848,026	415,091	8,260	1,137,042
At 1 January 2022	**(134,335)**	**848,026**	**415,091**	**8,260**	**1,137,042**
Loss for the year	**(11,062)**	**–**	**–**	**–**	**(11,062)**
Currency translation differences	**–**	**–**	**–**	**63,282**	**63,282**
At 31 December 2022	**(145,397)**	**848,026**	**415,091**	**71,542**	**1,189,262**

Notes to the Consolidated Financial Statements

32. 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 2022 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) *(Chairman)*	–	3,000	–	49	26	3,075
Mr. 吳東方 (Mr. Ethan Wu) *(Chief Executive Officer)*	–	2,600	–	60	114	2,774
Mr. 李強 (Mr. Li Qiang)	–	1,200	–	43	103	1,346
Non-executive Directors						
Ms. 陳春花 (Ms. Chen Chunhua)	878	–	–	50	6	934
Mr. 武吉偉 (Mr. Wu Jiwei)	850	–	–	12	41	903
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	258	–	–	–	–	258
Mr. 溫嘉明 (Mr. Wan Kah Ming)*	258	–	–	–	–	258
Ms. 張渝涓 (Ms.Zhang Yujuan)	258	–	–	–	–	258
Mr. 馬小虎 (Mr. Ma Xiaohu)**	150	–	–	–	–	150
	2,652	6,800	–	214	290	9,956

* Mr. Wan Kah Ming has tendered resignation as an independent non-executive director and a member of the audit committee of the Company, the resignation is effective on 31 December 2022.

** Mr. Ma Xiaohu has been appointed as an independent non-executive director with effective date on 10 June 2022.

Notes to the Consolidated Financial Statements

32. 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 2021 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) *(Chairman)*	–	2,049	–	46	6	2,101
Mr. 吳東方 (Mr. Ethan Wu) *(Chief Executive Officer)*	–	1,791	–	59	45	1,895
Mr. 李強 (Mr. Li Qiang)	–	846	–	40	90	976
Non-executive Directors						
Ms. 陳春花 (Ms. Chen Chunhua)	605	–	–	46	6	657
Mr. 武吉偉 (Mr. Wu Jiwei)*	588	–	–	32	73	693
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	249	–	–	–	–	249
Mr. 溫嘉明 (Mr. Wan Kah Ming)	249	–	–	–	–	249
Ms. 張渝涓 (Ms.Zhang Yujuan)	249	–	–	–	–	249
	1,940	4,686	–	223	220	7,069

* During the year, there were non-cash share-based payments of RMB360,000 to Mr Wu Jiwei, which represented amortisation of the options valued on respective grant date, over a three year period. This amount is not included in the table above.

Notes to the Consolidated Financial Statements

32. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year, 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 (2021: nil).

(c) Directors' termination benefits

During the year, 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 (2021: nil).

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

During the year, no consideration was provided to or receivable by third parties for making available director's services (2021: 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 (2021: 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 (2021: nil).

SPT Energy Group Inc.
華油能源集團有限公司*

* For identification purpose only