SPT Energy Group Inc.

華油能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1251)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

ANNUAL RESULTS HIGHLIGHTS

The Group's revenue for the year ended 31 December 2016 was RMB848.1 million, representing a decrease of RMB186.9 million, or 18.1%, from RMB1,035.0 million for the previous year. The loss for the year attributable to equity owners of the Company was RMB292.3 million, representing a decrease of RMB119.9 million, or 29.1%, as compared with loss attributable to equity owners of the Company amounting to RMB412.2 million for the previous year.

No final dividend for the year ended 31 December 2016 was proposed by the Board to the shareholders of the Company (2015: Nil).

RESULTS

The board of directors (the "Board") of SPT Energy Group Inc. (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Reporting Year"), together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Year ended 31 December **2016** ***RMB'000***	 2015 *RMB'000*
Revenue	*3*	**848,131**	1,035,007
Other (losses)/gains, net		**(30,015)**	25,212
Operating costs			
Material costs		**(177,672)**	(352,372)
Employee benefit expenses		**(376,230)**	(544,423)
Operating lease expenses		**(52,818)**	(69,981)
Transportation costs		**(22,660)**	(40,976)
Depreciation and amortisation		**(117,860)**	(101,891)
Technical service expenses		**(107,226)**	(149,057)
Impairment losses of assets		**(82,580)**	(47,457)
Others		**(149,153)**	(202,201)
		(1,086,199)	(1,508,358)
Operating loss		**(268,083)**	(448,139)
Finance income	*9*	**1,772**	2,222
Finance expenses	*9*	**(32,073)**	(40,024)
Finance expenses, net		**(30,301)**	(37,802)
Share of post-tax result of an associate		**(5,000)**	–
Loss before income tax	*10*	**(303,384)**	(485,941)
Income tax (expense)/credit	*10*	**(11,270)**	43,386
Loss for the year		**(314,654)**	(442,555)
Attributable to:			
Equity owners of the Company		**(292,346)**	(412,165)
Non-controlling interests		**(22,308)**	(30,390)
		(314,654)	(442,555)
Losses per share for the loss attributable to the equity owners of the Company			
Basic losses per share	*12*	**(0.190)**	(0.269)
Diluted losses per share	*12*	**(0.190)**	(0.269)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loss for the year	**(314,654)**	(442,555)
Other comprehensive income:		
Items that will not be subsequently reclassified to profit or loss:		
Currency translation differences	**41,112**	35,669
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	**32,015**	(313,937)
Total comprehensive loss for the year	**(241,527)**	(720,823)
Attributable to:		
Equity owners of the Company	**(218,592)**	(692,346)
Non-controlling interests	**(22,935)**	(28,477)
	(241,527)	(720,823)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**392,852**	535,343
Land use rights		**21,758**	22,241
Intangible assets		**35,727**	58,417
Deferred income tax assets		**138,842**	137,609
Prepayments	*5*	**23,685**	35,750
		612,864	789,360
Current assets			
Inventories		**371,631**	393,824
Trade and note receivables	*4*	**563,744**	631,794
Prepayments and other receivables	*5*	**248,532**	171,553
Restricted bank deposits		**17,619**	18,855
Cash and cash equivalents		**245,903**	344,855
		1,447,429	1,560,881
Total assets		**2,060,293**	2,350,241
Equity			
Equity attributable to the Company's equity owners			
Share capital	*6*	**974**	974
Share premium		**591,651**	591,651
Other reserves		**333,874**	327,276
Currency translation differences		**(403,382)**	(477,136)
Retained earnings		**392,184**	684,530
		915,301	1,127,295
Non-controlling interests		**97,033**	119,968
Total equity		**1,012,334**	1,247,263

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Liabilities			
Non-Current liabilities			
Borrowings		**103,093**	114,356
Deferred income tax liabilities		**22,141**	23,500
		125,234	137,856
Current liabilities			
Borrowings		**263,687**	257,689
Trade payables	*7*	**492,923**	553,838
Accruals and other payables	*8*	**110,089**	111,459
Current income tax liabilities		**40,522**	40,267
Current portion of long-term borrowings		**15,504**	1,869
		922,725	965,122
Total liabilities		**1,047,959**	1,102,978
Total equity and liabilities		**2,060,293**	2,350,241

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Amounts expressed in RMB unless otherwise stated)

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 has its primary listing on the main board of The Stock Exchange of Hong Kong Limited.

The Company is principally engaged in investment holding. The Company and its subsidiaries (the "Group") are principally engaged in provision of oilfield services including drilling, well completion, reservoir, with ancillary activities in trading and manufacturing of oilfield services related products mainly in the People's Republic of China (the "PRC"), Republic of Kazakhstan ("Kazakhstan"), Singapore, Canada and Indonesia. The ultimate controlling party of the Group is Mr. Wang Guoqiang (王國強) and Mr. Ethan Wu (吳東方) (collectively referred to as the "Controlling Shareholders").

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2017.

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.

2.1 Basis of preparation

The consolidated financial statements of SPT Energy Group Inc. have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

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.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following amendments to standards which are mandatory for the financial year beginning on 1 January 2016:

Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Annual Improvements Projects	Annual Improvements 2012-2014 cycle
Amendments to IAS 1	Disclosure initiative

The adoption of above amendments does not have any significant financial effect on these consolidated financial statements.

(b) *New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) *New standards and interpretations not yet adopted*

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning on 1 January 2016 and have not been early adopted.

IFRS 15	Revenue from Contracts with Customers [1]
IFRS 9	Financial Instruments [1]
IFRS 16	Leases [2]

[1] Effective for the accounting period beginning on 1 January 2018
[2] Effective for the accounting period beginning on 1 January 2019

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards.

3. SEGMENT INFORMATION

The chief operating decision-maker ("CODM") has been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on this financial information.

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services, which is the basis by which the CODM makes decisions about resources to be allocated to the segments and assesses their performance.

They are so managed according to different natures of products and services. Most of these entities are engaged in just single business, except for a few entities which deal with diversified operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

The CODM assesses performance of three reportable segments: drilling, well completion and reservoir. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

(a) Revenue

Revenue recognised during the years ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Drilling	**182,099**	243,925
Well completion	**120,606**	179,718
Reservoir	**545,426**	611,364
	848,131	1,035,007

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the income statement. The CODM evaluates the performance of the reportable segments based on profit or loss before income tax expense, depreciation and amortisation, interest income, finance costs and certain unallocated expense ("EBITDA").

Revenue amounting to RMB732,178,000 (2015: RMB706,927,000) 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 2016 and 2015 are as follows:

	Drilling *RMB'000*	**Well completion** *RMB'000*	**Reservoir** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2016				
Revenue from external customers	**182,099**	**120,606**	**545,426**	**848,131**
EBITDA	**(35,001)**	**(86,196)**	**93,008**	**(28,189)**
Total assets	**392,688**	**644,831**	**481,416**	**1,518,935**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**17,000**	**27,702**	**5,018**	**49,719**

	Drilling *RMB'000*	**Well completion** *RMB'000*	**Reservoir** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2015				
Revenue from external customers	243,925	179,718	611,364	1,035,007
EBITDA	(231,475)	(107,947)	98,812	(240,610)
Total assets	452,307	792,566	453,346	1,698,219
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred income tax assets)	22,760	76,310	20,090	119,160

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
EBITDA for reportable segments	**(28,189)**	(240,610)
Unallocated expenses		
– Share-based payments	**(6,598)**	(16,147)
– Other (losses)/gains, net	**(30,015)**	25,212
– Unallocated overhead expenses	**(90,421)**	(114,703)
	(127,034)	(105,638)
	(155,223)	(346,248)
Depreciation and amortisation	**(117,860)**	(101,891)
Finance expenses	**(32,073)**	(40,024)
Finance income	**1,772**	2,222
Loss before income tax	**(303,384)**	(485,941)

Reportable segments' assets are reconciled to total assets as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Segment assets for reportable segments	**1,518,935**	1,698,219
Unallocated assets		
– Deferred income tax assets	**138,842**	137,609
– Unallocated inventories	**15,579**	21,986
– Unallocated prepayment and other receivables	**123,415**	128,717
– Restricted bank deposits	**17,619**	18,855
– Cash and cash equivalents	**245,903**	344,855
	541,358	652,022
Total assets per balance sheet	**2,060,293**	2,350,241

(c) Geographical segment

The following table shows revenue by geographical segment according to the country of domicile (location of its main operation) of entities in the Group:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Kazakhstan	**196,439**	275,665
PRC	**480,316**	501,921
Middle East	**46,065**	62,296
Turkmenistan	**50,579**	108,918
Canada	**48,213**	63,118
Others	**26,519**	23,089
	848,131	1,035,007

The following table shows the non-current assets other than financial assets and deferred tax assets by geographical segment according to the country of domicile of the respective entities in the Group:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Kazakhstan	**91,746**	110,435
PRC	**290,308**	426,015
Middle East	**8**	20
Turkmenistan	**30,237**	33,299
Canada	**17,500**	24,077
Others	**44,223**	57,905
	474,022	651,751

4. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables *(a)*	**621,847**	677,217
Less: provision for trade receivables	**(84,198)**	(56,825)
Trade receivables – net	**537,649**	620,392
Note receivables *(a)*	**26,095**	11,402
	563,744	631,794

Notes

(a) Trade and note receivables are financial assets classified as "loan and receivables". The fair value of trade and note receivables approximated their carrying values.

(b) Most of the trade receivables are with the expected credit terms of six months, except for retention money amounting to RMB2,107,000 (2015: RMB9,500,000). Except for those disclosed in (d) and (e) below, for trade receivables that are neither past due nor impaired, management considered that these were receivables from customers with long business relationship and no default history. Therefore the risk of impairment was low.

(c) Aging analysis of gross trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 6 months	**366,131**	391,387
6 months – 1 year	**67,962**	88,444
1 – 2 years	**76,529**	107,193
2 – 3 years	**59,445**	86,815
Over 3 years	**77,875**	14,780
Trade receivables, gross	**647,942**	688,619
Less: provision for trade receivables	**(84,198)**	(56,825)
Trade receivables, net	**563,744**	631,794

(d) Trade and note receivables – past due but not impaired.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
6 months to 1 year	**67,270**	88,206
1 to 2 years	**76,069**	106,462
2 to 3 years	**53,046**	44,484
	196,385	239,152

These receivables relate to a number of independent customers for whom there was no recent history of default.

(e) Movements of provision for trade receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**(56,825)**	(33,986)
Add: provision for trade receivables	**(27,373)**	(22,839)
As at 31 December	**(84,198)**	(56,825)

The individually impaired trade and note receivables mainly related to certain customers who are in unexpectedly difficult financial situations and certain receivables with long ageing which the Group considered difficult to recover.

(f) The carrying amounts of the Group's trade and notes receivables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**383,817**	389,632
KZT	**79,184**	127,406
USD	**91,181**	108,643
Others	**9,562**	6,113
	563,744	631,794

(g) Trade receivables of RMB56,027,000 (2015: RMB126,000,000) have been pledged for the Group's borrowings.

5. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**66,893**	66,602
Prepayment for taxes	**43,370**	54,590
Total non-financial assets	**110,263**	121,192
Deposits and other receivables	**61,461**	57,802
Receivable relating to disposal of certain equipment	**84,401**	–
Less: provision for of other receivables	**(7,593)**	(7,441)
Total financial assets	**138,269**	50,361
	248,532	171,553
Non-current		
Advances to suppliers (Non-financial assets)	**6,708**	18,872
Prepayment for operating lease (Non-financial assets)	**16,977**	16,878
	23,685	35,750
Total	**272,217**	207,303

Notes

(a) No deposits and other receivables as at 31 December 2016 and 2015 were past due but not impaired.

(b) The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	Equivalent in	Equivalent in
	RMB'000	*RMB'000*
RMB	**201,221**	138,566
KZT	**21,778**	24,392
CAD	**26**	749
SGD	**17,439**	17,698
USD	**29,117**	16,568
Others	**2,636**	9,330
	272,217	207,303

(c) Deposits and other receivables are financial assets classified under "loans and receivables". The fair values of other receivables approximated their carrying values.

(d) For other receivables that are neither past due nor impaired, management considered these counter-parties have long business relationship and no default history. Therefore the risk of impairment was low. Movements in impairment of other receivables representing those that were part due are as follows:

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**(7,441)**	(6,702)
Add: provision for other receivables	**(152)**	(739)
As at 31 December	**(7,593)**	(7,441)

(e) As at 31 December 2016, non-current prepayments amounting to RMB7,040,000 (2015: RMB7,921,000) has been pledged for the Group's borrowings.

6. SHARE CAPITAL

Issued and fully paid

	Number of shares	**Share capital**
	(Thousands)	***RMB'000***
Authorised shares:		
Ordinary shares of US$0.0001 each as at 31 December 2016 and 2015	2,000,000	1,295
Issued shares:		
As at 31 December 2014	1,534,409	974
Add: share options exercised	381	–
As at 31 December 2015	1,534,790	974
As at 31 December 2016	**1,534,790**	**974**

7. TRADE PAYABLES

Ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 6 months	**209,606**	290,696
6 months to 1 year	**66,274**	52,162
1 – 2 years	**100,124**	162,751
2 – 3 years	**89,033**	29,909
Over 3 years	**27,886**	18,320
	492,923	553,838

8. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest payable	**4,742**	5,436
Rental fee payable	**4,470**	4,256
Others	**20,620**	16,331
Total financial liabilities	**29,832**	26,023
Customer deposits and receipts in advance	**4,134**	6,155
Payroll and welfare payable	**43,347**	46,882
Taxes other than income taxes payable	**32,776**	32,399
Total non-financial liabilities	**80,257**	85,436
	110,089	111,459

9. FINANCE EXPENSES, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net foreign exchange gains on financing activities	**–**	44
Interest income on short-term bank deposits	**1,772**	2,178
Finance income	**1,772**	2,222
Net foreign exchange losses on financing activities	**(47)**	–
Interest expense:		
– Bank borrowings	**(13,410)**	(22,968)
– Bank charges and others	**(6,025)**	(4,167)
– Liability component of convertible bonds	**(12,591)**	(12,889)
Total finance expenses	**(32,073)**	(40,024)
Net finance expenses	**(30,301)**	(37,802)

10. INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**14,180**	13,918
Deferred income tax	**(2,910)**	(57,304)
Income tax expense/(credit)	**11,270**	(43,386)

Notes

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

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

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

d. The subsidiaries established in Singapore are subject to Singapore profits tax rate of 10%.

e. PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in PRC for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the years ended 31 December 2016 and 2015, certain subsidiaries established in the western area of the PRC were subject to a preferential tax rate of 15% while other subsidiaries established in the PRC are subject to income tax rate of 25%.

f. The corporate income tax rate for subsidiaries established in Kazakhstan, Canada, Indonesia, Russia and the United Arab Emirates are 20%, 25%, 25%, 30% and 0% respectively.

The income tax on the Group's profit before 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	
	2016	2015
	RMB'000	*RMB'000*
Loss before income tax	**(303,384)**	(485,941)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(51,052)**	(83,269)
Expenses not deductible for taxation purposes	**1,158**	6,295
Losses not recognised as deferred tax assets	**51,283**	33,588
Withholding tax paid in foreign jurisdiction not deductible against local tax	**9,881**	–
Income tax expense/(credit)	**11,270**	(43,386)

11. DIVIDENDS

The Board did not propose final dividend for the years ended 31 December 2016 and 2015.

12. LOSSES PER SHARE

(a) Basic

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loss attributable to equity owners of the Company	**(292,346)**	(412,165)
Weighted average number of ordinary shares in issue (thousands)	**1,534,790**	1,534,632
Basic losses per share (RMB per share)	**(0.190)**	(0.269)

(b) Diluted

Diluted losses 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 two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. However, when calculating the dilutive losses per share for the year ended 31 December 2016, both of the convertible bonds and share options were excluded as anti-dilutive factors for the period.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Losses		
Loss attributable to equity owners of the Company	**(292,346)**	(412,165)
Interest expense on convertible bonds *(Note 9)*	**Anti-dilutive**	Anti-dilutive
	(292,346)	(412,165)
Weighted average number of ordinary shares in issue (thousands)	**1,534,790**	1,534,632
Adjustment for:		
– Assumed conversion of convertible bonds (thousands)	**Anti-dilutive**	Anti-dilutive
– Share options (thousands)	**Anti-dilutive**	Anti-dilutive
	1,534,790	1,534,632
Diluted losses per share	**(0.190)**	(0.269)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

During the Reporting Period, the Group faced a tough market environment. International oil prices continued to zigzag at its low end and hit its lowest level in recent years. Although a slow recovery trend was revealed throughout 2016, the international oil prices were down by more than 50% as compared with the highest level in 2014 before the global oil market crash. In addition, the accumulated unutilised capacity and sluggish global economy caused much pressure on the pace of recovery of global oil prices. Given these inherent factors and uncertainties about the prospect, the majority of the oil and gas producers remained prudent and generally adopted measures to cut down costs and capital expenditures. The expenditure in exploration and production became tightened across the sector and workload in the market continued to contract. In particular, existing oil producers were extremely sensitive to the pricing of their services. Faced with abundant over-supply, service providers predominantly competed for orders with a lower price to maintain market share. The projects had generally low gross profits or were even at loss to maintain operations.

During the Reporting Year, the Group actively adjusted its strategy to cope with the difficult industry environment. Firstly, to actively diversify the channel and method of financing to enhance the capability of capital access, the Group maintained a sound financial structure to ensure stable cash flow. As at the end of the Reporting Year, cash and cash equivalents amounted to RMB245.9 million. Secondly, to focus more on the demand of cost control and efficiency improvement at oil fields, the Group promoted a series of new technologies and new products, which meet the above demand of customers. To a certain extent, these measures have alleviated the pressure of workload contraction faced by the Group, and also allowed the Group to successfully enter some new markets that it used to have no competitive strengths. In addition, they optimised the Group's product mix, as well as strengthened the Group's risk resistance and business expansion capabilities. Thirdly, the Group reduced the over-capacity operations and cut down recurring expenses to control costs. Accordingly, administrative and sales expenses decreased substantially. Fourthly, the Group continued to optimise the organisation structure. At the end of the Reporting Year, the total number of employees registered with the Group was 3,013, down by 11.4% as compared with that in the previous year.

For the year ended 31 December 2016, the Group realised revenue of RMB848.1 million, representing a decrease of RMB186.9 million or 18.1% as compared with that in the previous year. Affected by the deteriorating global industry environment, revenue from both the PRC market and overseas markets decreased. During the Reporting Year, revenue from the PRC market amounted to RMB480.3 million, representing a decrease of RMB21.6 million or 4.3% as compared with that in the previous year; and revenue from the overseas markets amounted to RMB367.8 million, representing a decrease of RMB165.3 million or 31.0% as compared with that in the previous year. As to business segments, revenue from oil reservoir services amounted to RMB545.4 million, representing a decrease of RMB65.9 million or 10.8% as compared with that in the previous year; revenue from well completion services amounted to RMB120.6 million, representing a decrease of RMB59.1 million or 32.9% as compared with that in the previous year; revenue from drilling services amounted to RMB182.1 million, representing a decrease of RMB61.8 million or 25.3% as compared with that in the previous year.

Revenue Analysis

During the Reporting Year, the Group realised revenue of RMB848.1 million, representing a decrease of RMB186.9 million or 18.1% as compared with in the previous year. The decrease in revenue was mainly attributable to the low oil prices and substantial contraction in workload as a result of reduction in exploration investment by oil and gas producers. Among which, percentage of revenue from oil reservoir services was 64.3% and percentage of combined revenue from drilling service and well completion services was 35.7%. As a traditional principal business of the Group, the oil reservoir services segment aims to explore production potential of existing reservoirs and enhance exploration efficiency. As such, the impacts of market downturn on this segment were lower. As the drilling services and well completion services are closely related to new oilfield investments, the reduction in investment by oil and gas producers had a greater impact. Below is the breakdown of the revenue by different service lines:

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Reservoir	**545,426**	611,364	(10.8%)
Drilling	**182,099**	243,925	(25.3%)
Well Completion	**120,606**	179,718	(32.9%)
Total	**848,131**	1,035,007	(18.1%)

Reservoir Services Segment

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Revenue			
Overseas	**254,459**	340,778	(25.3%)
PRC	**290,967**	270,586	7.5%
Total	**545,426**	611,364	(10.8%)

During the Reporting Year, revenue from the oil reservoir services amounted to RMB545.4 million, representing a decrease of RMB65.9 million or 10.8% as compared with that in the previous year. Among which, revenue from the overseas markets amounted to RMB254.5 million, accounting for 46.7% of the total revenue from oil reservoir services; and revenue from the PRC market amounted to RMB290.9 million, accounting for 53.3% of the total revenue of oil reservoir services. The Group's oil reservoir services comprise oil reservoir research services, dynamic monitoring service, oil testing service, oil and gas operations maintenance service and oil extraction process service. The reservoir services segment aims to maximise the economic benefits of customers by providing quality solutions and systematic oil recovery services which are well recognised by customers.

During the Reporting Year, the oil-field service segment of the Group faced increased market pressure and challenging competition. Nevertheless, the Group successfully made the following achievements in certain markets.

1. The Group introduced the 140MPa blowout preventer in the western part of China. With respect to the "three ultras" (ultra-depth, ultra-high pressure and ultra-high temperature) gas well testing operations, it smoothly completed 24 testing operations throughout the year. No accident related to safety was identified and the data collection success rate was 100%. We are the only company which is able to provide such difficult operations service in the region.

2. The submersible directly driven screw pump technology was successfully launched in new markets such as PetroChina's Tuha Oilfield, Karamay Oilfield and Sinopec's Northwestern Oilfields, and had its trial operation. Solid foundation has been laid and the technology is ready for large scale application.

Drilling Services Segment and Well Completion Services Segment

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Drilling Services revenue			
Overseas	**56,176**	81,041	(30.7%)
PRC	**125,923**	162,884	(22.7%)
Total	**182,099**	243,925	(25.3%)

	For the year ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	*(%)*
Well Completion Services revenue			
Overseas	**57,180**	111,266	(48.6%)
PRC	**63,426**	68,452	(7.4%)
Total	**120,606**	179,718	(32.9%)

During the Reporting Year, revenue from drilling services segment amounted to RMB182.1 million, representing a decrease of RMB61.8 million or 25.3% as compared with that of the previous year. The Group's drilling services line comprised drilling rig service, work over rig service, vertical drilling technology service, horizontal drilling technology service, side tracking technology service, under balance drilling technology service, fine managed pressure drilling (FMPD) technology service, cementing services and drilling fluid services.

During the Reporting Year, revenue from well completion services segment amounted to RMB120.6 million, representing a decrease of RMB59.1 million or 32.9% as compared with that of the previous year. The Group's well completion service line comprised well completion tools trading and relevant service and stimulation fracturing service.

During the Reporting Year, the drilling service segment and the well completion segment managed to make the following key achievements despite facing very tough challenges:

1. The Group made the fastest drilling record in the Erdos project. During the Reporting Year, the Group had finished drilling of a total of 6 wells with average drilling cycle of 13.19 days and average well construction cycle of 19.18 days in this area. In one of the wells, we broke the area record for the fastest drilling where a drilling depth of 3,100 metres was achieved in only 11.3 days.

2. The Group developed an internationally-advanced full-length diversion fracturing technology specialising in the simulation of low permeability oil and gas reservoir, shale gas and coalbed methane gas. During the Reporting Year, it was successfully applied in the Lake Eyre project at Xinjiang Oilfield and the Sugeli project of Changqing Oilfield. Compared with those using conventional fracturing in the surrounding area with similar geological conditions, the new technology was able to achieve a better result in improving productivity and controlling cost and has promising prospects.

3. The Group provided the soluble bridge plug placement for horizontal wells and multi-stage cluster perforation joint operations for a horizontal well in Changqing Oilfield. The well has a horizontal length of 2,740 meters. The ultra-long horizontal length has caused great difficulties for pumping of bridge plug and packer. The Group successfully commenced the onsite operations and met the standards stipulated in the contract.

Market Environment

During the Reporting Period, the global oil market faced tremendous challenges. Faced with deteriorating global economy and slowing growth, the global oil prices plummeted to its recent lowest level. Despite the substantial decrease in investment in oil and gas exploration worldwide as compared with two years ago, crude oil inventory remained high given the strong inherent factors. As a result, the global crude oil prices recovered slowly and faced great pressure for further increase. Throughout the Reporting Year, exploration activities at oilfields were very inactive and equipment of oil-field service providers was generally under-utilised. Since the industry cyclic doldrums sustained for a relatively long period of time, many oil-field service providers engaged in vicious price competition to maintain a certain level of equipment utilisation rate and market share. As such, corporate profitability was greatly squeezed out and many service providers were loss-making alongside with low market sentiments. On 30 November 2016, major members of Organization of the Petroleum Exporting Countries entered into the output reduction agreement. Global oil prices showed a gradual pick up and market sentiments turned positive. However, since the output reduction agreement took effect in 2017, the demand and supply in the global oil market did not see material improvements during the Reporting Year.

Overseas Markets

The Group's major overseas markets mainly cover Central Asia, Southeast Asia and the Middle East where oil resources are abundant and exploration activities are active. During the Reporting Year, as a result of the sluggish oil prices, the overseas markets were generally characterised by tightened investment and huge contraction in exploration workload, especially the Central Asia market. During the Reporting Year, the exchange rate of KZT against USD remained at its lows. The Group's overall operations in the Central Asia region were greatly affected. Coupled with the vicious price competition, the local operating costs of the Group had a greater increase in general as compared with that before the devaluation of the currency, which undermined the profitability of the Group in the region. Comparatively speaking, in the Middle East and Southeast Asia regions, as revenue was generally denominated in USD, although oil companies significantly reduced their investments amid sluggish global oil prices, revenue generated from and the operations in these regions were relatively stable as compared with the previous year.

Faced with these objective circumstances, the Group took proactive measures to cope with the challenges in the overseas markets. Firstly, it cut down the cost of overseas operations and controlled daily expense, which was mainly achieved by large-scale downsizing of Chinese workers in the overseas markets and increasing the use of local personnel combined with strengthening the support of overseas personnel. As at the end of the Reporting Year, the number of Chinese workers stationed in Kazakhstan was reduced from 208 at the beginning of the year to 143, down by 31.25% as compared with that in the previous year. Secondly, it stepped up its business development efforts at oilfields through cost reduction and efficiency improvement technology. The Group's key oil recovery service, i.e. oil recovery directly driven screw pump business, was initially put into operation in Kazakhstan where three wells underwent testing with the maximum workover exemption period of 8 months, thus laying a solid foundation for mass application in 2017. Finally, it actively explored new markets. The Group has completed the registration of the Russian company and kicked off the slurry disposal related business. In the Middle East region, particularly Iraq, the Group stepped up the market expansion efforts. It was also awarded the two-year dynamic monitoring project at Iraq's Oasis Oilfield for the third time. Prior to the issue of this announcement, the Group obtained the access approval issued by the Petroleum Administration Bureau of Maysan, Iraq and is qualified for engaging in the sales of on ground and down hole tools as well as bidding for the majority of oilfield exploration services including workover, oil testing, acid fracturing and slurry disposal, thus marking an important milestone in the speedy development of the Group's Iraq business.

PRC Market

Compared with the overseas markets, the industry environment in the PRC market was even worse. Firstly, affected by more than two years' capital expenditure reduction, the PRC oil-field service providers generally suffered from significant investment shrinkage and output contraction. Based on the statistics published by National Bureau of Statistics, as of November 2016, crude oil output in the PRC decreased by 9% as compared with that in the previous year. The PRC crude oil output for that month only stood at 536,000 tonnes per day. Secondly, the PRC market faced even fiercer competition than the overseas markets. As state-owned oil-field service providers enjoy comparative strengths, the market share of independent third-party oil-field service providers was extremely squeezed out and most of the equipment remained idle. In addition, as most oil-field service providers attached greater importance to liquidity, many awards lowered their service fee to below cost level which resulted in severe vicious competition.

Amid such complicated conditions in the PRC market, in addition to strict control over operating costs and reduction in redundant operational capacity, the Group focused its efforts on the following areas:

- Accelerate the promotion of new products and technologies to satisfy the demand for cost reduction and efficiency improvement of customers amid low oil price environment. During the Reporting Year, the submersible directly driven screw pump technology was successfully launched in new markets such as PetroChina's Tuha Oilfield, Karamay Oilfield and Sinopec's Northwestern Oilfields, Kazakhstan NB Oilfield and had its trial operation. Solid foundation has been laid and is ready for large-scale application. The full-length diversion fracturing sand also had its trial operation at low permeability wells at Changqing Oilfield and Karamay Oilfield and the test results were good. The Group's self-developed annular pressure control business was also running smoothly at Daqing Oilfield and received high accreditation from customers.

- Accelerate the promotion of green operations at oilfields. As the central government's requirements on environmental protection and energy saving further increase, the importance of green oilfield is further enhanced. This is a market with huge potential and is only at its emerging phase. Xinjiang SPT Engineering Service Co., Ltd., a subsidiary of the Group obtained the environmental operations qualifications in relation to solid waste and sewage treatment issued by Xinjiang Provincial Environmental Protection Bureau. Thus, the Group is qualified to engage in a variety of environmental protection businesses. This offers the pre-requisite conditions for the environmental protection business expansion of the Company.

- Enhance the incentive system and increase management efficiency. To tackle the inadequate workload in the market and fierce price competition, the Group adjusted the appraisal and incentive system for some of the business units so that employees would increase work efficiency and operating costs would be reduced. Through these efforts, the work efficiency of the business units increased significantly. During the Reporting Year, the Group's drilling team No.2 at Erdos Changqing Oilfield performed remarkably where it completed the drilling of six wells (with an average depth of 3,000 metres) in five months at the Erdos Changqing Oilfield. Among which, we broke the record for the fastest drilling within the area where a drilling depth of 3,100 metres in the vertical well was achieved in only 11.3 days, gaining high recognition from customers.

Despite the difficult overall industry environment in 2016, objectively speaking, it allowed oil-field service providers to build its capabilities and confidence to tackle challenges and difficulties in such hard times. We believe that, after this transformation, oil-field service providers' resistance to risks will further increase and market competition will turn constructive. The ability to satisfy customer demands in areas of technology and product will be the core competence that oil-field service providers should focus on. As the global oil prices further recover, we consider that the objective industry environment will be further improved:

- The One Belt One Road strategy of China sets its starting point in Xinjiang Uyghur Autonomous Region, the PRC. The region is a traditional market where the Group enjoys comparative strengths. The strategy will not only generate more growth opportunities to Xinjiang, but is also a pull factor for the development of the local oil sector. Leveraging on the marketing capabilities built in the region over the past two decades, the Group will greatly benefit from the development of the oil sector there.

- The business environment of oil-field service will improve. It has been more than two years after the oil market downturn. Oil and gas producers have exercised strict control over oil and gas exploration and oil recovery expenditure for a fairly long period of time, bringing the crude oil output to its recent low. Since crude oil exploration and recovery requires a certain cycle, to ensure production output and market share, it has come to a point now for the oil and gas producers where investment in oil and gas exploration and oil recovery is needed.

- The PRC economy will maintain its growth momentum. Oil and gas resources will remain its position as the key resources of economic security for a fairly long period of time and are irreplaceable. In spite of the slowing economic growth in China, the Group believes that the key position of oil and gas resources can ensure steady growth of the Group's business.

In conclusion, the global oil market has overcome its toughest times and a silver lining has already appeared. After internal correction in this period, global oil market demand and supply will reach its equilibrium. Over the past years, certain less competitive players have been eliminated in this tough industry environment, leaving behind the opportunities for industry leaders. The Group remains fairly optimistic about the oil-field service sector and believes that it can create greater value in the future.

Research and Development ("R&D") and Manufacturing

As to scientific research and innovation, the Group's scientific research team pushed ahead its R&D efforts in the area of drilling processes and techniques such as increasing oil recovery, energy saving and environmental protection as well as cost reduction and efficiency improvement.

In addition to widespread and successful trial application of the submersible directly driven screw pump technology in oil wells, the engineering and technology centre of the Group also captured the 660V long-term high vector control technology and thus obtained the 3,000 metres (above) ultra-distance control. On 5 November 2016, wells in Tuha Oilfield successfully commenced underground operations with a setting pump depth of 3,003 metres and daily fluid production of 12 cubic metres, marking the initial success of the ultra-deep well small discharge rodless pump technology. At the same time, targeting at the issues of low liquid production and frequent inclined shafts among onshore wells in China, it has developed an integrated submersible electric screw pump lifting system, which is characterised by a system combining mechanical and electrical elements with a more well-knit structure that is approximately 50% less than the length of the submersible directly driven screw pump and is more suitable for underground applications. Moreover, it enjoys significant strengths in the recovery of low liquid production wells. The cost of production of the equipment has also been substantially reduced. Currently, processing of the prototype machine has been completed and simulation trial application has been carried out successfully in plants. Initially, various parameters of properties are proved to be stable and trial application in oil wells is soon to be carried out. The development of FulconFracTM full-length diversion fracturing technology has a complete process and technology system. In addition to achieving an increase of 40% in average simulation in the trial application in four wells in phase I, it carried out another trial application in two gas wells and similar simulation results were recorded of such technology on gas reserves. Currently, letters of intent have been entered into with customers and the Group is preparing the trial application of fracturing in two horizontal wells of shale gas in Sichuan. It is expected that, in 2017, a larger scale of trial application of FulconFracTM full-length diversion fracturing technology will be seen in reservoir of tight oil and gas fields and shale oil and gas fields.

Enecal Oil Tools ("EOT") manufacturing centre has drawn closer the relations between product R&D and marketing, placing more emphasis on the R&D of high-end products with great market demand and less competition and products specially designed for customers. Our Singapore plant successively completed the design and testing of Enecal TSV-5 and TSV-10 safety valve products and obtained the API14A certification with respect to safety valves designed for underground operations. Meanwhile, after modification of PHS-10 retrievable hydraulic packer under the 10,000 psi high-pressure environment, we have secured one order and this has allowed our Singapore plant to obtain the API11D1V0 certification. The 5-1/2" large-bore hydraulic retrievable packer technology and the 3E system annular pressure control technology respectively developed by Enecal Tanggu plant were successfully applied onsite in Daqing Oilfield, initially generating considerable economic benefits. The multi-stage modification tool of 4-1/2" oil casing full-bore horizontal well was applied in the onsite construction of 12 wells and were highly accredited and received by customers. Currently, we are developing a tool ancillary to 4-1/2" casing continuous pipeline driven sandblasting perforation fracturing process; hydraulic retrievable hookwall packer for 6-5/8" and 7" casings and their ancillary tools; as well as 3.5" ball set fishable multiple-switch fracturing sleeve and its ancillary switch fishing tools. The development of which is expected to be completed in 2017.

Human Resources

Based on the business growth needs, the Group has adopted the following human resources measures:

In response to the changes in the external market environment, coupled with the strategic growth needs, the Group continued to optimise and adjust the organisational structure. Focusing on the features of "quick response, flexibility, low cost operation and clear responsibilities" in its horizontal organisational structure, the Group restructured its group structure and reporting lines as well as rationalised the management structure. At the same time, it downsized the operating entities, further refined the operating indicators and delegated power and responsibilities to lower levels. After establishing the departments including the "project development department, strategic investment department, equipment management department and EOT manufacturing centre", more human resources were allocated to new market expansion. Now, these efforts begin to bear fruit.

Through structural optimisation and downsizing, the Group has successfully reduced headcount. In 2016, the Group continued its structural optimisation efforts toward headcount. As at 31 December 2016, the number of employees registered with the Group was reduced to 3,013, decreased by 387 as compared with the number of employees as at 31 December 2015 of 3,400, thus reducing staff costs by approximately RMB168 million for the year. The actual costs of the Group's human resources for the year were controlled within the budget amount set at the beginning of the year.

Our Plans

The Group considers that, as the market environment further improves, the investment in oilfield exploration will also pick up slowly. After two and a half years of correction, the oil-field service market has experienced considerable structural changes. Objectively speaking, it has provided room and opportunities for new industry and market consolidation. In this regard, in addition to further consolidating and expanding the market share of its traditional markets and products, the Group plans to focus its efforts on the following areas:

1. Closely follow customer needs, continue to promote the technologies and products that meet the customers' requirements of cost reduction and efficiency increase; at the same time further strengthen new product promotion such as submersible electric pump and low density fracturing sand in the markets we have already entered in an effort to achieve mass application.

2. Step up expansion efforts in new markets particularly the Middle East and Russia where oil and gas resources are abundant and exploration activities are active with a view to expanding the operation size in these markets to another new level.

3. Strengthen communication and cooperation with upstream customers, possibly through joint venture to take part in the whole-life cycle management of oil-field development.

4. Push ahead its efforts in energy saving and environmental protection so as to open a new profit growth area for the Group.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, revenue of the Group was RMB848.1 million, representing a decrease of RMB186.9 million, or 18.1%, as compared with that of RMB1,035.0 million for the previous year. The decrease was mainly due to the continuing low crude oil prices which led to the depression of the industry investment and the shrinkage of the oil-field services market.

Other (losses)/gains, net

For the year ended 31 December 2016, other losses, net of the Group were RMB30.0 million, while other gains, net for the previous year were RMB25.2 million. The net losses were as a result of certain PRC subsidiaries holding many USD denominated liabilities.

Material costs

For the year ended 31 December 2016, material costs of the Group was RMB177.7 million, representing a decrease of RMB174.7 million, or 49.6%, as compared with that of RMB352.4 million for the previous year. The decrease of material costs was mainly due to the operating activities contraction of the Group.

Employee benefit expenses

For the year ended 31 December 2016, employee benefit expenses of the Group were RMB376.2 million, representing a decrease of RMB168.2 million, or 30.9%, as compared with that of RMB544.4 million for the previous year. The decrease reflected the efforts of the Group to cut labor costs by layoff of excessive employees and reduction of salary level.

Operating lease expenses

For the year ended 31 December 2016, operating lease expenses of the Group was RMB52.8 million, representing a decrease of RMB17.2 million, or 24.6%, as compared with that of RMB70.0 million for the previous year. It was mainly due to the operating activities shrinkage of the Group.

Transportation costs

For the year ended 31 December 2016, transportation costs of the Group was RMB22.7 million, representing a decrease of RMB18.3 million, or 44.6%, as compared with that of RMB41.0 million for the previous year. The decrease was mainly due to the operating activities shrinkage of the Group.

Depreciation and Amortisation

For the year ended 31 December 2016, depreciation and amortisation of the Group was RMB117.9 million, representing an increase of RMB16.0 million, or 15.7%, as compared with that of RMB101.9 million for the previous year. The increase was mainly because new equipment purchased in 2015 was depreciated in the Reporting Year.

Technical service expenses

For the year ended 31 December 2016, technical service expenses of the Group were RMB107.2 million, representing a decrease of RMB41.9 million, or 28.1%, as compared with that of RMB149.1 million for the previous year. The decrease was mainly due to the operating activities shrinkage of the Group.

Impairment loss/(reversal) of assets

For the year ended 31 December 2016, impairment loss of assets of the Group was RMB82.6 million while impairment loss was RMB47.5 million in the previous year, The impairment loss of assets was mainly due to the values write-down of certain assets as they were not considered recoverable any more under the depressed market environment.

Others

For the year ended 31 December 2016, other operating costs of the Group were RMB149.2 million, representing a decrease of RMB53.0 million, or 26.2%, as compared with that of RMB202.2 million for the previous year. The decrease reflects the efforts taken by the Company to reduce the general and administrative expenses.

Operating loss

As a result of the aforementioned changes, the Group's operating loss during the Reporting Year was RMB268.1 million, compared with the operating loss of RMB448.1 million, or 40.2% for the previous year.

Finance expenses (net)

For the Reporting Year, the Group's finance expenses (net) was RMB30.3 million, representing a decrease of RMB7.5 million, or 19.8%, as compared with that of RMB37.8 million for the previous year. The decrease was mainly due to the decline of interests.

Income tax (expense)/credit

For the Reporting Year, income tax expense was RMB11.3 million, compared with the income tax credit of RMB43.4 million for the previous year. The change from income tax credit to the tax expense was as a result of not recognising a substantial amount of tax losses carried forward in deferred tax assets.

Loss for the Year

As a result of the explanations above, the Group's loss for the Reporting Year was RMB314.7 million, representing a significant decrease of RMB127.9 million, or 28.9% from net loss amounting to RMB442.6 million for the previous year.

Loss attributable to equity owners of the Company

For the Reporting Year, loss attributable to equity owners of the Company was RMB292.3 million, representing a decrease of RMB119.9 million, or 29.1%, from loss attributable to equity owners of the Company amounting to RMB412.2 million for the previous year.

Property, plant and equipment

As at 31 December 2016, property, plant and equipment was RMB392.9 million, representing a decrease of RMB142.4 million, or 26.6%, from RMB535.3 million as at 31 December 2015. The change was mainly due to the disposal of certain equipment, continuing depreciation of existing equipment and impairment of equipment.

Land use rights

As at 31 December 2016, the carrying value of land use right was RMB21.8 million, representing a decrease of RMB0.4 million, or 1.8%, from RMB22.2 million as at 31 December 2015. This was mainly due to the continuing amortisation of existing land use rights.

Intangible assets

As at 31 December 2016, intangible assets were RMB35.7 million, representing a decrease of RMB22.7 million, or 38.9%, from RMB58.4 million as at 31 December 2015. This was mainly due to the continuing amortisation of the existing intangible assets.

Deferred income tax assets

As at 31 December 2016, deferred income tax assets were RMB138.8 million, representing an increase of RMB1.2 million, or 0.9%, from RMB137.6 million as at 31 December 2015. The increase was mainly due to the recognition of deferred income tax assets related to allowance on impairment loss.

Prepayments and other receivables

As at 31 December 2016, non-current portion of prepayments and other receivables was RMB23.7 million, representing a decrease of RMB12.1 million, or 33.8%, from RMB35.8 million as at 31 December 2015, while current portion of prepayments and other receivables was RMB248.5 million, representing an increase of RMB76.9 million, or 44.8%, from RMB171.6 million as at 31 December 2015. The increase was mainly due to the disposal of certain equipment of the Group.

Inventories

As at 31 December 2016, inventories were RMB371.6 million, representing a decrease of RMB22.2 million, or 5.6%, from RMB393.8 million as at 31 December 2015. The decrease was mainly due to the impairment of inventories.

Trade and notes receivables/Trade payables

As at 31 December 2016, trade and notes receivables was RMB563.7 million, representing a decrease of RMB68.1 million, or 10.7%, from RMB631.8 million as at 31 December 2015. The decrease was mainly due to the shrinkage of revenue realised during the Reporting Year.

As at 31 December 2016, trade payables was RMB492.9 million, representing a decrease of RMB60.9 million, or 11.0%, from RMB553.8 million as at 31 December 2015. The decrease was mainly due to the reduction of materials purchases and subcontracts.

Liquidity and capital resources

As at 31 December 2016, the Group's cash and bank deposits, comprising cash and cash equivalents and restricted bank deposits, were RMB263.5 million, representing a decrease of RMB100.2 million, or 27.6%, from RMB363.7 as at 31 December 2015. The decrease was mainly due to operating activities contraction of the Group, the repayment of bank borrowings and equipment purchases.

As at 31 December 2016, the Group's short-term borrowings and current portion of long-term borrowings were RMB279.2 million while the long-term borrowings was RMB103.1 million. As at 31 December 2015, the Group's short-term borrowings and current portion of long-term borrowings were RMB259.6 million while the long-term borrowings were RMB114.4 million.

As at 31 December 2016, the Group's gearing ratio was 37.8%, representing an increase of 7.8% as compared with 30.0% as at 31 December 2015. Gearing ratio was calculated as total borrowings divided by total equity. Total borrowings included long-term borrowings, short-term borrowings and current portion of long-term borrowings.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2016, the total number of ordinary shares of the Company in issue was 1,534,790,332 shares (31 December 2015: 1,534,790,332 shares). As at 31 December 2016, equity attributable to the equity owners of the Company was RMB915.3 million, representing a decrease of RMB212.0 million, or 18.8%, as compared with RMB1,127.3 million as at 31 December 2015.

Significant investment held

As at 31 December 2016, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

For the Reporting Year, the Group had no material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 31 December 2016, the Group pledged parts of its property, plant and equipment, long-term prepayments and trade and note receivables to secure the Group's borrowings. The carrying values of the assets pledged are as follows:

	As at 31 December 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Property, plant and equipment	**107**	642
Long-term prepayments	**7,040**	7,921
Trade and note receivables	**56,027**	126,000
Land use right	**21,758**	–
Restricted bank deposits	**1,500**	–

Convertible bonds

The movement of the convertible bonds during the Reporting Year is presented as below:

	2016
	RMB'000
Liability component as at 31 December 2015	**67,662**
Add: Interest expense in 2016	**12,591**
Less: Interest paid and payable	**(3,122)**
Add: Exchange difference	**6,335**
Liability component as at 31 December 2016	**83,466**

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2016, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2016, the Group had no capital expenditure commitments, while operating lease commitments were mainly lease of offices, warehouses and equipments with the amount of RMB69.0 million.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the shareholders who are entitled to attend the forthcoming annual general meeting to be held on 6 June 2017, the register of members of the Company will be closed from 1 June 2017 to 6 June 2017 (both dates inclusive). All transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 31 May 2017.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Prior to 1 September 2016, Mr. Wang Guoqiang was the chairman of the Board and chief executive officer of the Company. The Board believed that Mr. Wang Guoqiang's extensive experience in the oil industry would be beneficial to the business prospects and management of the Group. The Board and the senior management, which comprises experienced and high calibre individuals, could ensure the balance of power and authority.

To further enhance the corporate governance of the Company and to in line with the market practices in the same industry, on 23 August 2016, the Board has approved the appointment of Mr. Jiang Qingsong as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 1 September 2016. Upon such appointment, the Company has re-complied with the code provision A.2.1 of the CG Code.

Save as disclosed above, the Company was in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2016. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the consolidated financial statements for the Reporting Year.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and on the websites of the Company (www.spt.cn), and the 2016 Annual Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
SPT Energy Group Inc.
Mr. Wang Guoqiang
Chairman

Hong Kong, 21 March 2017

As at the date of this announcement, the executive directors are Mr. Wang Guoqiang, Mr. Ethan Wu, Mr. Liu Ruoyan and Mr. Jin Shumao; the non-executive directors are Mr. Lin Yang and Ms. Chen Chunhua; the independent non-executive directors are Ms. Zhang Yujuan, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming.

* *for identification purpose only*