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

2023
ANNUAL REPORT

Contents

Corporate Information

THE BOARD

Executive Directors

Mr. Ethan Wu *(Chairman and Chief Executive Officer)* (Note 1)
Mr. Li Qiang
Mr. Ding Kechen (Note 2)

Non-Executive Directors

Mr. Wang Guoqiang (Note 1)
Mr. Wu Jiwei
Ms. Chen Chunhua

Independent Non-Executive Directors

Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Ma Xiaohu

AUDIT COMMITTEE

Mr. Wu Kwok Keung Andrew *(Chairman)*
Ms. Chen Chunhua
Mr. Ma Xiaohu

REMUNERATION COMMITTEE

Ms. Zhang Yujuan *(Chairman)*
Mr. Ethan Wu (Note 1)
Mr. Wu Kwok Keung Andrew

NOMINATION COMMITTEE

Mr. Ethan Wu *(Chairman)* (Note 1)
Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew

AUTHORISED REPRESENTATIVES

Mr. Ethan Wu (Note 1)
Ms. Lai Siu Kuen

COMPANY SECRETARY

Ms. Lai Siu Kuen *(FCG, HKFCG)*

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)

Notes:

1. On 26 March 2024, Mr. Wang Guoqiang was re-designated as a non-executive Director of the Company from an executive Director of the Company, and resigned as the chairman of the Board, the chairman of the Nomination Committee, and a member of the Remuneration Committee, and ceased to act as the Authorised Representative; and Mr. Ethan Wu was appointed as the chairman of the Board, the chairman of the Nomination Committee, a member of the Remuneration Committee and the Authorised Representative, and he will continue to act as an executive Director and the Chief Executive Officer of the Company.

2. On 3 April 2024, Mr. Ding Kechen was appointed as an executive Director of the Company.

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 Accounting Standards:

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
RMB'000	**2023**	2022	2021	2020	2019
Revenue	**1,947,244**	1,757,162	1,588,799	1,289,267	1,949,459
Other gains/(losses), net	**12,297**	(7,640)	4,895	25,550	(7,693)
Operating costs	**(1,905,528)**	(1,696,654)	(1,540,296)	(1,379,218)	(1,648,674)
Operating profit/(loss)	**54,013**	52,868	53,398	(64,401)	293,092
Finance costs, net	**(31,146)**	(37,441)	(41,993)	(36,595)	(30,355)
Share of net (loss)/profit of an associate and a joint venture accounted for using the equity method	**(1,317)**	819	470	148	–
Profit/(loss) before income tax	**21,550**	16,246	11,875	(100,848)	262,737
Profit/(loss) for the year	**8,778**	7,457	4,187	(98,404)	200,127
Attributable to:					
Owners of the Company	**16,745**	13,241	8,795	(91,189)	198,926
Non-controlling interests	**(7,967)**	(5,784)	(4,608)	(7,215)	1,201
Dividends proposed after balance sheet date	**–**	–	–	–	–

Financial Summary

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
RMB'000	**2023**	2022	2021	2020	2019
Assets					
Non-current assets	**651,854**	650,446	647,188	679,011	657,748
Current assets	**2,259,353**	2,232,112	2,139,501	2,025,330	2,473,726
Total assets	**2,911,207**	2,882,558	2,786,689	2,704,341	3,131,474
Total equity	**1,285,240**	1,225,104	1,205,640	1,231,371	1,499,569
Liabilities					
Non-current liabilities	**116,750**	85,445	286,897	301,728	117,630
Current liabilities	**1,509,217**	1,572,009	1,294,152	1,171,242	1,514,275
Total liabilities	**1,625,967**	1,657,454	1,581,049	1,472,970	1,631,905
Total equity and liabilities	**2,911,207**	2,882,558	2,786,689	2,704,341	3,131,474

Chairman's Statement

Ethan Wu
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 2023 (the "Reporting Year") to the shareholders of the Company.

During the Reporting Year, the Group's revenue amounted to RMB1,947.2 million and the profit attributable to the owners of the Company amounted to RMB16.7 million.

Chairman's Statement

REVIEW ON THE MARKETING AND OPERATION AND MANAGEMENT

Currently, the economy is undergoing a cyclical transition from loosening to tightening and growing at a slower rate. Long-term risk factors such as global geopolitical tensions, climate change, industry chain reshaping, and substantial price fluctuations also persist. In 2023, the supply and demand imbalance in the global oil market eased. Major oil and gas producing countries in the international market maintained stable production. The global energy sector accelerated its transition to a green and low-carbon path. In promoting energy transition, concertedly safeguarding energy supply security has become an urgent task for the global energy sector. As the world's largest energy source, petroleum continued to serve as a cornerstone for sustainable energy supply security, playing a crucial role as a fundamental raw material, indispensable for achieving low-carbon goals and driving energy transformation. It has become the consensus of today's global energy sector to balance supply security and green development and advance low-carbon transformation and ensure energy security in a coordinated manner. The trend of transformation and upgrade in traditional oil and gas industries and the cultivation and growth of strategic emerging industries has impacts on technological upgrades in the oil field service sector. New demands for new energies, combined with the technological advantages of the oil field service sector ("OFS"), have brought new development opportunities for the oil field service sector, driving its technological upgrade and dynamic development.

In 2023, the Chinese economy rebounded and improved amidst complex circumstances, with solid progress towards high-quality development, demonstrating the resilience of the economy. China's GDP grew by 5.2% year-on-year, playing an instrumental role in the stability and growth of the world economy. In 2023, domestic energy supply in China remained sufficient and stable, and energy security capability continued to improve. Increase in oil and gas reserves and production is the prerequisite and foundation for high-quality and sustainable development of the China's petroleum industry. Chinese oil and gas companies took a series of important measures to promote oil and gas exploration and achieved a series of new breakthroughs and advancements, further consolidating the resource foundation for national energy security. Meanwhile, China was transitioning from an active participant in global energy transformation to an important contributor. The advancement of China's "carbon peaking and carbon neutrality" ("dual carbon") target policy and the achievements of the green transformation of energy structure made a huge contribution to the global energy transformation. Notably, carbon capture, utilisation, and storage ("CCUS") is currently the only technological choice for achieving low-carbon utilisation of fossil energy and is also a crucial technology that China must adopt to achieve its "dual carbon" goals. The scale of CCUS projects is rapidly expanding globally, and the projects have entered the demonstration phase in China.

Against the backdrop of profound changes in the oil and gas sector and the OFS sector entering a period of prosperity, the Group assessed the situation, adjusted its strategy, redefined its development direction and market positioning, and set development goals. Seizing the favourable opportunities of energy structure transformation and policy support, the Group overcame difficulties, sought breakthroughs, and embarked on a new journey, ensuring an overall improvement in business performance. Meanwhile, the Group has ensured personnel stability without large-scale layoffs. With a complete oil service industry chain, a clear strategic planning, and a cohesive corporate culture, the Group has overcome various challenges of the past year, and has the confidence and capability to withstand future risks. Facing opportunities and challenges over the year, the Group took the following concrete measures:

Chairman's Statement

Firstly, the Group carried out comprehensive strategic upgrade with effective results, and continuously implemented the strategy of "technology-driven development". Seizing the important opportunities arising from the transformation and innovation of the oil and gas sector, the Group reshaped its three major strategic pillars, and gained sound business development momentum. In terms of oil field technical services, its main business, the Group sought changes amid adversities, maintained its business in the traditional market and fundamental base while expanding its presence, giving birth to new hope. The new energy business gradually gained momentum and obtained considerable orders, laying a solid foundation for the subsequent development of this segment. In terms of oilfield exploration and development, the Group entered into a 30-year cooperation agreement with the Indonesian government on the Jabung Tengah oilfield exploration and development project. According to preliminary authoritative assessment, the future production of the oilfield is considerable. Innovation is the primary driving force for development. Guided by the strategy of "technology-driven development", the Group has always adhered to a technology-oriented approach and relied on independent intellectual property rights. We have formed a cluster of patents in the field of technology, providing strong technical support for the Group's high-quality sustainable development.

Secondly, the Group further advanced cost reduction, quality enhancement, and efficiency improvement, continuously enhancing management efficiency. The Group formulated specific implementation plans, breaking down the work and goals of quality improvement and efficiency enhancement and communicating them level by level. We improved work quality and efficiency by optimising production, technological R&D and refining management measures, thereby achieving profit growth, cost savings, and management improvements. We achieved flat and refined management through organisational transformation and new technologies application, so as to tap into our potential, increase efficiency and ensure stability. By strengthening management and control of project operating process and with comprehensive budget management and refined cost management, we enhanced cash flow management and ensured the achievement of expected targets. The Group endeavoured to continuously enhance its risk resistance and maintain sustainable development capabilities. We implemented both revenue increase and cost-saving measures to improve economic benefits and construction efficiency, adapt to external environmental changes, and ensure the long-term survival and development of the Company.

Chairman's Statement

Thirdly, the Group continued to develop regional markets and actively explore overseas and emerging markets with customer demand as the guiding principle. In light of the fact that the oilfield service sector was recovering and improving driven by capital improvement in the upstream sector on the one hand, facing the adverse impact of fierce competition, optimisation of capital expenditure structure by customers, and low service prices on the other hand, the Group continued to adopt a business strategy of "led by technology, early deployment", continuously consolidated and deepened business partnerships in regional markets. It continuously optimised the overseas market layout by capitalizing on industry cycles and favorable policy changes, seizing opportunities with partners to consolidate the cooperation foundation for long-term sustainable development. Against the backdrop of accelerated energy transformation by our customers, the Group continued to integrate its advantageous resources and enhance its business layout, promoted the expansion of emerging markets and low-carbon projects from the strategic perspective of diversified industrial construction, pushed forward with the synergistic development of our traditional business and new energy business and achieved a milestone breakthrough.

Fourthly, the Group strictly fulfilled its social responsibilities by further promoting the environmental, social and governance ("ESG") and sustainable development efforts. By setting up a reasonable and effective ESG risk management and internal control system, the Group set energy-saving and emission reduction targets, integrated ESG and sustainable development concepts into its strategies and operations, and improved internal control governance capability and risk prevention and control awareness. It inspired both upstream and downstream enterprises to jointly implement the ESG concept. In terms of human resources, the Group developed a pool of talents, optimised the talent structure and built a high-energy and high-efficiency team in accordance with its strategy. It enhanced and improved its performance management system, continuously optimised its global human resources business system and upgraded the international talent system. It also 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 talent team.

During the Reporting Year, the Group focused on the future, forged new paths, and achieved remarkable results. In terms of traditional OFS business, we stabilised the existing market, strictly controlled costs, and sought changes amidst adversities. In terms of new energy business, we fully leveraged the Group's existing resources and achievements to compete in the strategic market, laying a solid foundation. In terms of oilfield exploration and development, we made historic breakthroughs. The clear positioning and coordinated development of the three strategic segments have directed and laid a solid foundation for the mid-to-long term development of the Group for 2024 and onwards.

Chairman's Statement

PROSPECTS

The World Bank believes that global economic growth will slow down for the third consecutive year in 2024. A multitude of factors have contributed to the growing complexity and uncertainty of the global economy, including geopolitical tensions and regional conflicts, the reshaping of supply chain and industrial chain that result in rising operational costs, high inflation and high interest rates, natural disasters, and climate change that leads to extreme weather events. Slower economic growth and accelerated adoption of alternatives will put pressure on the growth of oil demand; meanwhile, oil production continues to increase in non-OPEC countries such as the United States, while new oil-producing and exporting countries are emerging, leading to ample and increasingly surplus supply in the international oil market. Overall market supply and demand will likely remain loose. In 2024, promoting green and low-carbon development remains a global priority. The 28th Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change further clarified the irreversible global trend towards green and low-carbon transformation. Major international oil companies will continue to endeavour to fulfil their commitments to the global clean energy transformation. However, their energy transformation plans will shift from radical to rational, aiming to establish a secure, affordable, and sustainable energy system.

The "2024 Economic and Financial Outlook Report" released by the Bank of China Research Institute predicts that in 2024, China's external economic environment may improve, the effects of growth-stabilising policies will continue to manifest, and domestic demand will keep picking up. As the continuous recovery and improvement of the Chinese economy underpins oil demand growth, oil demand is expected to remain stable with upward momentum in China in 2024. Against the backdrop of the construction of a new energy system, natural gas is becoming an important energy source to support comprehensive green transformation of the economy and society, and will continue to replace high-polluting fuels in supporting the scale development of new energy, playing a stabilising role. As a fall-back support technology for achieving dual carbon goals in the petrochemical energy sector, CCUS will play the role of a ballast stone in achieving the target of 1.5-degree Celsius temperature control of the world in the future, serving as a cornerstone in the low-carbon transformation of the oil and gas sector.

As an OFS company, we are more fully aware of the significance of the carbon emission reduction mission, and incorporate it into our overall strategic planning and throughout the whole process of investment and operation decision-making, business structure adjustment and optimisation, and production and operation arrangement. Actively responding to the national call, based on its long-term development, the Group proceeded with the industrial layout of CCUS from the strategic height of diversified industrial construction. Leveraging our existing technologies, we will work to gradually build the full-industry-chain business capabilities for CCUS projects with cost reduction as the guiding principle and design optimisation as the means. The one-million-ton CCUS project we won earlier last year has now completed the preliminary selection of the target area for the site selection of the geological storage, and is expected to commence within the year. The Group won the bid of contract awarded by China Energy Group Coal Liquefaction Company for the million-ton CCUS exploration site selection and exploration well construction services project in early 2024.

Chairman's Statement

Notably, on 4 March, 2024, the drilling depth of the Take-1 well located in the Tarim Basin in Xinjiang exceeded 10,000 metres, breaking the record for the deepest straight well in Asia and becoming currently the second deepest well in the world. The experimental testing centre of the Group's Xinjiang Regional Company has continuously tackled challenges, making contribution to the technical preparations in advance to ensure rapid drilling progress and guarantee the quality for the shaft of the 10,000-metre well which provides support to the development of deep drilling and offers valuable strength to deal with the technical difficulties of "ultra-deep, ultra-high temperature, ultra-high pressure, and high sulphur content" faced in drilling operation. Currently, deep and ultra-deep oil and gas resources account for 34% of China's total oil and gas resources. Xinjiang Regional Company will continue to concentrate various technical strengths, make sustained efforts to overcome operational challenges in the industry, and strive to enhance its key core technologies, so as to lay a solid foundation for future market share acquisition in deep oil reservoirs.

In 2024, the key tasks of the Group are as follows: In the oilfield sector, we will continue to advance exploration and development; in the OFS sector, we will maintain the fundamental base and prioritise developing the overseas market to strengthen the depth of layout; in the new energy sector, we will continue to ensure the successful implementation of projects.

Looking ahead to the next five years, the Group will strive to achieve scalable production capacity in the Indonesian oilfield block as soon as possible to thoroughly improve the Group's development environment. We will hold on to our main business of OFS, adhere to the technology-driven strategy, and strengthen capacity building, aiming to achieve a top-notch position in the industry and a leading position internationally, so as to consolidate the foundation of our efforts to build a century-old enterprise. For the new energy business, we will progress steadily and take a long-term approach, seeking to secure more projects and market shares. At the same time, we will make rigorous efforts in team building and strive to create a positive enterprise environment characterised with integrity and transparency.

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. In 2024, we will continue our relentless efforts to "shoulder the mission of the times, focus on the energy industry" and "assume the responsibility of building a century-old enterprise". We will strive to achieve remarkable results in technological breakthroughs, market expansion, and industry influence, with a view to bringing higher value returns to our shareholders.

Ethan Wu
Chairman of the Board

Management Discussion and Analysis

BUSINESS REVIEW

During the Reporting Year, under the influence of multiple factors such as slow recovery of the global economy, persistent and frequent geopolitical conflicts, accelerated restructuring of the global supply chain, and the transition of the international energy industry from old to new, international oil prices, though fluctuating, remained at a mid-to-high. High oil prices drive the increased investment in oil and gas exploration and development in the upstream. Thanks to this, while the global oilfield services industry is struggling to recover, the development trend continues to improve. At the same time, the industry continues to face challenges in technological renewal and upgrading, environmental protection and market competition, and the battlefield remains fierce. Domestically, the oilfield services market continued to show strong resilience under the continued promotion of the "Seven-Year Action Plan" to safeguard national energy security and the increase in storage and production.

In 2023, the worldwide COVID-19 pandemic ended. Although the epidemic lockdown has been lifted, the domestic and international economic situations have changed drastically, and the severe challenges and complexities and uncertainties from both inside and outside the industry did not relent. The Group, united as one, has persevered for survival, confronted difficulties and sought breakthroughs, seized opportunities and promoted development, stood various tests and overcome adverse impacts caused by the internal and external environments, and has fully utilized its strengths in combating risks to ensure stable running of the Group's operations, while boosting the confidence of the entire Group. During the Reporting Year, the Group continued to increase its revenue scale and profit level, recording revenue of RMB1,947.2 million, an increase of RMB190.0 million or 10.8% over last year; and profit of RMB8.8 million for the Reporting Year, an increase of RMB1.3 million or 17.3% over last year. The Group continued to integrate its advantageous resources and enhance its business layout. In 2023, the development trend of the Group's three major strategic business segments was favorable. The Group's main business, oilfield technical services, strove for changes amidst difficulties, and held on to its traditional market and basic market, while expanding and nurturing new hopes; the development of the new energy business gradually emerged, with a sizable number of contracts secured during the Reporting Year, which laid a solid foundation for the subsequent development of this segment; and the exploration and development project of the oilfields in Indonesia is expected to have a sizable production volume. Meanwhile, the overall production value, profit and cash flow situation of the Group in 2023 exceeded expectations. This is closely related to the Group's consistent adoption of prudent financial policies, insistence on light-asset operations and strengthening of the whole process cash flow management strategy, which fully demonstrated the Group's stronger risk resistance, operational flexibility and continuous development capability.

Management Discussion and Analysis

REVENUE ANALYSIS

During the Reporting Year, the Group realised revenue of RMB1,947.2 million, representing an increase of RMB190.0 million or 10.8% as compared to previous year. The analysis on the revenue of the Group by business segment is as follows:

	For the year ended 31 December		
	2023 *RMB'000*	2022 *RMB'000*	Change *(%)*
Revenue			
Reservoir	**784,169**	692,350	13.3%
Drilling	**513,406**	500,821	2.5%
Well completion	**477,844**	422,255	13.2%
Other	**171,825**	141,736	21.2%
Total	**1,947,244**	1,757,162	10.8%

During the Reporting Year, with oil price of oilfield service industry ran at the mid-to-high levels, the gradual increase in upstream capital expenditure and the development of new energy field, the industry was getting promising, and the Group's revenue achieved a certain degree of growth in 2023. In particular, revenue from reservoir segment accounted for 40.3% of the total revenue, representing an increase of RMB91.8 million or 13.3% as compared to previous year. Revenue from drilling segment accounted for 26.4% of the total revenue, representing an increase of RMB12.6 million or 2.5% as compared to previous year. Revenue from well completion segment accounted for 24.5% of the total revenue, representing an increase of RMB55.6 million or 13.2% as compared to previous year. Revenue from other segments accounted for 8.8% of the total revenue, representing an increase of RMB30.1 million or 21.2% as compared to the previous year. The revenue from oil reservoir segment, well completion segment and other segments increased significantly, which was attributable to the increase in dynamic monitoring business, overseas well completion business and edible alcohol sales business.

RESERVOIR SERVICE SEGMENT

	For the year ended 31 December		
	2023 *RMB'000*	2022 *RMB'000*	Change *(%)*
Revenue from reservoir services			
Overseas	**301,238**	242,957	24.0%
PRC	**482,931**	449,393	7.5%
Total	**784,169**	692,350	13.3%

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 and repair service of surface production devices, etc.

During the Reporting Year, the Group's reservoir segment has made steady progress and recorded revenue of RMB784.2 million, representing an increase of RMB91.8 million or 13.3% as compared to previous year. In 2023, reservoir segment in China has recorded revenue of RMB482.9 million, representing an increase of RMB33.5 million or 7.5% as compared to previous year, and accounted for 61.6% of the total revenue of reservoir segment. As for overseas reservoir segment, it recorded revenue of RMB301.2 million in 2023, representing an increase of RMB58.3 million or 24.0% as compared to previous year, and accounted for 38.4% of the total revenue of reservoir segment. During the Reporting Year, the significant increase in revenue from overseas reservoirs was mainly due to the growth of dynamic monitoring business in Central Asia and the Middle East, and the growth of compressor maintenance business in Central Asia.

DRILLING SERVICE SEGMENT

	For the year ended 31 December		
	2023	2022	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from drilling services			
Overseas	**263,972**	248,106	6.4%
PRC	**249,434**	252,715	(1.3%)
Total	**513,406**	500,821	2.5%

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 RMB513.4 million, representing an increase of RMB12.6 million or 2.5% as compared to previous year. In 2023, drilling segment in China has recorded revenue of RMB249.4 million, representing a decrease of RMB3.3 million or 1.3% as compared to previous year, and accounted for 48.6% of the total revenue of drilling segment. As for overseas drilling segment, it recorded revenue of RMB264.0 million, representing an increase of RMB15.9 million or 6.4% as compared to previous year, and accounted for 51.4% of the total revenue of drilling segment. The growth was attributable to the increase in workover and salvage operations in overseas.

WELL COMPLETION SERVICE SEGMENT

	For the year ended 31 December		
	2023	2022	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from well completion services			
Overseas	**241,134**	126,764	90.2%
PRC	**236,710**	295,491	(19.9%)
Total	**477,844**	422,255	13.2%

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

During the Reporting Year, well completion service segment recorded revenue of RMB477.8 million, representing an increase of RMB55.6 million or 13.2% as compared to previous year. Among which, well completion segment in China recorded revenue of RMB236.7 million, representing a decrease of RMB58.8 million or 19.9% as compared to previous year, and accounted for 49.5% of the total revenue of well completion segment. In terms of overseas well completion segment, it recorded revenue of RMB241.1 million, representing an increase of RMB114.4 million or 90.2% as compared to previous year, and accounted for 50.5% of the total revenue of well completion segment. The increase was mainly due to the increase in well completion business in Indonesia and Central Asia.

OTHER SEGMENT

	For the year ended 31 December		
	2023	2022	Change
	RMB'000	*RMB'000*	*(%)*
Revenue from other segments			
Overseas	**61,873**	44,031	40.5%
PRC	**109,952**	97,705	12.5%
Total	**171,825**	141,736	21.2%

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, the Group's other segment recorded additional revenue of RMB171.8 million, representing an increase of RMB30.1 million or 21.2% as compared to the previous year. Revenue from the PRC market was RMB110.0 million, representing an increase of RMB12.3 million or 12.5% as compared to the same period last year and accounting for 64.0% of total revenue from other segments, mainly attributable to

Management Discussion and Analysis

the increase in natural gas sales business in Xinjiang. Revenue from overseas markets amounted to RMB61.9 million, representing an increase of RMB17.9 million or 40.5% as compared to the same period of previous year and accounting for 36.0% of total revenue from other segments, which was mainly due to the increase in sales business of edible alcohol project in Ghana, Africa.

MARKET ENVIRONMENT

During the Reporting Year, the global economy as a whole showed a weak but resilient recovery. Under the big environment of intensified geopolitical conflicts, complex changes in the international situation, and high inflation in many countries, the global economy maintained a moderate growth despite setbacks, and there were some bright colors amidst the gloom. The U.S. economy is recovering well, the European economy is maintaining a low rate of growth, and China will continue to be the largest growth engine for the global economy, contributing one-third of global economic growth. In 2023, international oil prices, although generally declining slightly, were still at a high level, and global oil demand surpassed the pre-COVID-19 level; persistently low natural gas prices have given natural gas a more favourable economic advantage, leading to a rise in global natural gas consumption. The Organization of the Petroleum Exporting Countries ("OPEC+") has maintained oil prices by deepening and extending its production cut program, and supply and demand are basically in equilibrium. Currently, frequent geopolitical conflicts have made energy security a top concern. Countries are taking a more proactive approach to promote the upstream development of their own oil and gas, and investment in upstream oil and gas has increased to a higher level in recent years. It is expected that, against the backdrop of insufficient momentum and vulnerability of global economic growth, mismatch between supply and demand in the international energy market, increased market volatility, and the imbalance between energy supply and demand faced by all countries in the world, guaranteeing energy security and enhancing the resilience of the energy system will become a continuing priority issue for energy development in all countries.

At the same time, decarbonization of energy systems and the transition to net-zero remained the focus of the global energy industry in 2023. During the 28th Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change (UNFCCC) in December, fifty global oil and gas companies joined the Oil and Gas Decarbonization Charter. The agreement sends a strong signal to the world to accelerate climate action and has far-reaching implications for the oil and gas industry. Global investment in driving the energy transition grew by 17% year-on-year to US$1.77 trillion in 2023, with strong resilience in sectors critical to the energy transition such as renewable energy, energy storage, nuclear energy, hydrogen energy, electrification, and power grids. Global oil and gas companies have been "vigorously adjusting the structure of their main business, actively developing green and low-carbon industries, and making great efforts to develop carbon-reducing and carbon-cutting technologies".

Driven by high oil prices, oil and gas development enterprises are motivated to seize the opportunity to implement plans for increasing storage and production, and the participation of oil service companies has increased. International oil service companies have developed featured technologies to meet the needs of oil companies to reduce carbon emissions in the exploration and development process. As oil prices rebound and the industry picks up, the oilfield services industry sees room for profit improvement.

Overall, the oil services industry has shown good momentum driven by rising oil prices, increased upstream capital expenditure and new energy development. The fundamentals of the industry remain strong.

Management Discussion and Analysis

OVERSEAS MARKETS

The Group's overseas operations are mainly 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 global economy faced the challenge to advance on the road of recovery after COVID-19, and the global energy landscape is also undergoing adjustments and dynamic balancing. On the one hand, the traditional oil and gas market still dominated the global energy supply, and there was no major fundamental change in the pattern of global energy production and consumption; on the other hand, with the intensification of global climate change issues, the demand for the development of green and renewable energy sources became more and more urgent, and governments stepped up efforts to promote the green transformation of energy sources, accelerating the development of renewable energy sources. The oil service industry is highly regionalized and intensively served, and all of them have their own concentrated areas with high coverage, forming certain scale advantages. Overall, the competitive landscape of the oil services industry is becoming increasingly diversified, with technological innovation and diversified services becoming an important strategy to enhance competitiveness.

During the Reporting Year, the Group has overcome all difficulties and withstood the test of competitive market pressures during the period of restructuring of the global oil and gas industry, and has seized the opportunity of the industry's upturn to take its overseas business to a new level. With the "One Belt, One Road" initiative making impressive headway in Central Asia, energy cooperation in petroleum and natural gas has played a very positive role in bilateral cooperation, becoming a "ballast" and "propeller" of regional development. The Third "One Belt and One Road" International Cooperation Summit Forum has pointed out the direction for further expanding the scale of China-Central Asia energy cooperation, realizing the upgrading of energy cooperation, and drawn a brand new picture of the future in-depth energy cooperation. During the Forum, PetroChina, Sinopec and CNOOC signed oil and gas cooperation agreements with Kazakhstan. As a key overseas market for the Group, Kazakhstan will continue to contribute significant production output and profits to the Group. At the same time, labor costs and management fees in the region rose significantly due to inflation. The Group has laid a solid foundation for its performance through measures such as raising prices and efficiency, improving contract completion rates, actively exploring new markets and controlling rising expenses and expanded into new oil-field market. The Turkmenistan Project Department has fully leveraged its strengths, enhanced its technical service added-values, and actively searched for suitable entry points into the market, and in addition to continuing to consolidate its existing markets and projects, a number of promising markets are also being explored. Customers relating to the continuous oil pipeline operation projects in Turkmenistan changed from PetroChina to local oil companies, which marked the continuous oil pipeline operation project technology service becoming more mature. Most operations in Middle East have seized opportunities for new oil-field development in the predicament, realized the resource integration and undergone personnel training while moving forward. Operations made steady progress in the year 2023, continuing to maintain service advantages and order volume, with enhanced customer satisfaction and a steady increase in contracted orders. Currently, the types of services cover a wide range of fields, including well workover and salvage, downhole testing, ground test oil production and dynamic monitoring of reservoirs, etc. In the future, we will continue to expand the scale of our well workover services, and expand more types of business such as cementing and corrosion monitoring, so as to gradually lay a solid foundation for our business in the Middle East. In early 2023, the Group won the bid for the joint exploration and development rights of the Jabung Tengah Block in Indonesia, with a validity term of 30 years. As a major breakthrough in the Group's strategic business, it is expected to become a pillar business of the Group and provide fundamental guarantee for the Group's sustainable and healthy development. The first well of the Indonesian block has been successfully completed, presenting a large amount of oil and gas and discovering a pure gas layer, which lays a good foundation for further exploration and development of the entire oil and gas field block. Global R&D center in Singapore strived to consolidate core technologies and develop high-end tools, and its own tools was put into production and successfully applied, and in June 2023,

Management Discussion and Analysis

the Company passed the product verification access of Baker Hughes Australia, and will continue to expand into new markets to secure new orders in the future, laying a solid groundwork for its long-term development; In North America, the launching of the production and sales business of high-end electronic pressure gauges and accessories for downhole monitoring continues. The global market achieved stable development with higher-quality products and made breakthroughs in the research and development of high-end equipment; The Group's Africa region, based on the bonded warehouse in Uganda, actively participated in the bidding of projects such as the lease of local warehouses and at the same time vigorously explored opportunities for cooperation in localized projects such as base construction. The Ghana Alcohol Plant carried out equipment modification and process improvement in the first half of the year, and the quality of alcohol was improved. In the second half of the year, raw materials were purchased from a single domestic source in Ghana to achieve cross-border procurement, which solved the problem of insufficient supply and saved the procurement costs.

DOMESTIC MARKET

During the Reporting Year, in order to thoroughly implement the General Secretary's important instructions on vigorously enhancing domestic oil and gas exploration and development and to "ensure that we must have our own say in respect of energy supply", China's oil and gas industry has made every effort to find more strategic breakthroughs and new discoveries. Domestic oil and gas exploration has yielded fruitful results, and overseas exploration business is satisfactory, steadily expanding our resources for high-quality development. In July 2023, the National Energy Administration held a work promotion meeting to vigorously enhance oil and gas exploration and development. The meeting requested that confidence should be strengthened, and oil and gas reserves and production should be pushed to a new level. China will make every effort to promote the construction of a national oil and gas supply guarantee base with increase in investment to centralize exploration and large-scale production in resource rich areas. China will strengthen deep-sea oil and gas exploration and development, accelerate the construction of a maritime power, accelerate the integration of oil and gas exploration and development with new energy, increase the promotion and application of the CCUS technology, and actively and steadily promote the green and low-carbon transformation of the oil and gas industry. Oil and gas companies have steadfastly implemented the State's "Seven-Year Action Plan" from year 2019 to 2025 to increase oil and gas reserves and production, embarking on both conventional and unconventional oil and gas extraction projects, which continued to build up crude oil production. Natural gas production has increased rapidly, and breakthroughs have been made in key exploration and development projects. Domestic investment in oil and gas exploration and development maintained a relatively high growth level. In 2023, investment in exploration and development for the whole year was approximately RMB390 billion, representing an increase of 10% over the same period last year, marking a record high. About 1.3 billion tons of proven oil reserves and nearly 1 trillion cubic meters of proven natural gas reserves have been added for the year. At the same time, ten years after China's "One Belt and One Road" initiative was put forward, it has now entered a new stage of high-quality development. Chinese enterprises are moving forward with international oil and gas cooperations, and will continue to be committed to the transformation and upgrading of international business, and strive to make contributions to safeguarding national energy security and promoting the development of the global energy industry. Enhanced capital expenditures and international cooperation in oil and gas operations will bring more business opportunities to oil service enterprises, and related companies will benefit from the improvement of industry prosperity.

Management Discussion and Analysis

During the Reporting Year, the oil and gas production of Tarim Oilfield reached a record high of 33.53 million tons. We serve the country in the oil industry to ensure national energy security and comprehensively promote national construction in the new era. Xinjiang has always been one of the key markets of the Group. The Tarim Oilfield of PetroChina and Sinopec Northwest Petroleum Bureau are the cornerstones of Xinjiang market which also covers the Xinjiang Oilfield and Qinghai Oilfield. During the Reporting Year, our customers requested refined management and continued to emphasize cost reduction and efficiency enhancement. Moreover, they toke cost per ton of crude oil as the main assessment standard to assess both the reservoir service segment and engineering segment, indicating that market competition has been fierce. The Group seized opportunities to expand business, and affirmed its main direction through continuous technological innovation and resolution of difficulties, so as to ensure higher performance. During the Reporting Year, the Company's well completion business in Xinjiang continued to maintain its leading position in the regional market, with depth, warmth and difficulty of operation breaking multiple records. The slim hole complex salvage business and ultra-deep open hole horizontal well dredging business performed well. In addition, the Xinjiang Regional Company also participated in the two "Super Projects of Central Enterprises", namely "successful development of one of the world's deepest oil and gas reservoirs" and the "full-scale development of China's largest ultra-deep condensate gas field", which fully demonstrated the outstanding strength of the Group's Reservoir service segment.

During the Reporting Year, the Group continued to consolidate the existing market share of the well completion business in the Sichuan and Chongqing markets, while actively exploring new markets, resulting in an overall sustainable growth. The well completion business in Sichuan-Chongqing market expanded into the natural gas storage and transportation sector in Chongqing in 2023. In particular, the fibre project was successfully signed, breaking the bottleneck of the Group's fibre business in the Sichuan and Chongqing region and laid the foundation for the expansion of the wellhead market in the future. In respect of the treatment for casing damaged well casings for Shale Oil Block, the Group has completed the technical preparation and implementation of pilot test wells. In response to the needs of customers, the Group has cooperated with higher petroleum universities and enterprises to develop and apply new technologies, and has successfully implemented chemical plugging operations for one well. We see it as an opportunity to open up the door for the treatment for casing damaged oil well casings for more customers.

In 2024, the business strategy and development plan of China National Offshore Oil Corporation ("CNOOC") shows that its exploration workload will remain at a high level. CNOOC will increase its efforts in natural gas exploration and push forward the construction of three trillion-cubic-meters-level natural gas regions in the South China Sea, the Bohai Sea and onshore China, respectively. It is expected that a number of high-quality new projects will be put into operation, including the Shenfu Deep-play Coalbed Methane Exploration and Development Demonstration Project. So far, 100-billion-cubic-meters of deep-play coalbed methane fields have been proven in the Shenfu area. During the Reporting Year, the Group won the bid for the 2024 to 2026 Linxing-Shenfu regional drilling technology service projects of China United Coalbed Methane Corp. Ltd. ("CUCBM") under CNOOC, and it will continue to provide drilling engineering general contracting services for Linxing-Shenfu well area of CUCBM. CUCBM undertakes the mission of building an onshore clean energy base and a trillion-cubic-meter onshore major gas area for CNOOC, and carries the major responsibility of ensuring national energy security. Since the Group won the bid for the project in 2021, it has operated a total of over 120 wells and all the work was well done, drawing a full stop to the first three-year contract. During the operation, the Group set a number of records, and was awarded several honorary titles by CUCBM, including the "Outstanding Contractor",

Management Discussion and Analysis

the "Outstanding Operation Team" and the "Shenfu Iron Army". During the Reporting Year, the Group once again won the bid for drilling technical services project of CUCBM, demonstrating the Group's strong technical strength and excellent project management capability in drilling engineering general contract, manifesting customers' full recognition of the Group's technical strength, operation ability and corporate reputation, and marking Offshore Oil Project Department's taking root in CUCBM market, which laid a solid foundation for our subsequent layout in CNOOC' operations in Bohai, Western South China Sea, Eastern South China Sea and East China Sea. During the Reporting Year, the Group won the bid for CNOOC's temperature-resistant and salt-tolerant oil thickener procurement project again, signaling that the Group has established a stable partnership with CNOOC in oil output ramp-up. By upholding the aim of "Building Quality Project", the Offshore Oil Project Department will continue to improve measures, tap into potentials, manage and create efficiency to constantly enhance the Group's brand awareness among CNOOC.

During this Reporting Year, the Group's unconventional oil and gas and other operations were conducted in an orderly way. Jintan Gas Storage Phase I and II injection and production completion and snubbing supporting slickline operation technical services and Liuzhuang dynamic monitoring project continued, with the operation volume continuing into 2025. In order to actively respond to China's "carbon neutrality and carbon peaking" ("Dual Carbon") goal, China has made remarkable achievements in the rapid development of clean energy. Green and low-carbon transformation proceeded steadily and the proportion of renewable energy consumption continues to increase. It is estimated that under the "Dual Carbon" target, China's CCUS emission reduction requirement will be about 24 million tons per year in 2025, and will increase to 100 million tons per year in 2030. The Group actively responded to the call of the State's dual-carbon policy and acted on it from the perspective of long-term corporate development. To strategically diversify industrial construction, the Group has been building the the CCUS industrial layout, and included the industrial transformation plan in our tasks and objectives. At present, we are actively following up and participating in a number of CCUS projects including that of CHN Energy Yulin Chemical Co., Ltd., a subsidiary of CHN Energy Investment Group. The CCUS project of CHN Energy Yulin Chemical Co., Ltd. is expected to commence in 2024. Our business for other CCUS markets is progressing steadily, and the Group won the tender contract awarded by China Energy Group Coal Liquefaction Company for the million-ton CCUS exploration site selection and exploration well construction services project in early 2024, and the geophysical prospecting personnel have arrived at the site and started the preliminary preparation.

To sum up, in 2023, the global oil and gas market and the oil and gas industry gradually recovered during the adjustment and remodeling phase. The market features lower overall prices, basically balanced supply and demand as well as on-going transformation. Against this backdrop, the Group has achieved in-depth development and landmark breakthroughs in both domestic and overseas markets. The Group will continue to adhere to the main business of oil service, continue to adhere to technology leadership, strengthen capacity building, and consolidate the foundation of a century-old enterprise. At the same time, the Group will seize the opportunity to accelerate the development of new energy business, accelerate the exploration and development of Indonesian oilfield blocks, build large-scale production capacity as soon as possible, and comprehensively improve the Group's development condition.

Management Discussion and Analysis

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

It has been four years since the Group emphasized the "technology-driven" development strategy in early 2020. During the Reporting Year, the Group adhered to its in-house R&D and technology import, provided individual service while proceeding process techniques integration, enhanced its capability while expanding its business field, moreover, it adapted to the changing trend towards oil and gas exploration and development industry so that it can fulfill the actual needs of customers and form a wide range of technical solutions, pursuing to a new field.

In terms of oil reservoirs service during the Reporting Year, in view of the situation that the exploration and development in Tarim Basin is extending to a depth of 10,000 meters, the Group initiated the research on acquiring bottomhole pressure and temperature data at 10,000 meters depth and its supporting technologies, completed research on techniques and equipment, and expected to be put in use on site in June 2024. In terms of acquiring bottomhole pressure and temperature data of the ultra-deep, ultra-high temperature, ultra-high pressure wells (the "Three Ultra Wells"), the Group continued to be ahead of its peers with actual maximum measured pressure of 182.4MPa, actual maximum measured temperature of over 185℃, and it carried out its R&D of quartz electronic pressure gauges with gauging range of 35000PSI (240MPa)/230℃, and completed the final assembly tests, aiming to officially put into use in 2024. The techniques of acquiring bottomhole pressure and temperature data at a depth of 10,000 meters and pressure gauges with gauging range of 35000PSI (240MPa)/230℃ marked a major breakthrough on acquiring bottomhole pressure and temperature data of the Three Ultra Wells by the Group. The Group completed the research on the integrated bottomhole pressure of salt cavern gas storage and shaft leakage monitoring techniques and put into use. The Group achieved long-term, constant and real-time recording of actual multipoint measurement data of bottomhole pressure and vertical data of whole shaft, which built a strong foundation for gas storage's capacity in injection-production cycle and safety analysis of shaft. This technology has broad prospects for promotion in the field of gas storage. The Group has successfully researched and developed multi-synergized effect on techniques of the production enhancement, addressing the production decrease as a result of capacity decrease, sedimentation, fouling, plugging, water blocking and other problems in heavy oil well, low-production well and sand production well.

In terms of drilling service, by integrating the Group's service ability and experience relating to drilling speed-up, rotary geosteering technology and fine managed pressure combined with the Group and its subsidiaries' R&D, manufacturing ability relating to negative pressure expanded hydraulic oscillators, drill bit and measurement while drilling tools, the Group successfully completed the deep coal seam horizontal well drilling project. In the actual practice, under the equivalent geological conditions, drilling time was successfully reduced from 8.54min/m to 4.48min/m, therefore, its consumption of drilling fluid and lubricant liquid was significantly reduced. A wide range of enhanced-speed, integrated application of technology solutions of horizontal drilling wells were competent to cope with the coalbed methane, shale gas, tight gas and other circumstances with diversified geological conditions so that it can effectively increase the drilling speed, shorten drilling cycle, and reduced the drilling cost. The Group was granted certain honorable titles from its customers such as "Outstanding Contractor", "Excellent Operation Team" and so forth through the practical application of a series of technical solutions.

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In terms of well completion service, the 25K downhole safety valve and the permanent packer of 10K ultra-high temperature with small sizes and large diameters which were successfully researched and developed by ENECAL ("Enecal PTE. Limited"), a subsidiary of the Group, which marked the breakthrough and improvement to the under-pit tools designing and manufacturing area of the Group. With the accumulated experiences in the Three Ultra Wells workover tool service, integrated stratification string technology, segmented transformation and diversion technology, segmented completion string technology of horizontal well and soluble metallic materials technology, the Group completed the design of integration of separation-transformation- put-into-use string techniques of the Three Ultra Wells, and operated four-layers transformation of the Three Ultra Wells successfully, which signaled the breakthrough in techniques of the Three Ultra Wells and promoted the marketing of development way of the Three Ultra Wells, illuminating our future.

In terms of well workover service, in view of the complex and changeable actual situation of downhole, the Group simultaneously developed and manufactured specialized tools such as high-performance milling shoes, anti-seize milling taper, short catch overshot (短魚頭打撈), coupling mill sleeve and overall extended milling shoes, in order to solve the problems of handling complicated conditions in the well and salvage of tools falling in the well during workover. In light of difficulties such as distortion, rupture, blockage in the pipe, and buried annulus appearing on the tubes upon long-term development and production for the Three Ultra Wells with slim hole, the Group optimized a full set of targeted single well workover process control (including WOB ("weight on bit"), torque, displacement, etc.) and drilling tool sets for the Three Ultra Wells with slim hole in front of Tarim Mountains, and specially designed tools such as high temperature and strong magnetic drill collars, hollow milling shoes, thin-walled diamond milling shoes, managing to avoid the repetitive workover operation (grinding, casing milling, and fishing) in wells with slim hole due to limited space, with the efficiency of the workover operation increased by nearly 50%. For fracture-cavity karst reservoirs, one of the key development targets, a rapid repair technology for open hole well collapse has been developed, which utilizes high-pressure rotary drill bits, dissolving sieve tube, and releasing tool to realize the unblocking of open-hole section and running the tubing, meanwhile injecting acid to dissolve the soluble materials after the well dredging reaching the target depth, so as to achieve dredging and well completion in one run. Leveraging on the above, we managed to complete the unblocking and workover of ultra-long horizontal wells to achieve the resumption of production in suspended wells.

In the area of traditional oilfield service, based on the provision of high-quality technical services, the Group realizes its self-worth through creating value for customers under the guidance of research and development and innovation of technical products and processes. Moreover, rooting in the traditional oilfield service sector, the Group will march into the unconventional oil and gas sector, new energy and CCUS sectors, leading the sustainable development and growth of the Group's business.

Management Discussion and Analysis

HUMAN RESOURCES

Based on the Group's finalised five-year strategic plans and business objectives for 2023, the major details of the human resources work in 2023 are as follows:

1. In terms of strategic manpower allocation, after taking into account of the Group's need in strategic development, conducted talent layout and planning in advance and allocated management and key technical personnel to build a team of high performance and efficiency, so as to escort the successful development and implementation of the Group's strategic projects;

2. Enhanced the organization and performance management system based on the operation performance direction, and immediately optimized and adjusted our business and teams based on the performance and results during the interim period;

3. Continued to optimize global business system for human resources under the international situation and uncertainties, so as to ensure the labour security, employee safety and compliance in each site globally;

4. Upgraded management systems for international talents, including international employee system, labour dispatching system and local worker management system;

5. In terms of training and development:

   (i) implemented tailored cultivating program for key personnel;

   (ii) initiated medium- and long-term international talent training;

   (iii) formulated development plan for management personnel, carried out off-line management trainings to simulate management case on site, with a focus to promote the management efficiency of managers at intermediary and primary levels;

   (iv) actuated innovation-oriented technology to benchmark new fields of technology research and development and application at home and abroad, and integrated training resources to facilitate innovative breakthroughs in new technologies, new processes and new tools;

   (v) continued to leverage the advantages of the online learning platform to customize daily online learning plans for the Group's employees at home and abroad, which covering technology, management and integration, and conducted regular live streaming trainings on efficiency improvement. In 2023, the total participants of the Group's training sessions were 15,934, totaling 124,327 training hours cumulatively.

As of 31 December 2023, the Group had a total of 4,199 employees, representing a decrease of 132 employees from 4,331 employees as at 31 December 2022. The actual labour costs of the Group in 2023 were controlled within the budget range set at the beginning of this year.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, revenue of the Group was RMB1,947.2 million, representing a year-on- year increase of RMB190.0 million, or 10.8%, as compared with that of RMB1,757.2 million for the previous year. The increase was mainly due to the expansion of operating activities of the Group.

Other gains/(losses), net

For the year ended 31 December 2023, other gains, net of the Group were RMB12.3 million, as compared with other losses, net of RMB7.6 million for the previous year. The change was mainly due to the fluctuations in foreign exchange rates and the gain realized upon the transfer of a subsidiary to a joint venture.

Material costs

For the year ended 31 December 2023, material costs of the Group were RMB549.2 million, representing a year-on- year increase of RMB66.4 million, or 13.8%, as compared with that of RMB482.8 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 2023, employee salary expenses of the Group were RMB627.2 million, representing a year-on-year increase of RMB35.3 million, or 6.0%, as compared with that of RMB591.9 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 2023, short-term and low-value lease expenses of the Group were RMB124.0 million, representing a year-on-year increase of RMB10.4 million, or 9.2%, from RMB113.6 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 2023, transportation costs of the Group were RMB33.8 million, representing a year-on-year increase of RMB5.2 million, or 18.2%, as compared with that of RMB28.6 million for the previous year. The increase was mainly due to the expansion of the operating activities of the Group.

Depreciation and amortisation

For the year ended 31 December 2023, depreciation and amortisation of the Group was RMB71.2 million, representing a year-on-year decrease of RMB2.9 million, or 3.9%, as compared with that of RMB74.1 million for the previous year. The decrease was mainly due to certain fixed assets becoming fully depreciated.

Management Discussion and Analysis

Technical service expenses

For the year ended 31 December 2023, technical service expenses of the Group were RMB265.2 million, representing a year-on-year increase of RMB113.5 million, or 74.8%, as compared with that of RMB151.7 million for the previous year. The increase was mainly due to the expansion of the operating activities of the Group.

Impairment losses of assets

For the year ended 31 December 2023, impairment losses of assets of the Group were RMB51.6 million, while the impairment losses of assets of the Group were RMB33.0 million for the previous year, representing a year-on- year increase of RMB18.6 million or 56.4%. 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 2023, other operating costs of the Group were RMB183.3 million, representing a year-on-year decrease of RMB37.8 million or 17.1%, as compared with that of RMB221.1 million for the previous year.

Operating profit

Based on the above reasons, operating profit of the Group during the Reporting Year was RMB54.0 million, compared with the operating profit of RMB52.9 million for the previous year.

Finance costs, net

For the year ended 31 December 2023, finance costs, net of the Group were RMB31.1 million, representing a year-on-year decrease of RMB6.3 million, or 16.8%, as compared with that of RMB37.4 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.

Investment income from associates under the equity method

For the year ended 31 December 2023, investment losses from associates under the equity method of the Group was RMB1.3 million.

Income tax expense

For the year ended 31 December 2023, income tax expense was RMB12.8 million, compared with the income tax credit of RMB8.8 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 RMB8.8 million, while profit for the previous year was RMB7.5 million.

Management Discussion and Analysis

Loss attributable to equity holders of the Company

For the year ended 31 December 2023, profit attributable to equity holders of the Company was RMB16.7 million, while profit attributable to equity holders of the Company for the previous year was RMB13.2 million.

Property, plant and equipment

As at 31 December 2023, the property, plant and equipment was RMB407.0 million, representing a decrease of RMB23.1 million, or 5.4%, from RMB430.1 million as at 31 December 2022. The decrease was mainly due to the depreciation charges during the year exceeding its increase.

Right-of-use assets

As at 31 December 2023, the carrying value of right-of-use assets amounted to RMB55.8 million, representing a decrease of RMB5.1 million, or 8.4%, from RMB60.9 million as at 31 December 2022. 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 2023, intangible assets were RMB14.6 million, representing a decrease of RMB1.3 million, or 8.2%, as compared with that of RMB15.9 million as at 31 December 2022. The decrease was mainly due to the amortisation during the Reporting Year.

Deferred income tax assets

As at 31 December 2023, deferred income tax assets were RMB115.4 million, representing an increase of RMB0.1 million, or 0.1%, from RMB115.3 million as at 31 December 2022.

Prepayments and other receivables

As at 31 December 2023, non-current portion of prepayments and other receivables was RMB33.5 million, compared with that of RMB0.3 million as at 31 December 2022. Current portion of prepayments and other receivables was RMB238.8 million, as compared with that of RMB208.6 million as at 31 December 2022.

Inventories

As at 31 December 2023, inventories were RMB656.6 million, representing an increase of RMB99.9 million, or 17.9%, from RMB556.7 million as at 31 December 2022. The increase was mainly due to the expansion of the operating activities of the Group.

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

As at 31 December 2023, contract assets, trade and note receivables were RMB1,038.4 million, representing a decrease of RMB133.7 million, or 11.4%, from RMB1,172.1 million as at 31 December 2022. The decrease was mainly due to more timely collection of accounts receivable during the Reporting Year. As at 31 December 2023, contract liabilities, trade and note payables amounted to RMB821.6 million, representing an increase of RMB34.4 million, or 4.4%, from RMB787.2 million as at 31 December 2022. The increase was mainly due to the expansion of the operating activities of the Group.

Liquidity and capital resources

As at 31 December 2023, cash and bank deposits of the Group, comprising cash and cash equivalents and restricted bank deposits, were RMB325.6 million, representing an increase of RMB30.9 million, or 10.5%, from RMB294.7 million as at 31 December 2022. The increase was mainly due to the expansion of the operating activities of the Group.

As at 31 December 2023, short-term borrowings and current portion of long-term borrowings of the Group were RMB416.2 million while the long-term borrowings were RMB77.2 million. 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 2023, 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 2023, current lease liabilities of the Group amounted to RMB10.9 million and non-current lease liabilities amounted to RMB13.3 million. 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 2023, gearing ratio of the Group was 40.3%, representing a decrease of 6.3% as compared with 46.6% as at 31 December 2022. 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 2023, the total number of ordinary shares of the Company in issue was 1,953,775,999 shares (31 December 2022: 1,853,775,999 shares). As at 31 December 2023, equity attributable to the equity holders of the Company was RMB1,300.1 million, representing an increase of RMB65.3 million, or 5.3%, as compared with RMB1,234.8 million as at 31 December 2022.

Significant investment held

As at 31 December 2023, the Group did not hold any significant investment.

Acquisitions and disposals of subsidiaries and associates

The Company had no material acquisitions and disposals of subsidiaries and associates during the Reporting Year.

Management Discussion and Analysis

Assets pledged to secure bank borrowings

As at 31 December 2023, 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 2023 *RMB'000*	As at 31 December 2022 *RMB'000*
Right-of-use assets	**2,852**	3,509
Trade and note receivables	**56,400**	146,760

Assets pledged to secure the loans from a third party institution

Loans from a third party financial institution of the Group are expiring from 2023 to 2026 and are secured by certain machinery with a carrying amount of RMB182,988,000 (2022: RMB160,255,000), and guaranteed by one subsidiary of the Group.

Foreign exchange risk

Fluctuations in exchange rates of Tenge ("KZT") and 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 mostly denominated in USD. Kazakhstan is the largest overseas market of the Group in terms of revenue contribution. In accordance with certain laws and regulations, local service contracts in Kazakhstan are required to be denominated in KZT. On average, in 2023, the exchange rate of KZT against RMB increased by 4.4% generally, and the exchange rate of USD against RMB increased by 1.7% generally as compared with last year, but such movement did not have a significant impact on the overall business of the Group.

Contingent liabilities

As at 31 December 2023, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 31 December 2023, the Group had no off-balance sheet arrangements.

Contractual obligations

As at 31 December 2023, the Group had capital expenditure commitments of RMB63.8 million.

Management Discussion and Analysis

OUR PLANS

Looking forward to 2024, under the background of growing geopolitical conflicts and uncertainties as well as high inflation and high interest rates, the global economy still faces great downside risk. Given the constant threats to global energy security, while the international petroleum companies have been speeding up the exploration and exploitation, higher level prosperity has been achieved in oil-field service market and new opportunities and challenges are expected to be presented in oil-field service industry. Responding to challenges from external complexity, the Group will continuously improve its self-operation capability to realize all-round enhancement of quality and efficiency and to help with the Company's high-quality development and will proactively protect the interest of investors. To grasp opportunity and meet challenges in the current circumstances, the Group will keep its feet on the ground and move forward the following work under the new strategic guidance in 2024:

1. The Group will take advantage of a period of strategic opportunity where the global energy market undergoes profound changes. Gradual improvement of energy transition was made under the proposal of "Discover more untapped reserves, increase production, and ensure secure energy supply, promote green and low-carbon development to achieve 'dual carbon' goal" put forward by the Chinese Government which called for "put us in a position to ensure energy supply". The Group will expand into oversea market based on domestic market, speed up internationalization, explore emerging markets and deploy strategic markets. The Group will focus on the need of "achieving progress in high-end, smart and low-carbon development" from customers, facilitating the Group's value and creativity. The Group will implement updated measures relating to "with one in lead and two in assistance" strategic layout, to ensure to record continuous profitability and faster development. The Group will adhere to its principal business of oil field service, maintain the dominant position in oil field service industry chain, stick to be guided by technology and increase capability construction, so as to consolidate the foundation for the Group, to be as a hundred-year life long enterprise. The Group will seize the opportunity to stimulate the development of new energy business, accelerate the exploration and exploitation of oilfield in Indonesia so as to achieve large-scale capacity and thoroughly improve the Group's development environment.

2. The Group will adhere to the long-term strategy of "technology leads the development of the company, innovation leads to promising future". Upon the strategy of "technological innovation adds growth drivers, improvement of quality and efficiency facilitates development", the Group will continuously take advantage of cutting-edge technological solutions to meet the rising demand for service and carbon emission reduction, realizing sustainable development with technological innovation. The Group not only values single technological innovation, but also attach great importance to improving its ability 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 deeply involve in projects and technology, effectively improve market competitiveness to strengthen its market position.

3. The Group will set clear management goals, continuously update corporate governance ideas, improve the profitability, risk management and control ability, cost management and control ability and consolidate the overall ability construction. The Group will increase flexibility and risk prevention ability by improvement and implementation of profitability incentive scheme, oversight and accountability of mechanism for security, internal control compliance and investment and cash flow, all-out cost control through every production line and steps, improvement of quality and efficiency and building of high-level technical team and market team.

Management Discussion and Analysis

4. The Group will constantly retain more talents to empower corporate development. Through building comprehensive talent development plan, the Group will build a echelon of management, technicians and marketing talents who have “ideals, a strong sense of responsibility and competes bravely, young and strive for excellence” and form a team with high comprehensive quality, highly professional and capable of running international projects. Depending on major technological projects, the Group will facilitate the cultivation of innovative team and leaders. The Group will constantly stimulate innovation vitality of technicians through appointment of outstanding and innovative technicians as leaders. The Group will build a positive, fair platform for sustainable development, care for employee well-being and incentivize their enthusiasms to realize better performance and value.

5. The Group will continuously establish long-term effective ESG management system, incorporating ESG and sustainable development concept into decision-making and operations of the Company. The Group will continuously improve the corporate governance, information disclosure, social communication to build good internal and external environment and to strengthen stable growth and sustainable development. Meanwhile, the Group will actively fulfill social responsibilities of green and low-carbon development together with upstream and downstream partners.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Ethan Wu (吳東方), (with former name Wu Dongfang), aged 52, is an executive Director of the Company and the chairman of the Board. He has been appointed as the chief executive officer since 11 May 2018, responsible for the overall operation and management of the Group. He has been appointed as the chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company since 26 March 2024. Mr. Wu has 32 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 48, 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 26 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.

Ding Kechen (丁克臣), aged 39, was appointed as an executive of the Company on 3 April 2024. He has been the director and general manager of PT CIPTA NIAGA GEMILANG ("CNG"), a subsidiary of the Company, since January 2023 and is mainly responsible for the management and operation of CNG's oil field blocks. Mr. Ding joined the Group from July 2008 and served as an assistant engineer, operation supervisor and project manager and deputy general manager of the Southeast Asia region. Mr. Ding has nearly 15 years of experience in the petroleum industry, specialising in petroleum exploration and development, drilling, completion and oil recovery. Mr. Ding obtained a bachelor's degree in electronic science and technology from Xi'an University of Science and Technology in 2008.

Directors' and Senior Management's Biographies

NON-EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 61, was re-designated from an executive Director of the Company to a non-executive Director of the Company on 26 March 2024. 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; an executive Director of the Company and the chairman of the Board during the period from 12 June 2008 to 26 March 2024; and the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company during the period from 30 March 2012 to 26 March 2024. Mr. Wang has 39 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.

Wu Jiwei (武吉偉), aged 52, 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. From October 2021 to September 2023, he was 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), subsequently, since October 2023, he has been promoted to act as the president and chief financial officer of Baoshihua Home Life Service Group Co., Ltd.（寶石花家園生活集團有限公司）. 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.

Directors' and Senior Management's Biographies

Chen Chunhua (陳春花), aged 60, 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 October 2023, she has been serving as the dean of Shanghai Chuangzhi Organization Management Digital Technology Research Institute (上海創智組織管理數學技術研究院). 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wu Kwok Keung Andrew (胡國強), aged 70, 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 50, 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.

Directors' and Senior Management's Biographies

Ma Xiaohu (馬小虎), aged 61, 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.

SENIOR MANAGEMENT

Liu Dongqin (劉東勤), aged 54, 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 43, has been the vice president of the Group since June 2018, mainly in charge of the Group's strategic development and management system, organization and performance management system, global human resources management system, management information system and the president office. 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 61, has been the vice president of the Group since November 2019, 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.

Directors' and Senior Management's Biographies

Chen Jian (陳劍), aged 48, 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.

Zhao Feng (趙峰), aged 58, is the vice president and general manager of North America Region of the Group. He is 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.

Gao Wenhai (高文海), aged 56, 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).

Li Xiaopeng (李曉鵬), aged 50, 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, 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 2023.

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 2023 is set out in Note 5 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the Reporting Year, a discussion on the Group's future business development, an analysis of the Group's performance during the Reporting 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 12 to 30 of this annual report. No important events affecting the Group have occurred since the end of the financial year ended 31 December 2023. In addition, discussions on the Group's environmental policies, descriptions 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

The Group's vision is to become a concretized model for efficient and harmonious development between people and environment. 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 Year, 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, 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 and other national laws of PRC and local regulations, as well as relevant national environmental laws and regulations of the place in which the Group operates 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 QHSSE in 2023, 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.

We promote 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, we publicize and implements environmental protection culture among our 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. We advocate 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 and organizing environmental protection cultural activities, etc.

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 implement double-sided printing and copying, turn off lights and electrical equipment when off duty to reduce energy consumption. 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. We 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 construction of the environmental management system, with an aim to build and improve the energy-saving and environmental protection management system. Sinopetroleum Technology Inc., Pioneer Sinopetroleum Equipment Inc., Petrotech (Xinjiang) Engineering Co., Ltd, Chongqing Huayou Energy Technology Services Co., Ltd. (all being domestic subsidiaries), CNEC LLP, M-Tech service LLP, ENECAL PTE LTD, PT. ENECAL INDONESIA (all being overseas subsidiaries) have passed the ISO14001:2015 environmental management system certification.

We effectively manage 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, we have adopted a series of strict engineering management measures. In terms of dust pollution prevention, we conduct semi-enclosed management of construction sites to reduce the risk of dust emission. In terms of water pollution, we treat the generated sewage and discharges it into designated areas or urban pipelines after reaching the discharge standards. In respect of hazardous waste management, we 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, we 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 recycling the water used in production, using water-saving appliances, inspecting and maintaining the water supply system and other measures. We are committed to the technical transformation of equipment and facilities, so as to control dust dispersion at the source and to reduce emissions of waste through the application of innovative technologies. In 2023, through remodelling the equipment to replace oil with electricity (for drilling), mud not-fall-to-the-ground treatment, we effectively mitigated the impact on the environment, the use of energy and greenhouse gas emissions and reduced the damage to the land resources, so as to achieve waste reduction and emission reduction.

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, so as to deliver tailor-made engineering projects that are most in line with the green design concept to 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' continuous spending and investments. In 2023, the impact of the COVID-19 pandemic gradually waned, but frequent geopolitical conflicts intensified the confrontation between powers and the division of the world, which interrupted the process of globalization once more, and the global supply chain faced restructuring, bequeathing a long-term impact on the global economy. Under the circumstances that the U.S. and Western have imposed sanctions and shipping channels are blocked, the global oil market and trading landscape are also adjusting and reshaping in a speedy pace, bringing certain uncertainties to the medium and long-term development of the industry. In addition, the process of global sustainable development is entering into a critical node, and the short-term and long-term impacts of climate change on human beings are conspicuous, demonstrating an indisputable fact that the energy transformation is accelerating, and the peak of oil demand may occur ahead of schedule. Therefore, the proportion of investment in upstream exploration and development of oil and gas in the traditional energy sector will gradually decrease, which will force the technological innovation of the oilfield service industry to meet the new needs of customers during the transformation. Moreover, uncertainties exist in some new business development and new market expansion. The Group actively implemented strategic upgrade measures to expand 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 2022 and 2023, revenue generated from CNPC and its affiliates accounted for 69.5% and 69.9% of total revenue, respectively.

The Group entered into strategic alliances with several international and domestic oil-field services providers, including Halliburton Company, one of the largest diversified oil-field services companies in the world. Such strategic alliances grant the Group accesses to various high-quality products and high-end technologies which help the Group with business development. Apart from these strategic alliances, the Group purchases materials, equipment and outsourced services from a group of individually small suppliers. All purchases and outsources from the suppliers are 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 2023, 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 2023 are set out in the consolidated income statement on page 107 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2023 (for the year ended 31 December 2022: 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 2023, purchases from the Group's five largest suppliers accounted for 22.5% (2022: 27.9%) of the Group's total purchases and purchases from the largest supplier accounted for 11.7% (2022: 14.4%).

For the year ended 31 December 2023, the Group's sales to its five largest customers accounted for 54.4% (2022: 56.4%) of the Group's total sales and sales to the largest customer accounted for 27.6% (2022: 27.8%).

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

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 2023 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 49 to 53 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 Reporting Year or subsisted at the end of the year 2023.

RESERVES

Details of movements in the reserves of the Company during the Reporting Year are set out from pages 109 to 110 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2023, reserves available for distribution of the Company, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB1,293.2 million (as at 31 December 2022: RMB1,263.1 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2023 are set out in Note 16 to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2023 and up to the date of this report were:

Executive Directors:

Mr. Ethan Wu *(Chairman and Chief Executive Officer)* (Note 1)
Mr. Li Qiang
Mr. Ding Kechen (Note 2)

Non-executive Directors:

Mr. Wang Guoqiang (Note 1)
Mr. Wu Jiwei
Ms. Chen Chunhua

Independent non-executive Directors:

Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Ma Xiaohu

Notes:

1. On 26 March 2024, Mr. Wang was re-designated as a non-executive Director of the Company from an executive Director of the Company, and resigned as the chairman of the Board, the chairman of the Nomination Committee, and a member of the Remuneration Committee; and Mr. Ethan Wu was appointed as the chairman of the Board, the chairman of the Nomination Committee, a member of the Remuneration Committee, and he will continue to act as an executive Director and the Chief Executive Officer of the Company.

2. On 3 April 2024, Mr. Ding Kechen was appointed as an executive Director of the Company.

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

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 31 to 35 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 2023.

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 2023 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 2023.

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 2023 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 2023, 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 C3 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	Interest of controlled corporation (Note 1)	651,484,000 (L)	33.34%
	Beneficial owner (Note 3)	2,000,000 (L)	0.10%
Mr. Ethan Wu	Interest of controlled corporation (Note 2)	651,484,000 (L)	33.34%
	Beneficial owner (Note 3)	2,000,000 (L)	0.10%
Ms. Chen Chunhua	Beneficial owner (Note 3)	2,000,000 (L)	0.10%
Mr. Wu Kwok Keung Andrew	Beneficial owner (Note 3)	2,000,000 (L)	0.10%
Mr. Li Qiang	Beneficial owner (Note 3)	10,500,000 (L)	0.54%
Ms. Zhang Yujuan	Beneficial owner (Note 3)	2,000,000 (L)	0.10%
Mr. Wu Jiwei	Beneficial owner (Note 3)	15,500,000 (L)	0.79%
Mr. Ma Xiaohu	Beneficial owner (Note 3)	500,000 (L)	0.03%

Report of the Directors

Notes:

1. Mr. Wang Guoqiang holds 100% controlling interest of Truepath Limited, and therefore he is deemed to be interested in 394,512,000 shares of the Company held by 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 holds 100% controlling interest of Widescope Holding Limited, and therefore he is deemed to be interested in 235,372,000 shares of the Company held by Widescope Holding Limited. (ii) Mr. Wu holds 100% controlling interest of Best Harvest Far East Limited, and therefore he is deemed to be interested in 21,600,000 shares of the Company held by Best Harvest Far East Limited via its wholly-owned subsidiary 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, Mr. Li Qiang, Ms. Chen Chunhua, Mr. Wu Kwok Keung Andrew, Mr. Wu Jiwei, Ms. Zhang Yujuan and Mr. Ma Xiaohu 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 2023, 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 2023 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company 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 2023, 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 Holding Limited (Notes 1 and 5)	Beneficial owner	235,372,000 (L)	12.05%
Ethan Wu (Notes 1 and 5)	Interest of controlled corporation	256,972,000 (L)	13.15%
Truepath Limited	Beneficial owner	394,512,000 (L)	20.19%
Wang Guoqiang (Notes 2 and 5)	Interest of controlled corporation	394,512,000 (L)	20.19%
Greenwoods Asset Management Hong Kong Limited (Note 3)	Investment manager	119,000,000 (L)	6.09%
Invest Partner Group Limited (Note 3)	Interest of controlled corporation	119,000,000 (L)	6.09%

Report of the Directors

Notes:

1. Widescope Holding Limited and Best Harvest Far East Limited are wholly owned by Mr. Ethan Wu, and therefore Mr. Ethan Wu is deemed to be interested in 235,372,000 and 21,600,000 shares of the Company held by these two companies respectively.

2. Truepath Limited is wholly owned by Mr. Wang Guoqiang, and therefore Mr. Wang Guoqiang is deemed to be interested in 394,512,000 shares of the Company held by Truepath Limited.

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

4. "L" denotes long position.

5. 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 2023, 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 2023, 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, Mr. Ethan Wu, True Harmony Limited, Best Harvest Far East Limited, and Widescope Holding 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 2023.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2023, 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 2023, 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 "2011 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 2011 Share Option Scheme and the 2021 share option scheme (the "2021 Share Option Scheme") has been adopted.

As at 31 December 2023, 193,967,666 share options under the 2011 Share Option Scheme remain outstanding and exercisable. No options can be granted under the 2011 Share Option Scheme upon its expiration, but all options granted previously will remain exercisable in accordance with the 2011 Share Option Scheme.

1. Purpose

The 2021 Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules. The purpose of the 2021 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 2021 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 8 June 2023 (i.e. a total of 195,377,599 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 2021 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 2021 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 2021 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 2021 Share Option Scheme**

The 2021 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 2021 Share Option Scheme. Since 31 December 2023, the remaining life of the 2021 Share Option Scheme is approximately 7 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 2021 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 2011 Share Option Scheme and 2021 Share Option Scheme during the year ended 31 December 2023 are as follows:

Grantees	Number of share options Outstanding as at 1 January 2023	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2023	Date of grant	Date of expiry	Exercise price per share
Directors									
Mr. Wang Guoqiang	1,090,000 (Note 1)	–	–	–	1,090,000	0	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 2)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250
Mr. Ethan Wu	1,090,000 (Note 1)	–	–	–	1,090,000	0	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 2)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250
Mr. Wu Jiwei	9,000,000 (Note 3)	–	–	–	–	9,000,000	26/09/2018	25/09/2028	HK$0.740
	6,000,000 (Note 4)	–	–	–	–	6,000,000	06/12/2018	05/12/2028	HK$0.532
	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250
Ms. Chen Chunhua	1,000,000 (Note 1)	–	–	–	1,000,000	0	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 2)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250
Mr. Wu Kwok Keung Andrew	1,000,000 (Note 1)	–	–	–	1,000,000	0	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 2)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250
Mr. Li Qiang	1,000,000 (Note 1)	–	–	–	1,000,000	0	13/06/2013	12/06/2023	HK$4.694
	10,000,000 (Note 2)	–	–	–	–	10,000,000	31/08/2016	30/08/2026	HK$0.490
	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250

Report of the Directors

	Number of share options								
Grantees	Outstanding as at 1 January 2023	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2023	Date of grant	Date of expiry	Exercise price per share
Ms. Zhang Yujuan	1,000,000 (Note 1)	–	–	–	1,000,000	0	13/06/2013	12/06/2023	HK$4.694
	1,500,000 (Note 2)	–	–	–	–	1,500,000	31/08/2016	30/08/2026	HK$0.490
	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250
Mr. Ma Xiaohu	0	500,000 (Note 5)	–	–	–	500,000	31/03/2023	30/03/2033	HK$0.250
Employees	21,170,000 (Note 1)	–	–	–	21,170,000	0	13/06/2013	12/06/2023	HK$4.694
	81,667,666 (Note 2)	–	–	–	500,000	81,167,666	31/08/2016	30/08/2026	HK$0.490
	49,300,000 (Note 3)	–	–	–	–	49,300,000	26/09/2018	25/09/2028	HK$0.740
	31,000,000 (Note 4)	–	–	–	–	31,000,000	06/12/2018	05/12/2028	HK$0.532
	0	181,300,000 (Note 5)	–	–	–	181,300,000	31/03/2023	30/03/2033	HK$0.250
Total	**221,817,666**	**185,300,000**	**–**	**–**	**27,850,000**	**379,267,666**			

Report of the Directors

Notes:

1. 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.

2. 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.

3. 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.

4. 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.

5. The closing price of shares immediately before 31 March 2023 on which the share options were granted was HK$0.250 per share. 1/3 of which are exercisable from 31/03/2024 to 30/03/2033; 1/3 of which are exercisable from 31/03/2025 to 30/03/2033; and the remaining 1/3 are exercisable from 31/03/2026 to 30/03/2033.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the twelve months ended 31 December 2023 under the 2011 Share Option Scheme and the 2021 Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2023, 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 practices adopted by the Group and the consolidated financial statements for the Reporting 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 2023.

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 55 to 72 of this annual report.

Report of the Directors

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 2023.

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.

EVENT AFTER THE REPORTING YEAR

The Company proposes to amend and adopt the new Memorandum and Articles of Association and is subject to approval by way of special resolution at the forthcoming annual general meeting. For details, please refer to the announcement on proposed amendments to the memorandum and articles of association of the Company on 26 March 2024.

Save as disclosed in this report, there is no material event affecting the Group that need to be reported to the Shareholders after the end of the Reporting Year.

On behalf of the Board

Mr. Ethan Wu
Chairman

The PRC, 26 March 2024

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 C1 of the Listing Rules on the Stock Exchange as its own code of corporate governance.

During the year ended 31 December 2023, the Group has complied with all code provisions of the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure the compliance with the CG Code.

CORPORATE CULTURE AND STRATEGY

The Company is an international and comprehensive energy company committing to its three major business segments which are exploration and development of oilfield, oilfield technology services and new energy. As a provider of comprehensive oilfield service for years, the Company is committed to provision of solutions as to various issues 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. Levering on our advanced technology and ability, the business segment of new energy is beginning to take shape and will continue to develop. Meanwhile, the oilfield exploring and developing segment, as one of the Company's strategies, will provide stronger, longer-term and ongoing value for the development of the Company. We fully acknowledge the importance of stakeholders to the Board and the Group as a whole, and are committed to creating value for stakeholders through sustainable growth and continuous development.

The "Five 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:

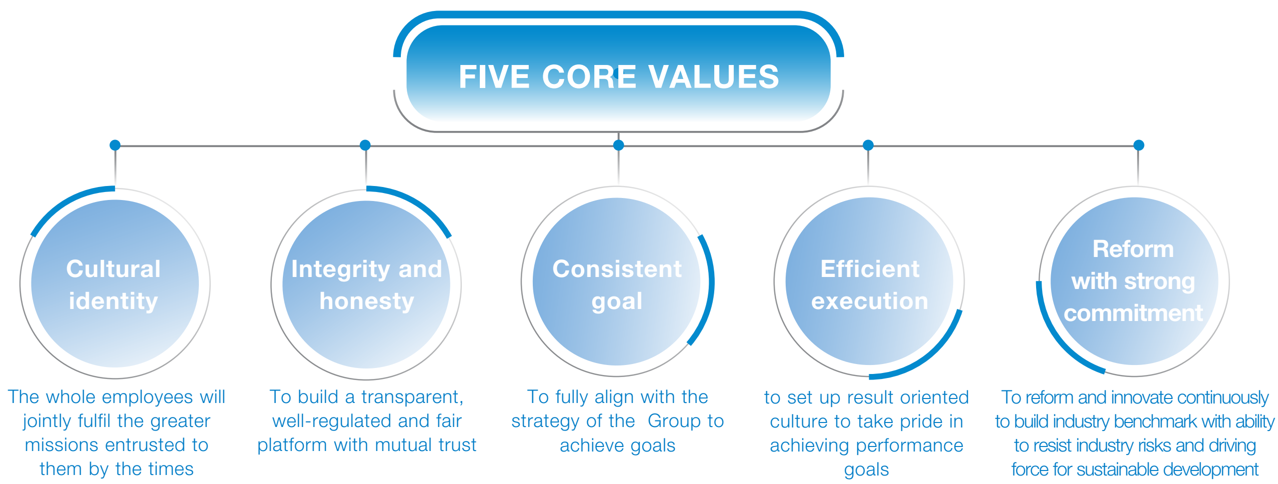
(1) cultural identity: the whole employees will jointly fulfill the greater missions entrusted to them by the times;

(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 set up result oriented corporate culture to take pride in achieving performance goals;

(5) reform with strong commitment: to reform and innovate continuously 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. Ethan Wu (Chairman), Mr. Li Qiang and Mr. Ding Kechen, three non-executive Directors, namely Mr. Wang Guoqiang, 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 45 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 Reporting Year, 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.

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.

Corporate Governance Report

Mr. Ding Kechen was appointed as an executive director on 3 April 2024. He has obtained the legal advice referred to in Rule 3.09D of the Listing Rules on Hong Kong law as regards the requirements under the Listing Rules that are applicable to him as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange on 3 April 2024 and he has confirmed that he understood his obligations as a director of a listed issuer.

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 and up to the date of this report, 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 (during the Reporting Year and re-designated as Non-executive Director since 26 March 2024)	√	√
Mr. Ethan Wu	Executive Director	√	√
Mr. Li Qiang	Executive Director	√	√
Mr. Ding Kechen	Executive Director (appointed on 3 April 2024)	√	√
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. Ma Xiaohu	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. During the Reporting Year, the chairman of the Board and the chief executive officer were held by Mr. Wang Guoqiang and Mr. Ethan Wu. With effect from 26 March 2024, Mr. Ethan Wu shall perform both the positions of chairman of the Board and chief executive officer of the Company. The Board believes that, as one of the founders of the Company, Mr. Ethan Wu has extensive experience in the industry and business operations. Vesting the roles of both chairman of the Board and chief executive officer in Mr. Ethan Wu has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board and the Nomination Committee will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company if and when it is appropriate, taking into account the circumstances of the Group as a whole. The Company will review and monitor its corporate governance practices on a regular basis to ensure compliance with the CG Code and maintain high standards of corporate governance practices of the Company.

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 2023 annual general meeting on 8 June 2023 (the "2023 AGM"), Mr. Ethan Wu, Mr. Li Qiang and Mr. Wu Kwok Keung Andrew retired by rotation pursuant to Article 108 of the Articles and Association. All of them were re-elected as Directors. Please refer to the Report of the Directors for details of the members of the Board who will retire from office and offer for re-election at the 2024 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.

Corporate Governance Report

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.

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, five Board meetings and one general meeting (the 2023 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	5/5	1/1
Mr. Ethan Wu	5/5	1/1
Mr. Li Qiang	5/5	1/1
Mr. Wu Jiwei	4/5	1/1
Ms. Chen Chunhua	5/5	1/1
Ms. Zhang Yujuan	5/5	1/1
Mr. Wu Kwok Keung Andrew	5/5	1/1
Mr. Ma Xiaohu	5/5	1/1

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 C3 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.

Corporate Governance Report

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.

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.

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

Corporate Governance Report

Anti-Corruption Policy

The Group has adopted and complied with the anti-corruption policy during the Reporting Year. 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.

Whistleblowing Policy

The Group has adopted and complied with the whistleblowing policy during the Reporting Year. 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 2023, 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

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 2023, 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 2023, the Board reviewed the implementation and effectiveness of the Board Independence Assessment Mechanism and the results were satisfying.

Corporate Governance Report

BOARD COMMITTEES

Nomination Committee

During the Reporting Year, the Nomination Committee comprised 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. On 26 March 2024, Mr. Wang Guoqiang resigned as the chairman of the Nomination Committed and Mr. Ethan Wu was appointed as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include the following:

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

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

During the Reporting Year, two meetings of the Nomination Committee were held on 23 March 2023 and 12 December 2023 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.

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

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

Corporate Governance Report

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.

As at the date of this report, the Board currently comprises of 7 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 2023, the Group has 7 senior management members, of which 5 are male, accounting for approximately 71.4% of the senior management; and 2 are female, accounting for approximately 28.6% of the senior management.

For the year ended 31 December 2023, the Group has a total of 4,199 employees, of which 3,318 are male, accounting for 79.0% of the total number of employees; and 881 are female, accounting for 21.0% 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

During the Reporting Year, the Remuneration Committee comprised 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. On 26 March 2024, Mr. Wang Guoqiang resigned as a member of the Remuneration Committed and Mr. Ethan Wu was appointed as a member of the Remuneration Committee.

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, three meetings of the Remuneration Committee were held on 23 March 2023, 31 March 2023 and 12 December 2023 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Zhang Yujuan	3/3
Mr. Wang Guoqiang	3/3
Mr. Wu Kwok Keung Andrew	3/3

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 7 members of the senior management of the Group, whose biographies are set out on pages 34 to 35 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	5
1,000,001 – 1,500,000	0
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 Reporting Year, three meetings of the Audit Committee were held on 23 March 2023, 23 August 2023 and 12 December 2023 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. Ma Xiaohu	3/3

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 are available on the websites of the Company and the Stock Exchange.

On 23 March 2023, 23 August 2023 and 12 December 2023, the Audit Committee met with the external auditor and discussed matters relating to audit and internal control.

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 2023 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 2023, 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 plans and internal audit plans and carried out risk assessment of the overall operations of the Group after taking into account various factors, including changes in organisational structure and new market business expansion. 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 factors.

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 2023, which covered the areas including strategy, 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 2023, 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 Year.

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 2023, 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 2023 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 2023, the Company approved the amendment and adoption of the new Memorandum and Articles of Association by way of a special resolution at the Annual General Meeting of the Company convened on 8 June 2023, as detailed in the circular dated 11 May 2023. The Second Amended and restated Memorandum and Articles of Association of the Company is available on the Company's website and the Stock Exchange's website.

The PRC, 26 March 2024

Environmental, Social and Governance Report

I. ABOUT THIS REPORT

SPT Energy Group Inc. (Stock Code: 01251) hereby presents the Environmental, Social and Governance Report 2023 (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 (Organizing 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 2023 to 31 December 2023.

(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 Group has proactively fulfilled its social responsibilities as a corporate citizen, in order to make sure that the daily operation of the Group was in compliance with laws and regulations in the countries where it operates; complied with international environmental protection policies, internationally recognised labour standards and other applicable industry standards and international conventions and safeguarded labour interests. The Group has continued to pay attention to the health and safety of its employees; focused on the management and control of the project's quality and kept on improving 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 the condition was further applied to suppliers and distributors.

2. Management Structure

The Group has proactively improved the ESG management system, and continuously implemented the ESG in an orderly manner. The Audit Committee of the Board are responsible for the ESG affairs, and for such purpose, the Group has established a top-down ESG management structure consisting of the ESG Management Working Group and the ESG management personnel from the regional companies/subsidiaries/project departments to take 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, supervision of the progress and performance, collection and submission of information of ESG related work.

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 and to consolidate the mutual benefit. 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.

Combined with the feedback and actual operations of the Group, the Group has communicated with stakeholders through multi channels and concluded highlights of the Company's ESG that stakeholders pay attention to. The key topics of the ESG consist of "health and safety", "product responsibility", "emissions", "climate change", "environment and natural resources", "use of resources", "employment", "development and training", "labour standards", "supply chain management", "anti-corruption" and "community investment". We will address each topic in this report.

III. QHSE MANAGEMENT

3.1 Product Quality Management and Governance

3.1.1 Quality Management System

As an oil-field service company, the Group upholds and places strong emphasis on product and technology service quality and strictly follows the "Product Quality Law of the People's Republic of China", "Standardisation Law of the People's Republic of China" and other relevant laws and regulations of the country where the operation is located to ensure that the product and technology service quality provided is within control. Sinopetroleum, Petrotech (Xinjiang), SPT Engineering, Chongqing Huayou, our domestic subsidiaries, and our oversea subsidiaries in Aktobe, Kazakhstan, factory in Singapore, and in Indonesia were certified by the quality management system certification ISO9001:2015 and the quality management system API Q1. During the process, the Group provides efficient and safe services to satisfy customers' requirements on quality, health, safety and environment.

> In 2023, Offshore Oil Department of the Group has proactively participated in Quality Month Competition and vocational skills competition and other activities organized by its customers and awarded Group Second and Third Prizes.

3.1.2 Technological Innovation

Under the guidance of its strategy, the Group believes in that innovation is the primary driving force for development and has always upheld the orientation of technological innovation and relied on independent intellectual property. As of now, the Group has obtained a total of 67 new utility patents, 29 invention patents and 5 software copyrights in technical services areas such as drilling and workover, completion testing and oil and gas field testing. This technical patent cluster has offered a strong technical support for the Group's sustainable, high-quality development. In 2023, the Group's subsidiary in Xinjiang obtained the new utility patent of "high-performance milling shoes "and the invention patent of "reducible anti-stuck milling cone and its usage method (可縮徑防卡銑錐及其使用方法)". At the same time, the Group is applying for invention patents such as "enamel reactor made from high acid sulfonated asphalt for drilling fluid (鑽井液用高酸溶磺化瀝青生產的搪瓷反應釜)", "descaling device for oilfield production tubes that can recycle liquid (可迴圈通液的油田開採用油管除垢裝置)", "casing milling and fishing tool (穿芯套銑打撈工具)", "short catch overshot tool (短魚頭打撈工具)", "Scaffolds for hanging safety belts which can be put up high and used at low level at height operation (高處作業懸掛安全帶的高掛低用支架)".

Successful PVT Sampling Test in the downhole of an Ultra-deep, High-Pressure Gas Well in China for the first time

In March 2023, the reservoir engineering department of the Group's subsidiary in Xinjiang completed the PVT sampling test in the downhole of an ultra-deep, high-pressure gas well in the Bozi-Dabei block in Tarim Oilfield. The successful PVT sampling has been confirmed after the key information of processes has been verified, marking the first successful test for this operation in an ultra-deep, high-pressure gas well in China which is one of the hardest operations across the world and symbolizes the first try in China.

Got ready for technological reserve to promote technological innovations

On 30 May 2023, China National Petroleum Corporation announced that it had launched China's first scientific exploration well of over 10,000 meters – Shendi Take-X drilling project in Tarim, Xinjiang Uygur Autonomous Region. To support the development of deep drilling and solve the technical problems when drilling, such as "ultra-deep, ultra-high temperature, ultra-high pressure and high sulfur content", the experimental and testing center of the Group's subsidiaries in Xinjiang has continuously tackled difficulties and carry out evaluation and optimization and experimental research on new drilling materials and new systems. At present, the high-temperature and high-pressure rheological experiments of the new drilling fluid system have been completed, which provided technical reserves in advance for the optimal and fast drilling of 10,000-meter-deep well and the protection of wellbore quality.

Environmental, Social and Governance Report

The Group's subsidiary in Xinjiang won the title of "National Intellectual Property Advantageous Enterprise"

In May 2023, the Bayingol Mongolian Autonomous Prefecture Intellectual Property Administration in Xinjiang Uygur Autonomous Region held the "2023 Intellectual Property Publicity Weeks Launching Ceremony "and "2022 National Intellectual Property Advantageous Enterprise Awarding Ceremony". The Group's subsidiary in Xinjiang was one of the nine National Intellectual Property Advantageous Enterprises in Bayingol Mongolian Autonomous Prefecture by virtue of its own creation, application, protection and management in respect of intellectual property. The award is an official recognition of the Company's intellectual property management level, showing SPT's innovation strength and core competitiveness in key technology again.

The Group's subsidiary in Xinjiang completed the fishing test operations on an ultra-deep, high-pressure gas well in China for the first time

In July 2023, the reservoir engineering department of the Group's subsidiary in Xinjiang successfully completed the most difficult fishing test operations on an ultra-deep, high-pressure gas well in China, with a depth of 7,984.97 meters and a shut-in static pressure of 98.2MPa. The success marked SPT's major breakthrough in fishing test operations on an ultra-high pressure well in China.

3.1.3 Customer Satisfaction

The Group has always committed to customer centricity and creating more value for customers. It has formulated the Customer Satisfaction Survey System, continuously optimizing the customer feedback mechanism to fully understand customers' needs as part of its efforts to enhance the quality of products and technical services. To this end, customers' satisfaction is enhanced.

As of 31 December 2023, 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.

Moreover, the Offshore Oil Project Department of the Group and the Group's subsidiary in Xinjiang have been awarded the titles of "Excellent Contractor" and "Benchmarking Team" by its customers for many times.

3.1.4 Customer Privacy

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.

Environmental, Social and Governance Report

3.2 Environmental Protection Management

The Group's vision is to become a model for highly-efficient and harmonious development between mankind and the environment. As an integral part of our strategy, we strive to minimize the negative effects of our business operations on the environment and maximize resource utilization efficiency. We have built our business model surrounding this objective which was based on achieving sustainability goal for both our customers and us, and our value proposition is to optimize production and lower costs for our customers through integrated solutions. Through communication with stakeholders, we have formulated our environmental policy. The policy was formulated by taking reference to the United Nations Sustainable Development Goals, Basel Convention, Environmental Guidelines for International Association of Oil and Gas Producers (IOGP), ISO14001 Environmental Management System standards, and local laws and regulations. It also contains our environmental objectives, management system, environmental awareness construction, and industry specific challenges, covering a wide range of topics such as climate change, biodiversity, water consumption, waste management, environmental quality monitoring, recording and reporting, evaluation, investigation, and internal and external audits and others. The Group has been continuously improving its internal environmental management policy and system. Our environmental management system assigns responsibilities to each functional department and regional companies. It ensures that employees comply with the national environmental policy, rewards outstanding performers, and punishes employees who violate the environmental policy and cause serious consequences.

The Group strictly complies with the environmental protection laws and regulations in the jurisdictions where the Group operates, including the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China, the PRC Law on Prevention and Control of Environmental Pollution by Solid Waste, the PRC Law on the Prevention and Control of Atmospheric Pollution, and makes efforts to integrate the green development concept into the whole process of its business, aiming to generally facilitate its green and low-carbon operation.

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 a leading oilfield services company driven by technology, our environmental objectives are to reduce our customers' greenhouse gas emissions (GHGs) during resource development through the application of our technologies, as well as reducing our own GHGs through technology transformation and rigorous operational management. It is our responsibility to provide customers with technological solutions to develop clean energy. We continue to innovate actively and promote technology iterations to enable the industry to realize green transformation.

To achieve our emission reduction target, the Group has formulated the "Energy Efficiency Boost" program, which we have disseminated to all employees and implemented in all our business regions. The Group's "Energy Efficiency Boost" program consists of the promotion of clean energy, the application of energy-saving technologies, the continuous innovation and iteration of existing industry technologies, the improvement of resources development efficiency, and firmwide special campaigns to reduce emissions in employees' daily life.

As to waste liquid, drilling fluid, fracturing flowback fluid and sewage discharged from oilfield development operations are centrally treated by the qualified 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, the Group has formulated the Solid Wastes Management Measures, and the general solid wastes, and industrial solid wastes are collected, sorted and safely stored by category, which are eventually provided to qualified 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, therefore effectively safeguarding the environment of operation.

Environmental, Social and Governance Report

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

Index	Year ended 31 December 2023	Year ended 31 December 2022	Change
Nitrogen oxide (kg)	**7,341.0**	7,180.2	160.8
Sulphur oxide (kg)	**44.6**	42.0	2.6
Particulates (kg)	**708.7**	687.0	21.7

Index	Year ended 31 December 2023	Year ended 31 December 2022	Change
Carbon dioxide (kg)	**3,231,345.4**	3,449,501.0	(218,155.6)
Carbon dioxide equivalent in methane (kg)	**1.3**	1.4	(0.1)
Carbon dioxide equivalent in nitrous oxide (kg)	**85.7**	89.6	(3.9)
Gross greenhouse gas emissions (kg)	**3,231,432.4**	3,449,592.0	(218,159.6)
Greenhouse gas emissions per million yuan of revenue (kg/RMB million)	**1,659.5**	1,963.2	(303.7)

Index	Year ended 31 December 2023	Year ended 31 December 2022	Change
Domestic wastes (tonne)	**1,077.3**	1,066.2	11.1
Domestic wastes discharge per million yuan of revenue (tonne/RMB million)	**0.55**	0.6	(0.05)
Domestic wastewater (tonne)	**32,089.4**	36,831.8	(4,742.4)
Domestic wastewater discharge per million yuan of revenue (tonne/RMB million)	**16.5**	21.0	(4.5)

Environmental, Social and Governance Report

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 attached importance to energy saving and consumption reduction during its daisy operation, for this purpose it has constantly made efforts to proceed the "energy efficiency improvement" program, strived to enhance the supply of clean energy, and steadily increased the utilization level of resources and energy.

As such, the Group has re-modelled the equipment to replace oil with electricity (for drilling power) and utilized state-of-the-art technology and process, which effectively minimizes the operation cycle to achieve the target of energy consumption reduction. The Group promotes green purchasing, green workplace, green energy consumption and green travelling. As to production operations, the Group promotes recycling of water resources. At the same time, it encourages and educates its employees on water saving. Running gas, water emergency, dripping and leakage of equipment are prohibited. As of 31 December 2023, there was no wastage of water resources.

3.2.3 Environment and Natural Resources

The Group strictly complies with the environmental protection laws and regulations in the jurisdictions where the Group operates, including the Water and Soil Conservation Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, and it has continuously consummated environmental management policy and system, further improved the cleanness level of construction sites, optimized and enhanced the clean production model. The Group has made efforts to alleviate the impact arising from the course of operation on the local environment, contributing to the beautification and greening of the environment, moreover, it has obtained the ISO14001: 2015 Environmental Management System Certification.

The Group has formulated the Special Emergency Plan for Environmental Emergencies, clarifying the working requirements, responsibility, procedures and contents of clean production. The Group has incorporated the environmental management into its annual QHSSE Responsibility Statement, carries out two HSE supervising inspections annually, devoting itself to developing clean production project while minimizing the environmental impact arising from the Group's production and operation activities. As of 31 December 2023, there was no any environmental related penalty occurred to the Group.

Environmental, Social and Governance Report

Index		As of 31 December 2023	As of 31 December 2022	Change
Electricity (kwh)		**5,091,088.0**	5,434,580.5	(343,492.5)
Electricity consumption per million yuan of revenue (kwh/RMB million)		**2,614.5**	3,092.8	(478.3)
Gas (m^3)		**373,095.9**	389,915.7	(16,819.8)
Gas consumption per million yuan of revenue (m^3/RMB million)		**191.6**	221.9	(30.3)
Oil (m^3)	Diesel	**2,436.4**	2,323.4	113.0
	Gasoline	**341.9**	289.1	52.8
	Engine oil	**169.5**	110.8	58.7
Oil consumption per million yuan of revenue (m^3/RMB million)		**1.51**	1.55	(0.04)
Paper (piece)		**952,292.0**	882,633.0	69,659.0
Paper consumption per million yuan of revenue (piece/RMB million)		**489.0**	502.3	(13.3)

Index	As of 31 December 2023	As of 31 December 2022	Change
Water consumption for production (m^3)	**233,672.0**	211,155.0	22,517.0
Water consumption for production per million yuan of revenue (m^3/RMB million)	**120.0**	120.2	(0.2)
Water consumption for domestic and office use (m^3)	**36,564.0**	34,481.2	2,082.8
Water consumption for domestic and office use per million yuan of revenue (m^3/RMB million)	**18.8**	19.6	(0.8)

Index	As of 31 December 2023	As of 31 December 2022	Change
Cartons (kg)	**7,648.5**	2,968.7	4,679.8

Environmental, Social and Governance Report

3.3 Occupational Health and Safety Management

3.3.1 Carrying out Safety Year Activities, with the Theme of "Implementing Safety Basics and Consolidating Safety Responsibilities"

In 2023, the safety committee of the Group focused on strengthening the entity responsibility for safety and further consolidating safety basics and carried out the activity with the theme of "implementing safety responsibilities and consolidating safety basics". Through a series of activities, all employees of the Group have become practitioners of safety production, safeguarding the realization of the annual business goal of the Group. Major activities adopted include:

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

(2) Organizing subsidiaries from different regions to discuss and write how to strengthen entity responsibility for safety and to consolidate safety basics;

(3) Conducting activities for collecting essays on safety;

(4) Holding knowledge tests and competitions about safety.

3.3.2 Revision of QHSE Management System Document

To ensure work quality, eliminate and control potential risks in operation activities, protect the health and safety of employees, maintain the ecological environment and achieve top-notch quality, health, safety and environment (QHSE) management, the Group's Safety Production Committee, to meet requirements of the latest laws and regulations, standards and specifications, has revised the QHSE Management Manual (Version B) and replaced it with the QHSE Management Manual (Version B1). All employees are required to work in accordance with the QHSE Management Manual (Version B1) in their positions so as to achieve performance, improve reputation, deliver outcomes that customers desired and create value.

3.3.3 Safety Training and Education

With standardizing safety training education to improve employees' safety awareness and safety production skills, the Group organized regular targeted trainings which covered well control management, emergency management, operating procedures and accident cases. It also organized Safety Management Training for Special Operations《特殊作業安全管理培訓》 and Defensive Driving Training《防禦性駕駛培訓》 through online training platform.

Environmental, Social and Governance Report

3.3.4 The Group's Safety Inspection

The Reporting Year witnessed the establishment of inspection teams inside and outside of China pertaining to the Group's safety inspection in summer and winter. The inspection team inside China was led by the Group's chief safety officer to carry out comprehensive inspections, and the inspection team outside of China was organized by the regional safety officer for inspections. It was carried out in three stages: self-inspection by each project department, random inspection by the Group's safety inspection officer, and summary and evaluation. For the first time, the chief safety officer led a team to carry out safety inspections of companies in Central Asia.

During random inspection by inspection teams in this summer and winter during the year, eight and seven Hazardous Rectification Notice (《隱患整改通知單》) were issued, respectively, with 27 and 24 rectification items, respectively, all of which have been rectified.

3.3.5 Announcing the Listing Results for Quarterly Safety Assessment by the Group

By implementing the responsibility system of safety production for all employees and improving their safety responsibility awareness and safety management skills, the Group aimed to strengthen the safety management of its production and operation to ensure to achieve safety production goals in 2023. The Safety Commission Office of the Group, in accordance with the 2023 QHSSE Responsibility Certificate (《2023年QHSSE責任狀》), implemented flag hanging quarterly, listing annually, and conducted safety assessment and flag hanging for the previous quarter at the beginning of each quarter. During the four quarters of 2023 and for the year, the assessment of quarterly safety production was conducted and publicized to all units in an effort to urge them to continue to do a good job in safety production.

3.3.6 Enhancing the Capacity of Emergency Management and Control

The Group strictly abides by the Emergency Response Law of the People's Republic of China and the laws and regulations of the country where we operate. The Group continuously improves the emergency management and command system and strengthens the emergency response mechanism and capacity. By doing so, the Group standardizes emergency procedures and enhances capabilities of on-site emergency management and control. The Group also regularly carries out real emergencies drills and targeted emergency trainings and clarifies responsibilities and division of work to constantly improve the quality of emergency plans and emergency response capabilities.

In 2023, the Offshore Oil Project Department of the Group won the third prize of the blowout prevention in drills for well control organized by its customer.

3.3.7 Strengthening Occupational Health Management

The Group are in strict compliance with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and laws and regulations in relation to occupational health of the country where we operate. The Group optimized the occupational health management procedures and clarified the occupational contraindications and health inspection process. Besides, the Group collected the occupational contraindication catalogues for employees in overseas project positions and the results of employee physical examinations to analyze and archive, and provided psychological counseling to employees working without leave and overseas employees.

Environmental, Social and Governance Report

3.3.8 Work Injury Statistics

Number of deaths due to work in the past three years (2023 inclusive)	0
Percentage of deaths due to work in the past three years (2023 inclusive)	0
Number of work days lost due to work-related injuries in 2023	0

IV. EMPLOYEES' RIGHTS AND INTERESTS

4.1 Legal Employment

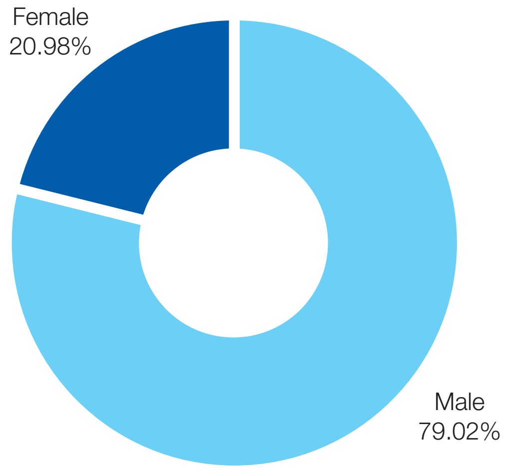
The Group complies with the state laws and local laws in relation to recruitment. These laws and regulations include: the Labour Law of the People's Republic of China, the Employment Contract Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Minors, the Provisions on the Prohibition of Using Child Labour, the Provisions on Special Protection of Minors, the Labour Law of the Republic of Kazakhstan and other applicable laws and regulations of relevant countries. 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, inhumane actions or 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 2023, the Group had no labor disputes or any noncompliance with laws and regulations relating to child labor or forced labor.

Environmental, Social and Governance Report

As of 31 December 2023, the employee structure and number of separations of the Group are as follows:

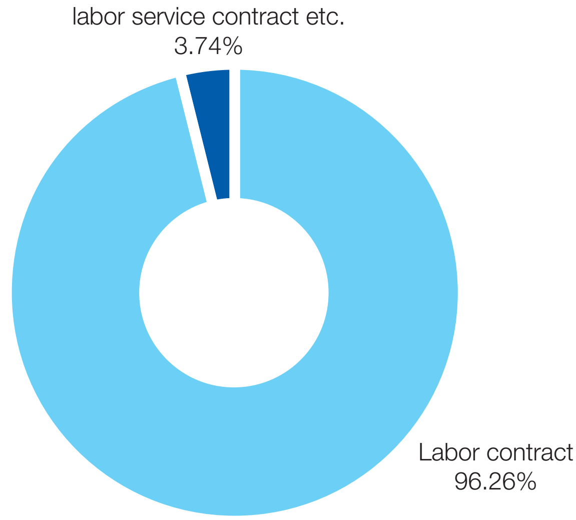
Total workforce by gender, employment type, age group and region (number of employees at the beginning of the period: 4,331; number of employees at the end of the period: 4,199)

Gender



	Number of employees
Male	3,318
Female	881
	Total 4,199

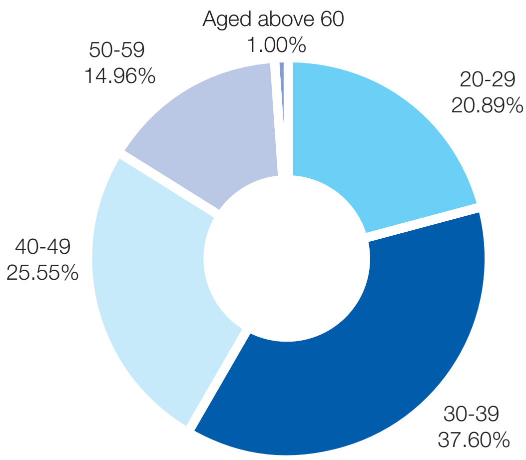
Employment Type



	Number of employees
Labor contract	4,042
labor service contract etc.	157
	Total 4,199

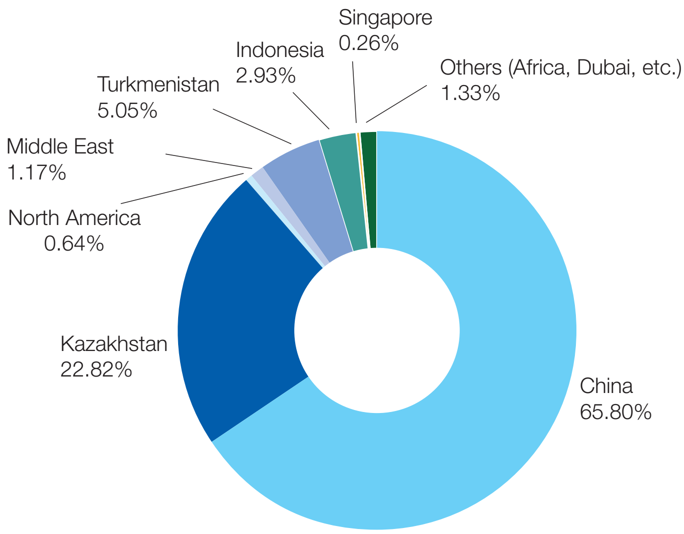
Environmental, Social and Governance Report

Age group



	Number of employees
20-29	877
30-39	1,579
40-49	1,073
50-59	628
Aged above 60	42
	Total 4,199

Region

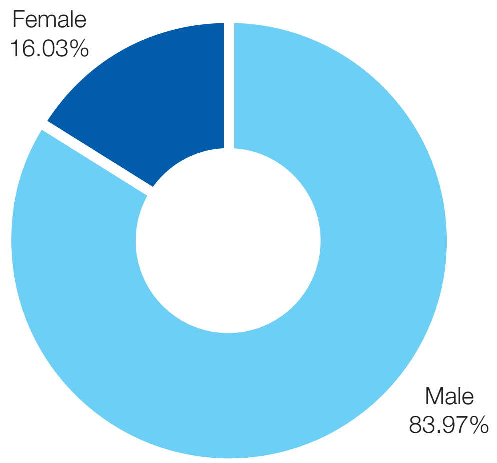


	Number of employees
China	2,763
Kazakhstan	958
North America	27
Middle East	49
Turkmenistan	212
Indonesia	123
Singapore	11
Others (Africa, Dubai, etc.)	56
	Total 4,199

Environmental, Social and Governance Report

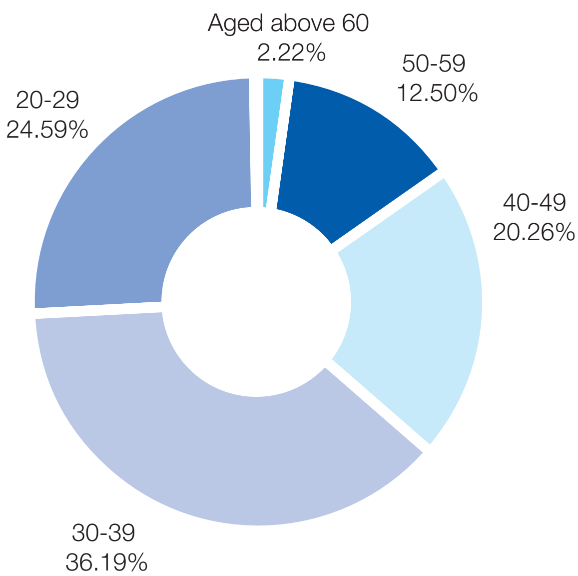
Employee turnover rate by gender, age group and region
(turnover rate = number of separations at the current period/(number of employees at the end of the period+ number of separations at the current period))

Gender



	Employee turnover rate by gender
Male	20.07%
Female	15.29%

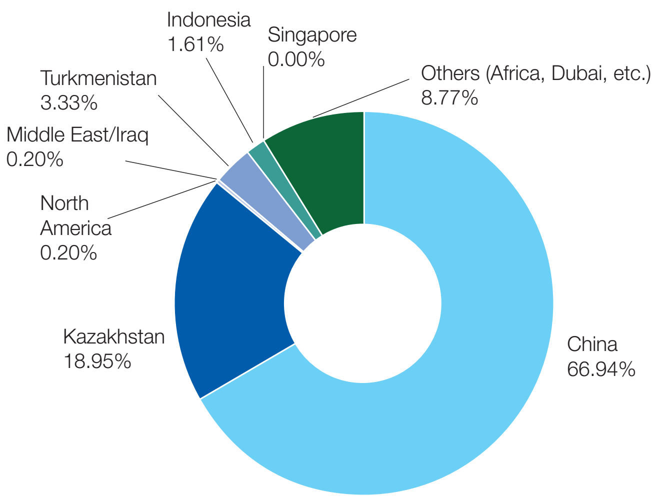
Age group



	Employee turnover rate by age group
Aged above 60	34.38%
50-59	16.49%
40-49	15.78%
30-39	18.52%
20-29	24.59%

Environmental, Social and Governance Report

Region



	Employee turnover rate by region
China	19.38%
Kazakhstan	16.40%
North America	6.90%
Middle East/Iraq	3.92%
Turkmenistan	13.47%
Indonesia	11.51%
Singapore	0.00%
Others (Africa, Dubai, etc.)	60.84%

4.2 Development and Training

Based on the Group's relatively sound and complete training system, in 2023, we are 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, new employees, management, technology, project orientation and safety trainings. 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 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) 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 2023, attendance in the training reached 159,234 men/times, with 124,327 training hours cumulatively. The trainings covered all business regions and project departments domestically and abroad. Meanwhile, attendance in the safety training relating to the safety laws and regulations, safety accident cases, emergency plans, safety operating procedures and others reached 2,500 men/times, with approximately 30,000 training hours.

4.2.1 Summary of Training Programs

In order to accelerate the training of talents, the Group launched 19 lots/times of "New Employee Learning Path" (新員工學習路徑), submitted 14 sessions of "New Course Express" (新課速遞) on line, carried out 10 lots/times of the live video training "Workplace Efficiency Lecture" (職場效能講堂), and finished 5 lots/times of the offline employee development and management sand table training in 2023.

Environmental, Social and Governance Report

V. RESPONSIBILITY MANAGEMENT

5.1 Supply Chain Management

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

The Risk Management Department of the Group is responsible for the day-to-day supervision for the implementation of the access system and conducts regular internal audit.

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 2023, 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	Distribution of major cities in China						
			In China	Xinjiang	Sichuan and Chongqing	Beijing	Tianjin	Jiangsu	Others
2023	**991**	**509**	**482**	**160**	**55**	**46**	**32**	**29**	**160**

Environmental, Social and Governance Report

5.2 Anti-Corruption Management

The Group and its employees are in strict compliance with relevant laws and regulations on anti-bribery and anti-corruption in the countries where it operates. It has been committed to enforcing strict company discipline, strengthening anti-unfair competition, and reinforcing relevant management requirements on preventing bribery, extortion, fraud and money laundering. It also takes effective steps to guard against various corruptions and non-compliance with commercial ethics.

5.2.1 Improve the Anti-fraud Reporting Procedures and Working Mechanism

There is a hotline and a mailbox published on the official website of the Group where employees may file complaints of any fraud behavior identified and submit the evidences under their name or anonymously by phone, email, WeChat and post. The Group 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 supervisory department of the Group tracks possible violations of discipline and law 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 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 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, Risk Management Requirements Regarding the Appointment of Senior Management and Implementation Rules for the Fraud and Violation Determination, and actively organize corruption-free and integrity explanation and publicization, 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. In 2023, Xinjiang branch of the Group actively participated in social welfare activities and was awarded the title of "Caring Enterprise" by the Shaya County Committee of the Communist Youth League. Besides, the Offshore Oil Project Department of the Group participated in the community activities by the customer and was awarded the "Fair Competition Award" in the basketball game.

VI. CLIMATE CHANGE

In recent years, extreme weather such as high temperature, drought and rainstorm occurs frequently around the world, which has posed a serious threat to the natural ecological environment, the economy and society and public's lives and health. Climate change is a global crisis and allows of no delay. The Group is well aware of the impact of the climate crisis and assumes responsibility for mitigating global climate change. We firmly comply with a series of international conventions such as the United Nations Framework Convention on Climate Change and the Paris Agreement, and is committed to promoting carbon emission reduction across the entire value chain. The Group attaches great importance to climate change-related risks and opportunities, integrates climate change risks into its comprehensive risk management system, identifies and evaluates climate risks and opportunities in combination with its own business segments, and develops relevant response policies to mitigate or avoid the impact of climate change on the Company.

6.1 Governance

6.1.1 Governance Structure

The Group has established a comprehensive framework to address climate change, with a three-tier governance structure comprising the Board and Board Committees, management and workforce. The governance structure operates smoothly to ensure that the Group's objectives and actions are effectively communicated and implemented across the Group from the Board level onwards. In terms of climate-related risks, the risk control department leads the supervision and fully integrates climate risks into the Group's risk management bottom line to ensure that the Group systematically identifies, analyzes and manages climate-related risks during its governance and strategy implementation.

(1) Board and Board Committees

The Board members have diversified knowledge, experience and skills, including corporate strategy, corporate governance, finance, risk management and compliance, which provide them with strong and constructive opinions to enable them to effectively perform governance responsibilities related to climate issues. The Board Committee (Audit Committee), whose members have up-to-date knowledge of ESG management, strategy, risk management and disclosure and others., is responsible for overseeing the management of the Group's climate-related opportunities and closely monitoring climate change issues to optimize the standards and quality of climate-related disclosure and enhance the Group's performance on climate change. The Audit Committee will discuss important issues such as climate change for the Group when convening the Board meeting to ensure that the Board is aware of relevant issues that may have a significant impact on the Group, which may help the Board in making decisions on climate-related risks and opportunities.

Environmental, Social and Governance Report

(2) *Management*

As to the management level, we have established the ESG management committee and the ESG management working group to comprehensively implement the Group's ESG strategy, approve the implementation of the ESG policies, and regularly submit recommendations to the Board and the Audit Committee for material concerns. The ESG Management Committee and the ESG management working group thoroughly integrates climate related risks and opportunities management into each aspect of the Group, involving the risk control department, human resources department, financial assets department, supplies management department, safety and environmental protection department, the Group's supervision department, investor relations department, training center and other departments.

As such, with the support from the risk control department, the risk of the Group is generally under monitoring and control. Through formulating the risk management strategy for the Group, the risk portfolio of the Group is determined. The risk control department conducts identification, evaluation and management over the material risk that the Group encounters; it also conducts review and evaluation in respect of the risk management policy and system of the Group.

(3) *Working level*

As to the working level, regional companies, subsidiaries and task forces are responsible for the detailed implementation of works in relation to climate related risks and opportunities.

6.1.2 Climate Related Management System

In order to enhance the governance of climate related issues within the Group, as well as to set formal objectives and standards for each process, the Group formulated policies and mechanisms for various related areas with reference to relevant local and international guidelines and standards, which all member of the Group need to comply with and thorough implement.

In terms of responding to climate changes, the Group shall cope with the opportunities brought by such changes and facilitate the transformation to a low-carbon economy. According to regulatory requirements and guidelines, the Group reduces the emissions of greenhouse gas and exhaust, energy, water and waste, while gradually taking climate-related risks factor into consideration in respect of risk management frameworks. Leveraging on the effective risk management process, the Group identifies, measures, monitors, reports, controls, manages and mitigates climate related risks.

The Group establishes the Supplier Management Measures. During the purchase process, we take some concepts such as climate change into considerations. We set out requirements on suppliers in respect of social, environmental, ethical, corporate governance and workplace, and developed an evaluation mechanism to regard environmental protection as an important scoring criterion. If an existing supplier receives a relatively low score during regular re-inspection and fails to submit an effective improvement plan in a timely manner, we will consider suspending the collaboration with such supplier. In addition to survey, we also require our suppliers to provide materials such as environmental management system certification to assist in scoring.

Environmental, Social and Governance Report

6.2 Strategies

The Group takes "sustainable and high-quality development" as the core concept of the medium and long-term development, and considers improving the resilience to cope with climate risks as an important foundation for maintaining the stable and high-quality development of the Company. To this end, we have fully integrated our efforts to address climate changes into the blueprint for sustainable development, and clarified a number of quantitative and qualitative development goals and implementation measures.

6.3 Risks and Opportunities

6.3.1 Identification of Climate Related Risks and Response Measures

We systematically manage climate risks by incorporating climate risk factors into our risk management framework, and develop appropriate management system and process to identify, assess, monitor, report, control, manage and mitigate related risks. In our daily operation, through the identification and assessment of climate risks, we analyze their economic and financial impacts on the Group's operations and development, and thereby formulating corresponding strategies to enhance the overall risk management process and resilience in response to climate changes. Climate changes have a significant impact on operations and the market, affecting the safety and stability of operations and becoming an important challenge to maintaining stability. The climate related risks we face mainly fall into two categories, namely physical risks and transition risks:

Risk category		Risk description	Countermeasures
Physical risks	Acute risks: Extreme weather such as typhoons and heavy rains	Damage to construction sites, office buildings and equipment, causing asset losses; Stable production affected by equipment damage, employees' inability to work, transportation interruption, etc.; Impact brought by supply chain disruptions.	Closely monitor, regularly update climate-related data and issue timely warnings; Formulate emergency response plans for natural disasters, and continuously improve the emergency response mechanism for natural disasters; Identify potential asset damage and purchase necessary insurance.
	Chronic risks: Continuous high temperature, drought, etc.	The rising temperature will require the Company to equip more refrigeration equipment, increasing its energy consumption and operating costs; Employees may not be able to work outdoors for a long time during the hot season, which affects operational efficiency of the Company; Intensified water-supply shortage in water-scarce areas.	Apply more energy-efficient refrigeration equipment; Scientifically arrange production plans, deploy production organizations carefully, and improve operational efficiency.

Environmental, Social and Governance Report

Risk category		Risk description	Countermeasures
Transition risks	Policy and law risks	The government may introduce more stringent policies and regulations to mitigate climate change, which may increase the workload of business compliance, and the number of related lawsuits or claims.	Closely monitor changes in environmental laws, regulations and policies and respond to them in a timely manner. Strictly abide by applicable laws and regulations and actively participate in standard setting; Improve our low carbon development and risk control and management for safety and environmental protection.
	Technical risks	Failure to identify and apply low-carbon technologies in a timely manner, resulting in the low-carbon transformation of products falling behind industry peers and affecting the efficiency of low-carbon transformation.	Increase the proportion of new energy use and actively carry out cooperation with peers; Research cooperation methods in new technologies and equipment; Improve the Company's ability to research and develop its own new technology and equipment.
	Market risks	Increase in raw material and energy costs; Decrease in demand for fossil fuels.	Build an energy information platform to monitor and analyze energy use, and improve energy management and control capabilities; Step up market development and increase the proportion of external market business.
	Reputational risks	Negative feedback from stakeholders due to poor performance in climate change and sustainability.	Enhance the Company's sustainable development capabilities and actively respond to climate change; Enhance management transparency in relevant aspects and respond to the concerns of stakeholders.

Environmental, Social and Governance Report

6.3.2 Identification of Climate-related Opportunities and Countermeasures

Opportunities		**Countermeasures**
Resource efficiency	Demand for more energy-efficient equipment and low-carbon technology; Supportive policy incentives of green transformation.	Actively explore and apply new technologies, new equipment and new processes to improve resource efficiency and reduce energy costs;
Product and services	Promotion and application of green and low-carbon products； Comprehensive solutions for climate change in the industry.	Identify and respond to government support policies and green projects; Strengthen the research and development and promotion of low-carbon technologies, and continue to increase the proportion of green and low-carbon emitting products;
Market	Huge market demand for green energy development; International market expansion.	Identify and participate in emerging markets;
Adaptability	Ability to aggregate resources; Identification of alternative energy sources and diversified solutions; Participation in renewable energy projects.	Promote the development and utilization of renewable energy.

6.3.3 Facing Challenges and Prospects

We understand that as climate-related regulations and policies are undergoing development, regulatory authorities will gradually introduce more in-depth and detailed regulatory requirements. The Group needs to continuously refine its own management structure and relevant process, so as to adapt to the latest development trends. Furthermore, there are various difficulties in data collection, making our climate risk management a major challenge. Going forward, we will continue to improve the inclusion of climate-related risk factors in risk management measures and to strengthen existing climate risk management structure and policies. We will also review and update the Group's internal definition and management process of climate risks in a timely manner, so as to ensure that climate risks are maintained at an appropriate level and continue to improve risk management and control capabilities.

Environmental, Social and Governance Report

6.4 Metrics and Targets

The Group has regularly monitored its performance in addressing climate change and analyzed and managed a series of metrics related to climate change. The Group is committed to improving its environmental performance and reducing greenhouse gas emissions from its business operations. Thus the effective implementation of the Group's long-term carbon reduction plan will be guaranteed. We, therefore, regularly measure and manage energy and water efficiency, paper consumption and greenhouse gas emissions, and set clear targets. With 2020 as the base year, greenhouse gas emissions per million yuan will be reduced by 20% by 2025, electricity consumption per million yuan by 20% by 2025, paper purchase per million yuan by 5% by 2025, and water consumption for domestic and office use per million yuan by 10% by 2025. In terms of greenhouse gas emissions generated from our own operations, we will strive to achieve carbon neutrality by 2030. We will achieve remarkable results in reducing our operation carbon footprint through various energy-saving and emission reduction measures to strengthen and promote green work mode and green travel.

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 105 to 192, comprise:

- the consolidated balance sheet as at 31 December 2023;
- 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, comprising material accounting policy information 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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

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

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 2023, the carrying amount of machinery and equipment in the PRC region amounted to RMB190 million. During the year ended 31 December 2023, 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 assessed management's identification of the CGUs. • 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

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 2023 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

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 2023, the carrying amount of inventories amounted to RMB657 million, which was stated net of a provision of RMB84 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 2023 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

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 IFRS Accounting Standards 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

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

- 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, 26 March 2024

Consolidated Balance Sheet

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	6	**407,048**	430,071
Right-of-use assets	7	**55,754**	60,890
Intangible assets	8	**14,561**	15,875
Investments in an associate	9(b)	**1,921**	3,472
Investments in a joint venture	9(c)	**235**	–
Deferred income tax assets	19	**115,399**	115,301
Financial assets at fair value through other comprehensive income	3.3(i)	**7,287**	8,368
Other non-current assets	9(a)(i)	**16,145**	16,145
Prepayments and other receivables	12	**33,504**	324
		651,854	650,446
Current assets			
Inventories	10	**656,583**	556,669
Contract assets	5	**21,966**	32,731
Trade and note receivables	11	**1,016,402**	1,139,377
Prepayments and other receivables	12	**238,812**	208,610
Restricted bank deposits	13	**22,410**	17,189
Cash and cash equivalents	13	**303,180**	277,536
		2,259,353	2,232,112
Total assets		**2,911,207**	2,882,558
Equity			
Equity attributable to the Company's equity holders			
Share capital	14	**1,247**	1,178
Share premium		**869,853**	848,026
Other reserves	15	**351,401**	335,409
Currency translation differences		**(501,629)**	(525,073)
Retained earnings		**579,236**	575,241
		1,300,108	1,234,781
Non-controlling interests		**(14,868)**	(9,677)
Total equity		**1,285,240**	1,225,104

Consolidated Balance Sheet

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	16	**77,206**	43,035
Non-current lease liabilities	7	**13,292**	16,618
Deferred income tax liabilities	19	**26,252**	25,792
		116,750	85,445
Current liabilities			
Borrowings	16	**355,303**	375,295
Current portion of long-term borrowings	16	**60,907**	124,253
Contract liabilities	5	**44,190**	53,460
Trade and note payables	17	**777,453**	733,759
Accruals and other payables	18	**205,281**	218,990
Current income tax liabilities		**55,154**	54,809
Current portion of lease liabilities	7	**10,929**	11,443
		1,509,217	1,572,009
Total liabilities		**1,625,967**	1,657,454
Total equity and liabilities		**2,911,207**	2,882,558

The accompanying notes on pages 112 to 192 are an integral part of these consolidated financial statements.

The financial statements on pages 105 to 192 were approved by the Board of Directors on 26 March 2024 and were signed on its behalf.

Wang Guoqiang
Director

Ethan Wu
Director

Consolidated Income Statement

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Revenue	*5*	**1,947,244**	1,757,162
Other gains/(losses), net	*20*	**12,297**	(7,640)
Operating costs			
Material costs		**(549,238)**	(482,754)
Employee benefit expenses	*21*	**(627,213)**	(591,885)
Short-term and low-value lease expenses	*7*	**(123,985)**	(113,575)
Transportation costs		**(33,783)**	(28,572)
Depreciation and amortisation	*22*	**(71,174)**	(74,074)
Technical service expenses		**(265,232)**	(151,736)
Net impairment losses of financial and contract assets	*3*	**(46,831)**	(28,349)
Impairment losses of inventories and prepayments	*10,12*	**(4,751)**	(4,640)
Others		**(183,321)**	(221,069)
		(1,905,528)	(1,696,654)
Operating profit		**54,013**	52,868
Finance income	*23*	**802**	642
Finance costs	*23*	**(31,948)**	(38,083)
Finance costs, net		**(31,146)**	(37,441)
Share of net (loss)/profit of an associate and a joint venture accounted for using the equity method		**(1,317)**	819
Profit before income tax		**21,550**	16,246
Income tax expense	*24*	**(12,772)**	(8,789)
Profit for the year		**8,778**	7,457
Attributable to:			
Owners of the Company		**16,745**	13,241
Non-controlling interests		**(7,967)**	(5,784)
		8,778	7,457
Earnings per share for the profit attributable to the owners of the Company (RMB)			
Basic earnings per share	*26*	**0.009**	0.007
Diluted earnings per share	*26*	**0.009**	0.007

The accompanying notes on pages 112 to 192 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Profit for the year		**8,778**	7,457
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**8,439**	(33,772)
Items that will not be subsequently reclassified to profit or loss:			
Currency translation differences		**13,847**	63,282
Changes in fair value of equity investments at fair value through other comprehensive income		**(1,081)**	(3,319)
Total comprehensive income for the year		**29,983**	33,648
Total comprehensive income for the year attributable to:			
Owners of the Company		**38,213**	39,844
Non-controlling interests		**(8,230)**	(6,196)
		29,983	33,648
Total comprehensive income for the year		**29,983**	33,648

The accompanying notes on pages 112 to 192 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 2023		1,178	848,026	335,409	(525,073)	575,241	1,234,781	(9,677)	1,225,104
Comprehensive income/(loss)									
Profit/(loss) for the year		–	–	–	–	16,745	16,745	(7,967)	8,778
Other comprehensive (loss)/income		–	–	(1,081)	22,549	–	21,468	(263)	21,205
Total comprehensive (loss)/income		–	–	(1,081)	22,549	16,745	38,213	(8,230)	29,983
Transactions with owners in their capacity as owners									
Issue of ordinary shares	*14*	69	21,827	–	–	–	21,896	–	21,896
Share-based payments	*15(b)*	–	–	8,257	–	–	8,257	–	8,257
Transfer to statutory reserves	*15(c)*	–	–	8,816	–	(8,816)	–	–	–
Change from a subsidiary to a joint venture	*27(d)*	–	–	–	895	(3,934)	(3,039)	3,039	–
Transactions with owners in their capacity as owners		69	21,827	17,073	895	(12,750)	27,114	3,039	30,153
Balance as at 31 December 2023		1,247	869,853	351,401	(501,629)	579,236	1,300,108	(14,868)	1,285,240

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

The accompanying notes on pages 112 to 192 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	*27*	**153,561**	14,863
Income tax paid		**(11,456)**	(10,254)
Net cash generated from operating activities		**142,105**	4,609
Cash flows from investing activities			
Purchases of property, plant and equipment		**(53,736)**	(24,482)
Proceeds from disposal of property, plant and equipment		**35**	3
Proceeds from disposal of an associate in prior years		**–**	219
Cash disposed on change from a subsidiary to a joint venture	27(d)	**(3,513)**	–
(Increase)/decrease in restricted bank deposits		**(5,221)**	12,245
Partial payment of consideration for acquisition of a subsidiary, net of cash acquired		**–**	(377)
Interest received		**744**	637
Dividends received from an associate		**–**	187
Dividends received from investment in financial assets at fair value through other comprehensive income		**785**	581
Net cash used in investing activities		**(60,906)**	(10,987)
Cash flows from financing activities			
Proceeds from borrowings		**591,528**	583,198
Repayments of borrowings		**(630,414)**	(618,176)
Proceeds from issues of new shares		**21,896**	–
Interest paid		**(22,148)**	(29,598)
Principal elements of lease payments		**(11,887)**	(15,611)
Payments of financing fee and deposits		**(7,318)**	(5,990)
Net cash used in financing activities		**(58,343)**	(86,177)
Net increase/(decrease) in cash and cash equivalents		**22,856**	(92,555)
Cash and cash equivalents at beginning of the year		**277,536**	359,415
Effects of exchange rate changes on cash and cash equivalents		**2,788**	10,676
Cash and cash equivalents at end of the year		**303,180**	277,536

The accompanying notes on pages 112 to 192 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 an international comprehensive energy company principally engaged in oilfield exploration and development, oil-field services and new energy business in the People's Republic of China (the "PRC") and overseas. The Group are committed to providing comprehensive solutions for the exploration and development of conventional and unconventional energy sources such as oil and natural gas, and providing technical research and engineering services in the entire industry chain of carbon sequestration, utilization, and storage ("CCUS"). The ultimate controlling party of the Group is Mr. Wang Guoqiang (王國強) and Mr. Ethan Wu (吳東方) (collectively referred to as the "Controlling Shareholders").

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and are approved for issue by the Board of Directors on 26 March 2024.

2. BASIS OF PREPARATION

2.1 Compliance with IFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting 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. BASIS OF PREPARATION (CONTINUED)

2.2 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.

2.3 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2023:

• IFRS 17	Insurance Contracts
• Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
• Amendments to IAS 8	Definition of Accounting Estimates
• Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules
• Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to IAS 12 Income Taxes require the recognition of deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities. The Group therefore changed its accounting policies as a result of adopting this amendment to IAS 12. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2022. There was no impact on retained earnings on 1 January 2022.

The impact of applying these amendments on the consolidated financial information is summarised as follows:

	Amount of adjustment	
	1 January 2022 ***RMB'000***	31 December 2022 *RMB'000*
Deferred tax assets	**5,322**	4,609
Deferred tax liabilities	**(5,322)**	(4,609)

Other than the above impact, 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.

Notes to the Consolidated Financial Statements

2. BASIS OF PREPARATION (CONTINUED)

2.4 New standards and interpretations not yet adopted

Certain amendments to accounting standards have been published that are not mandatory for the year ended 31 December 2023 and have not been early adopted by the Group. These amendments are not expected to have a material impact on the Group in the current or future reporting periods and on its foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	January 1, 2024
Amendments to IAS 21	Lack of Exchangeability	January 1, 2025
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint venture	To be determined

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities are exposed 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 2023, 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	
	2023	2022
	RMB'000	RMB'000
RMB against USD		
– Weakened 5%	**8,103**	15,394
– Strengthened 5%	**(8,103)**	(15,394)

Exposure

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

	31 December 2023		31 December 2022	
	USD	**Others**	*USD*	*Others*
	RMB'000	***RMB'000***	*RMB'000*	RMB'000
Cash	**37,326**	**5,685**	61,021	4,074
Trade receivables	**54,950**	**610**	50,628	600
Other receivables	**4,396**	**6,524**	6,891	2,269
Trade payables	**(17,278)**	**(4,578)**	(28,980)	(6,754)
Other payables	**(15,809)**	**(27,012)**	(10,478)	(32,999)
Borrowings	**(7,611)**	**(2,851)**	(16,367)	(3,509)

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 2023		31 December 2022	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Long-term borrowings (non-current)	**77,206**	**77,820**	43,035	43,377

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 69.9% of the Group's revenue for the year (2022: 69.5%). 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 deposited in banks and restricted bank deposits are set out below:

	As at 31 December	
	2023	**2022**
	RMB'000	*RMB'000*
PRC – State owned listed banks	**35,861**	68,728
PRC – Other listed banks	**142,925**	49,239
Kazakhstan government-owned banks	**82,946**	67,836
Singapore listed banks	**10,224**	78,928
Canada listed banks	**6,032**	7,036
Other listed banks	**34,742**	18,137
Others	**10,932**	128
Total	**323,662**	290,032

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

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 2023	**Up to 6 months**	**6 months - 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Expected loss rate	**1.39%**	**1.45%**	**18.33%**	**36.27%**	**62.03%**	
Gross carrying amount	**715,685**	**99,303**	**57,368**	**83,304**	**198,530**	**1,154,190**
Loss allowance	**9,963**	**1,438**	**10,513**	**30,214**	**123,142**	**175,270**

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

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	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loss allowances				
As at 1 January	**1,032**	741	**131,491**	110,379
Provision for impairment	**–**	291	**46,522**	26,751
Reversal	**(19)**	–	**(51)**	(128)
Receivables written off during the year as uncollectible	**–**	–	**(4,143)**	(5,971)
Exchange difference	**–**	–	**438**	460
As at 31 December	**1,013**	1,032	**174,257**	131,491

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 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 reconciled to the opening loss allowances are set out below:

	Other receivables	
	2023	2022
	RMB'000	RMB'000
Loss allowances		
As at 1 January	**4,743**	3,370
Provision for impairment	**404**	1,360
Receivables written off during the year as uncollectible	**(89)**	–
Reversal	**(20)**	–
Exchange difference	**(309)**	13
As at 31 December	**4,729**	4,743

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:

	2023 *RMB'000*	2022 *RMB'000*
Impairment losses on trade receivables and contract assets	**46,522**	27,042
Impairment losses on notes receivable	**–**	75
Impairment losses on other receivables	**404**	1,360
Reversal	**(95)**	(128)
Net impairment losses on financial and contract assets	**46,831**	28,349

(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 2023						
Borrowings	432,039	72,807	8,709	–	513,555	493,416
Trade and note payables	777,453	–	–	–	777,453	777,453
Accruals and other payables	68,822	–	–	–	68,822	68,822
Lease liabilities	12,022	8,146	10,043	4,303	34,514	24,221
Total	1,290,336	80,953	18,752	4,303	1,394,344	1,363,912
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

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	
	2023	2022
	RMB'000	*RMB'000*
Gross debt	**517,637**	570,644
Total equity	**1,285,240**	1,225,104
Gross debt to equity ratio	**40.3%**	46.6%

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 2023	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial assets at FVOCI				
– Equity securities	**7,287**	**–**	**–**	**7,287**

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 33.8, 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) Provision 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 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 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	
	2023	2022
	RMB'000	*RMB'000*
Drilling	**513,406**	500,821
Well completion	**477,844**	422,255
Reservoir	**784,169**	692,350
Others*	**171,825**	141,736
	1,947,244	1,757,162

* Others include the sales of alcohol and gas.

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 RMB1,361,094,000 (2022: RMB1,221,325,000) are derived from CNPC and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

The segment information for the years ended 31 December 2023 and 2022 are as follows:

	Drilling *RMB'000*	Well completion *RMB'000*	Reservoir *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2023					
Revenue from external customers	**513,406**	**477,844**	**784,169**	**171,825**	**1,947,244**
Time of revenue recognition					
– At a point in time	**14,065**	**303,075**	**61,841**	**171,825**	**550,806**
– Over time	**499,341**	**174,769**	**722,328**	**–**	**1,396,438**
EBITDA	**75,731**	**73,053**	**110,518**	**9,993**	**269,295**

	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

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 2023 are as follows:

	Drilling RMB'000	Well completion RMB'000	Reservoir RMB'000	Others* RMB'000	Total RMB'000
As at 31 December 2023					
Segment assets	728,478	847,157	620,340	48,682	2,244,657
Unallocated assets					666,550
Total assets					2,911,207
Additions to non-current assets (other than financial instruments and deferred income tax assets)	15,646	8,858	10,943	49,330	84,777

*(1) Since Sinostone Bioethanol Manufacturing Limited ("SSAM"), one of the other segment, was changed from a subsidiary to a joint venture on 22 November 2023, the assets of SSAM are not included. See note 27(d) for more information.

(2) Others included the assets of PT CIPTA NIAGA GEMILANG ("CNG") which is a subsidiary principally engaging in oil and gas exploration and mining. There was no revenue recognised for CNG in 2023 since it was in the development stage.

The segment information on total assets as at 31 December 2022 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

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	
	2023	2022
	RMB'000	*RMB'000*
EBITDA for reportable segments	**269,295**	258,721
Unallocated expenses		
– Share-based payments (Note 15)	**(8,257)**	–
– Other gains/(losses), net (Note 20)	**12,297**	(7,640)
– Unallocated overhead expenses	**(149,465)**	(123,320)
	(145,425)	(130,960)
	123,870	127,761
Depreciation and amortisation (Note 22)	**(71,174)**	(74,074)
Finance costs (Note 23)	**(31,948)**	(38,083)
Finance income (Note 23)	**802**	642
Profit before income tax	**21,550**	16,246

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Segment assets for reportable segments	**2,244,657**	2,275,533
Unallocated assets		
– Deferred income tax assets	**115,399**	115,301
– Unallocated inventories	**48,032**	41,889
– Unallocated prepayment and other receivables	**168,086**	143,270
– Restricted bank deposits	**22,410**	17,189
– Cash and cash equivalents	**303,180**	277,536
– Financial assets at fair value through other comprehensive income	**7,287**	8,368
– Investments in an associate and a joint venture	**2,156**	3,472
	666,550	607,025
Total assets per balance sheet	**2,911,207**	2,882,558

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	
	2023	2022
	RMB'000	*RMB'000*
PRC	**1,079,027**	1,095,303
Kazakhstan	**413,824**	361,180
Turkmenistan	**158,878**	60,220
Indonesia	**96,505**	71,443
Middle East	**70,570**	47,021
Canada	**57,726**	44,556
Others	**70,714**	77,439
	1,947,244	1,757,162

The following table shows the non-current assets other than investments in an associate and a joint venture, 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	
	2023	2022
	RMB'000	*RMB'000*
PRC	**301,510**	295,157
Indonesia	**82,277**	19,524
Singapore	**43,036**	19,203
Kazakhstan	**34,856**	53,513
Middle East	**34,441**	47,587
Turkmenistan	**10,005**	14,170
Canada	**4,296**	4,958
Others	**16,591**	69,192
	527,012	523,304

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	
	2023	2022
	RMB'000	*RMB'000*
Current contract assets	**22,979**	33,763
Loss allowance	**(1,013)**	(1,032)
Total contract assets	**21,966**	32,731
Current contract liabilities	**44,190**	53,460

(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	
	2023	2022
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year		
– Drilling	**4,223**	4,919
– Well completion	**418**	–
– Reservoir	**542**	112
– Other	**32,055**	34,189
Total	**37,238**	39,220

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	
	2023 *RMB'000*	**2022** *RMB'000*
Within one year	**701,234**	666,149
More than one year but not more than two years	**399,168**	317,737
More than two years	**241,842**	106,081
Total	**1,342,244**	1,089,967

Notes to the Consolidated Financial Statements

5. SEGMENT INFORMATION (CONTINUED)

(e) Accounting polices of 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.

(i) 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.

(ii) 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

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and others *RMB'000*	Construction in process *RMB'000*	Total *RMB'000*
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
Year ended 31 December 2023						
Opening net book value	**96,619**	**245,512**	**10,770**	**15,929**	**61,241**	**430,071**
Additions	**1,846**	**13,074**	**6,152**	**8,939**	**47,198**	**77,209**
Depreciation charge	**(8,267)**	**(39,045)**	**(4,536)**	**(6,195)**	**–**	**(58,043)**
Disposals	**–**	**(3,900)**	**(220)**	**(226)**	**–**	**(4,346)**
Transfer upon completion	**–**	**12,383**	**–**	**–**	**(12,383)**	**–**
Currency translation differences	**2,538**	**5,838**	**919**	**1,027**	**–**	**10,322**
Change from a subsidiary to a joint venture (Note 27(d))	**(13,476)**	**(26,335)**	**(911)**	**(1,461)**	**(5,982)**	**(48,165)**
Closing net book value	**79,260**	**207,527**	**12,174**	**18,013**	**90,074**	**407,048**
At 31 December 2023						
Cost	**161,675**	**640,628**	**69,870**	**131,068**	**90,074**	**1,093,315**
Accumulated depreciation and impairment	**(82,415)**	**(433,101)**	**(57,696)**	**(113,055)**	**–**	**(686,267)**
Net book value	**79,260**	**207,527**	**12,174**	**18,013**	**90,074**	**407,048**

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note:

(a) For the year ended 31 December 2023, depreciation expenses amounting to RMB58,043,000 (2022: RMB56,579,000) have been charged in operating costs.

(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 2023, the Group's machinery and equipment in the PRC region amounted to approximately RMB190 million (2022: RMB196 million).

(d) Depreciation methods and useful lives

	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.

See note 33.6 for the other accounting policies relevant to property, plant and equipment.

Notes to the Consolidated Financial Statements

7 · LEASES

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

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2023 ***RMB'000***	31 December 2022 *RMB'000*
Right-of-use assets		
Buildings	**25,593**	30,489
Land use rights		
– Located in the PRC*	**18,380**	18,863
– Outside of the PRC	**6,240**	8,694
Machinery and equipment	**5,541**	2,844
	55,754	60,890
Lease liabilities		
Current lease liabilities	**10,929**	11,443
Non-current lease liabilities	**13,292**	16,618
	24,221	28,061

* 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 2023, land use rights have a remaining period of 39 years.

During the year, additions to the right-of-use assets were RMB7,568,000 (2022: RMB28,808,000).

Notes to the Consolidated Financial Statements

7 · LEASES (CONTINUED)

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

The income statement shows the following amounts relating to leases:

	Notes	2023 RMB'000	2022 RMB'000
Depreciation charge of right-of-use assets			
Buildings		6,123	7,170
Land use rights		586	736
Machinery and equipment		5,108	6,573
Vehicle		–	1,507
	22	11,817	15,986
Interest expense (included in finance cost)	*23*	1,345	2,257
Expense relating to short-term and low-value lease		123,985	113,575

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

	2023 RMB'000	2022 RMB'000
Payments of principal elements of lease	11,887	15,611
Payments of interest expense of lease	1,345	2,257
Payments of short-term and low-value lease	123,985	113,575
	137,217	131,443

(d) 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 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
Year ended 31 December 2023				
Opening net book value	**110**	**1,596**	**14,169**	**15,875**
Amortisation charge	**(40)**	**(518)**	**(756)**	**(1,314)**
Closing net book value	**70**	**1,078**	**13,413**	**14,561**
At 31 December 2023				
Cost	**17,241**	**7,238**	**15,114**	**39,593**
Accumulated amortisation and impairment	**(17,171)**	**(6,160)**	**(1,701)**	**(25,032)**
Net book value	**70**	**1,078**	**13,413**	**14,561**

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

(a) Amortisation methods and useful lives

	Estimated useful life
Computer softwares	3 to 5 years
Technology	Not exceed 5 years
Licenses	Over 20 years

See note 33.7 for the other accounting policies relevant to intangible assets.

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES, A JOINT VENTURE AND AN ASSOCIATE

(a) Subsidiaries

The following is a list of the principal subsidiaries of the Group at 31 December 2023:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest directly held by the Company or its subsidiary		Ownership interest directly held by non-controlling interests	
				2023	2022	**2023**	2022
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%	**-**	–

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES, A JOINT VENTURE AND AN ASSOCIATE (CONTINUED)

(a) Subsidiaries (Continued)

The following is a list of the principal subsidiaries of the Group at 31 December 2023:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest directly held by the Company or its subsidiary		Ownership interest directly held by non-controlling interests	
				2023	2022	2023	2022
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%	-	–
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	SGD 3,550,000	100%	100%	-	–
M-Tech service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 87,200	100%	100%	-	–
OS Technology Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT 151,800	100%	100%	-	–
Pioneer Petrotech Services Inc.	Canada, Limited liability entity	Manufacturing, Canada	CAD 15	100%	100%	-	–
PT. Enecal Indonesia	Indonesia, Limited liability entity	Oil field services, Indonesia	USD6,000,000	95%	95%	5%	5%
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%	100%	-	–

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES, A JOINT VENTURE AND AN ASSOCIATE (CONTINUED)

(a) Subsidiaries (Continued)

The following is a list of the principal subsidiaries of the Group at 31 December 2023:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest directly held by the Company or its subsidiary		Ownership interest directly held by non-controlling interests	
				2023	2022	2023	2022
PT CIPTA NIAGA GEMILANG(i)	Indonesia, Limited liability entity	Oil and gas exploration and mining, Indonesia	RP 12,000,000,000	92.86%	95%	7.14%	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:

(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 2023, the non-controlling interests in respect of subsidiaries were not material.

9. SUBSIDIARIES, A JOINT VENTURE AND AN ASSOCIATE (CONTINUED)

(b) Associate

The following is a list of the associate of the Group at 31 December 2023:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Ownership interest directly held by the Company or its subsidiary		Measurement method
			2023	2022	
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

(c) Joint Venture

The following is a list of the joint venture of the Group at 31 December 2023:

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Ownership interest directly held by the Company or its subsidiary		Measurement method
			2023	2022	
SSAM	Ghana, Limited liability entity	Manufacture, Ghana	60%	60%	Equity method

Since 22 November 2023 ("transaction date") SSAM has been accounted for by the Group as a joint venture instead of as a subsidiary.

See note 27(d) for more information related to change from a subsidiary to a joint venture.

Notes to the Consolidated Financial Statements

10. INVENTORIES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Project materials and consumables	**545,497**	486,766
Project-in-progress	**195,026**	149,782
	740,523	636,548
Less: provision for inventories	**(83,940)**	(79,879)
	656,583	556,669

The cost of inventories recognised as an expense and included in "operating costs" amounted to RMB549,238,000 (2022: RMB482,754,000).

Movements of provision for inventories are as follows:

	2023	2022
	RMB'000	*RMB'000*
As at 1 January	**(79,879)**	(77,299)
Provision	**(6,126)**	(4,348)
Write-off	**2,558**	2,157
Exchange difference	**(493)**	(389)
As at 31 December	**(83,940)**	(79,879)

Notes to the Consolidated Financial Statements

11. TRADE AND NOTE RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade receivables (a)	**1,131,211**	1,202,208
Less: loss allowance	**(174,257)**	(131,491)
Trade receivables-net	**956,954**	1,070,717
Notes receivable (a)	**59,518**	68,735
Less: loss allowance	**(70)**	(75)
Notes receivable-net	**59,448**	68,660
	1,016,402	1,139,377

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	
	2023	2022
	RMB'000	*RMB'000*
Up to 6 months	**761,148**	837,346
6 months – 1 year	**93,490**	65,794
1 – 2 years	**56,605**	151,212
2 – 3 years	**81,260**	28,157
Over 3 years	**198,226**	188,434
Trade and note receivables, gross	**1,190,729**	1,270,943
Less: loss allowance	**(174,327)**	(131,566)
Trade and note receivables, net	**1,016,402**	1,139,377

(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	
	2023	2022
	RMB'000	*RMB'000*
Current		
Advances to suppliers	**89,171**	101,855
Prepayment for taxes	**63,059**	46,001
Less: loss allowance	**(3,576)**	(4,953)
Total non-financial assets	**148,654**	142,903
Deposits and other receivables (a)	**56,543**	70,450
Receivable from sales of property, plant and equipment (Note 30(c))	**38,053**	–
Less: loss allowance	**(4,438)**	(4,743)
Total financial assets	**90,158**	65,707
	238,812	208,610
Non-current		
Prepayment for equipment and machinery	**–**	323
Deposits and other receivables	**–**	1
Total non-financial assets	**–**	324
Deposits and other receivables	**11,723**	–
Loan to a related party (b), (Note 30(d))	**11,448**	–
Loan to a third party (c)	**10,624**	–
Less:loss allowance	**(291)**	–
Total financial assets	**33,504**	–
	33,504	324
Total	**272,316**	208,934

Notes

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

(b) The loan to a related party bears interest at a rate of 8% per annum and will mature in June 2025.

(c) The loan to a third party bears no interest and will mature in February 2026.

Notes to the Consolidated Financial Statements

13. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Restricted bank deposits (a)	**22,410**	17,189
Cash and cash equivalent		
– Cash on hand	**1,928**	4,693
– Deposits in banks	**301,252**	272,843
	303,180	277,536
	325,590	294,725

Note:

(a) As at 31 December 2023 and 2022, 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 ***(Thousands)***	**Share capital** ***RMB'000***
Authorised:		
Ordinary shares of USD0.0001 each as at 31 December 2022 and 2023	5,000,000	3,219
Issued and fully paid:		
As at 31 December 2022	1,853,776	1,178
Add: new issuance of ordinary shares (a)	100,000	69
As at 31 December 2023	1,953,776	1,247

(a) On 2 May 2023, 100,000,000 placing shares were allotted and issued at HKD0.25 per share, resulting in approximately RMB69,000 and RMB21,827,000 being recognised as share capital and share premium respectively.

Notes to the Consolidated Financial Statements

15. OTHER RESERVES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Merger reserves (a)	**(148,895)**	(148,895)
Share-based payments (b)	**210,449**	202,192
Statutory reserves (c)	**92,325**	83,509
Capital reserves	**209,850**	209,850
Changes in fair value of equity investments at fair value through other comprehensive income	**(12,328)**	(11,247)
	351,401	335,409

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. On 31 March 2023, 185,300,000 share options were granted by the Company to certain directors and employees to subscribe for 185,300,000 ordinary shares of USD0.0001 each at an exercise price of HKD0.25.

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.

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 2023 and 2022 are as below:

Grant Date	**Expiry date**	**Exercise price** *HKD*	**The granted share option number** *(Thousands)*	**Outstanding share options 31 December 2023** *(Thousands)*	**Outstanding share options 31 December 2022** *(Thousands)*
13 June 2013	12 June 2023	4.69	67,450	–	27,350
31 August 2016	30 August 2026	0.49	130,000	98,668	99,168
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
31 March 2023	30 March 2033	0.25	185,300	185,300	–
Total		0.42	479,750	379,268	221,818
Weighted average remaining contractual life of options outstanding at end of years				6.41 years	4.18 years

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

	2023		2022	
	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	**1.08**	**221,818**	1.16	235,435
Granted	**0.25**	**185,300**	–	–
Forfeited	**3.53**	**(1,800)**	4.24	(5,520)
Expired	**4.69**	**(26,050)**	1.31	(8,097)
Vested and exercisable as at 31 December	**0.42**	**379,268**	1.08	221,818

Total expenses arising from share-based payment transactions recognised during the twelve months ended 31 December 2023 as part of employee benefit expenses were RMB8,257,000.

Notes to the Consolidated Financial Statements

15. OTHER RESERVES (CONTINUED)

Notes: (Continued)

(c) Statutory reserves

	RMB'000
As at 31 December 2021	79,024
Appropriation	4,485
As at 31 December 2022	83,509
Appropriation	8,816
As at 31 December 2023	**92,325**

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	
	2023	2022
	RMB'000	*RMB'000*
Long-term borrowings:		
– Bank loans, secured (a)	**31,352**	63,009
– Loans from a third party financial institution, secured (b)	**99,150**	94,392
– Loans from a third party, unsecured (c)	**7,611**	9,887
	138,113	167,288
less:		
Non-current portion of long-term borrowings:		
– Bank loans, secured (a)	**29,425**	2,649
– Loans from a third party financial institution, secured (b)	**40,170**	40,386
– Loans from third parties, unsecured (c)	**7,611**	–
Non-current portion of long-term borrowings	**77,206**	43,035
Current portion of long-term borrowings	**60,907**	124,253
Short-term borrowings:		
– Bank loans, secured (d)	**292,319**	231,330
– Bank loans, unsecured (e)	**29,984**	–
– Loans from a third party institution, secured (f)	**15,000**	22,000
– Loans from third party, unsecured (g)	**18,000**	121,965
	355,303	375,295

Notes:

(a) Long-term secured bank loans comprise:

(i) A loan of RMB28,500,000 (2022: RMB59,500,000) bears interest at a rate of 6.0% (2022: 6.0% to 6.60%) per annum, and is secured against the right of collecting certain trade receivables.

(ii) A loan of RMB2,852,000 (2022: RMB3,509,000) bears interest at 3-month swap offer rate plus 3.5% (2022: 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 twelve months ended 31 December 2023, the average interest rate was 3.88% (2022: 5.77%).

Notes to the Consolidated Financial Statements

16. BORROWINGS (CONTINUED)

Notes: (Continued)

(b) The Group's long-term secured loans from third party financial institutions bear interest at rates ranging from 5.80% to 7.81% (2022: 5.80% to 7.81%), and are secured against certain machinery with carrying amount of RMB182,988,000 (2022: RMB160,255,000) and a guarantee provided by a subsidiary of the Group.

(c) The Group's long-term unsecured loan from a third party bears interest at a rate of 12.5% per annum (2022: 15%).

(d) Short-term secured bank loans comprise:

(i) Loans totalling RMB27,900,000 (2022: RMB87,260,000) bear interest at a rate of 6.00% (2022: 6.00%) per annum, and are secured against the right of collecting certain trade receivables.

(ii) Loans totalling RMB69,852,000 (2022: RMB33,200,000) bear interest at rates ranging from 3.35% to 5.26% (2022: 3.92% to 4.65%) per annum, and guaranteed by a third party guarantee company with counter-guarantees provided by a subsidiary of the Group.

(iii) Loans totaling RMB194,567,000 (2022: RMB110,870,000) bear interest ranging from 3.65% to 5.45% (2022: 2.31% to 5.45%) per annum, with guarantees provided by subsidiaries of the Group.

(e) The Group's short-term unsecured bank loans bear interest ranging from 2.31% to 4.60%.

(f) The Group's short-term secured loan from a third party institution bears interest at a rate of 5.45% per annum (2022: 5.65%), with guarantees provided by a subsidiary of the Group through pledge of a land use right of RMB18,380,000.

(g) The Group's unsecured loan from a third party bears interest at a rate of 8% per annum (2022: 0% to 8%).

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
RMB	**482,953**	522,707
USD	**7,611**	16,367
SGD	**2,852**	3,509
	493,416	542,583

Notes to the Consolidated Financial Statements

16. BORROWINGS (CONTINUED)

Notes: (Continued)

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Within 1 year	**416,210**	499,548
1 year to 2 years	**68,704**	41,245
2 years to 5 years	**8,502**	1,790
	493,416	542,583

17. TRADE AND NOTE PAYABLES

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Up to 6 months	**562,231**	519,586
6 months to 1 year	**47,066**	38,558
1 – 2 years	**60,353**	63,272
2 – 3 years	**27,962**	21,449
Over 3 years	**79,841**	90,894
	777,453	733,759

18. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Payroll and welfare payable	**109,461**	112,763
Taxes other than income taxes payable	**26,998**	30,027
Other payables – related parties (Note 30(a))	**14,872**	14,872
Other payables for purchase of property, plant and equipment	**5,084**	13,869
Other payables	**48,866**	47,459
	205,281	218,990

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	
	2023	2022
	RMB'000	*RMB'000*
Deferred income tax assets:		
To be recovered after more than 12 months	**81,953**	89,882
To be recovered within 12 months	**33,446**	25,419
	115,399	115,301
Deferred income tax liabilities:		
To be settled after 12 months	**(23,386)**	(25,603)
To be settled within 12 months	**(2,866)**	(189)
	(26,252)	(25,792)
	89,147	89,509

(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

	Lease Liabilities *RMB'000*	Tax losses *RMB'000*	Impairment of assets *RMB'000*	Unrealised profit* *RMB'000*	Accrued expense *RMB'000*	Total *RMB'000*
As at 1 January 2022	–	51,795	36,562	23,239	5,078	116,674
Impact of adoption of IAS 12 (Note 2)	5,322	–	–	–	–	5,322
At 1 January 2022 (Adjusted)	5,322	51,795	36,562	23,239	5,078	121,996
(Charged)/credited to the income statement	(713)	(2,558)	3,585	(451)	(2,473)	(2,610)
Currency translation differences	–	–	103	365	56	524
As at 31 December 2022 (Adjusted)	4,609	49,237	40,250	23,153	2,661	119,910
(Charged)/credited to the income statement	(1,462)	(8,522)	6,763	(491)	1,657	(2,055)
Currency translation differences	–	–	(88)	88	313	313
As at 31 December 2023	**3,147**	**40,715**	**46,925**	**22,750**	**4,631**	**118,168**

* 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

	Right-of-use Assets *RMB'000*	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 2022	–	88	22,171	3,732	25,991
Impact of adoption of IAS 12 (Note 2)	5,322	–	–	–	5,322
At 1 January 2022 (Adjusted)	5,322	88	22,171	3,732	31,313
(Credited)/charged to the income statement	(713)	(22)	12	(189)	(912)
As at 31 December 2022 (Adjusted)	4,609	66	22,183	3,543	30,401
(Credited)/charged to the income statement	(1,840)	(66)	715	(189)	(1,380)
As at 31 December 2023	**2,769**	**–**	**22,898**	**3,354**	**29,021**

* 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 RMB107,720,000 as at 31 December 2023 (2022: RMB131,813,000), in respect of losses amounting to RMB595,412,000 (2022: RMB603,361,000) that can be carried forward against future taxable income and will expire between 2023 and 2032.

(ii) As at 31 December 2023, the Group did not recognise deferred income tax liabilities of RMB34,123,909 (2022: RMB33,177,000) relating to withholding tax of unremitted earnings of certain subsidiaries totalling approximately RMB682,441,000 (2022: RMB663,541,000) 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 GAINS/(LOSSES), NET

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Net foreign exchange gains/(losses)	**226**	(16,151)
Gain on transfer from a subsidiary to a joint venture (Note 27(d))	**9,434**	–
Others	**2,637**	8,511
	12,297	(7,640)

21. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Wages, salaries and allowances	**504,127**	485,112
Housing benefits	**18,192**	18,409
Pension costs*	**80,494**	75,411
Share-based payments (Note 15)	**8,257**	–
Welfare and other expenses	**16,143**	12,953
	627,213	591,885

* There was no forfeited contribution during the years ended 31 December 2023 and 2022 available for reducing the Group's contributions as at 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

21. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Five highest paid individuals

	Year ended 31 December Number of individuals	
	2023	2022
Director	**2**	3
Non-director individual	**3**	2
	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	
	2023 **RMB'000**	2022 *RMB'000*
Salaries and other short-term benefits	**2,772**	2,551
Share-based payments	**1,003**	–
Retirement benefits and others	**385**	186
	4,160	2,737

The emoluments fell within the following bands:

	Year ended 31 December Number of individuals	
	2023	2022
Emolument band		
HKD500,001 to HKD1,000,000	**2**	–
HKD1,000,001 to HKD1,500,000	**–**	1
HKD1,500,001 to HKD2,000,000	**1**	1
	3	2

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	
	2023	2022
	RMB'000	*RMB'000*
Gains on disposal of property, plant and equipment	**(1,754)**	(3,916)
Sales tax and surcharges	**4,627**	5,447
Depreciation		
– Right-of-use assets (include land use rights) (Note 7)	**11,817**	15,986
– Property, plant and equipment (Note 6)	**58,043**	56,579
Amortisation of intangible assets (Note 8)	**1,314**	1,509
Auditor's remuneration		
– PricewaterhouseCoopers	**4,650**	4,650
– Others	**1,324**	979

23. FINANCE COSTS, NET

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Finance income:		
– Interest income from bank deposits	**744**	637
Net foreign exchange gains on financing activities	**58**	5
Finance income	**802**	642
Interest expense:		
– Bank borrowings	**(22,860)**	(27,890)
– Interest paid for lease liabilities	**(1,345)**	(2,257)
– Other borrowings	**(3,534)**	(5,106)
Bank charges and others	**(4,209)**	(2,830)
Finance costs	**(31,948)**	(38,083)
Finance costs, net	**(31,146)**	(37,441)

Notes to the Consolidated Financial Statements

24. INCOME TAX EXPENSE

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current income tax (a)	**12,097**	7,091
Deferred income tax	**675**	1,698
Income tax expense	**12,772**	8,789

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 2023 and 2022, 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% (2022: 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 (2022: 20%).

(v) The corporate income tax rate for subsidiaries established in Canada is 25% (2022: 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	
	2023	2022
	RMB'000	*RMB'000*
Profit before income tax	**21,550**	16,246
Tax calculated at domestic tax rates applicable in respective countries	**11,732**	(451)
Expenses not deductible for taxation purposes	**681**	2,379
Impact on share of results of investments accounted for using equity method	**193**	(123)
Utilisation of previously unrecognised tax losses and temporary differences	**(19,201)**	(11,831)
Losses not recognised as deferred income tax assets	**18,717**	18,851
Withholding tax relating to unremitted retained earnings	**715**	258
Additional deduction of research and development expense	**(65)**	(294)
Income tax expense	**12,772**	8,789

25. DIVIDENDS

The Board did not propose a final dividend for the year ended 31 December 2023 (2022: 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	
	2023	2022
Profit attributable to owners of the Company (RMB'000)	**16,745**	13,241
Weighted average number of ordinary shares in issue (thousands)	**1,923,556**	1,853,776
Basic earnings per share (RMB per share)	**0.009**	0.007

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 adjusted 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 2023 and the diluted earnings per share is the same as the basic earnings per share during the year ended 31 December 2023.

27. CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Profit for the year before income tax	**21,550**	16,246
Adjustments for:		
Depreciation charge		
– Property, plant and equipment (Note 6, 22)	**58,043**	56,579
– Right-of-use assets (include land use rights) (Note 7, 22)	**11,817**	15,986
Amortisation (Note 8)	**1,314**	1,509
Gains on disposals, net (Note 22)	**(1,754)**	(3,916)
Gain on change from a subsidiary to a joint venture (Note 27(d))	**(9,434)**	–
Impairment losses of inventories and prepayments	**4,751**	4,640
Net impairments losses of financial and contract assets	**46,831**	28,349
Net foreign exchange (gains)/losses (Notes 20, 23)	**(284)**	16,146
Interest income (Note 23)	**(744)**	(637)
Interest expenses on borrowings and leases (Note 23)	**27,739**	35,253
Share-based payments (Note 21)	**8,257**	–
Share of net loss/(profit) of an associate and a joint venture accounted for using the equity method	**1,317**	(819)
Changes in working capital:		
Inventories	**(113,820)**	(51,969)
Trade and note receivables	**90,997**	(166,242)
Prepayments and other receivables	**(5,767)**	5,340
Trade and note payables	**43,944**	14,541
Accruals and other payables	**(31,196)**	43,857
Net cash generated from operations	**153,561**	14,863

Notes to the Consolidated Financial Statements

27. CASH FLOW INFORMATION (CONTINUED)

(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.

(c) Net debt reconciliation

(i) Analysis of net debt

	2023 RMB'000	2022 RMB'000
Cash and cash equivalents	**303,180**	277,536
Borrowings – repayable within one year	**(416,210)**	(499,548)
Borrowings – repayable after one year	**(77,206)**	(43,035)
Lease liabilities	**(24,221)**	(28,061)
Net debt	**(214,457)**	(293,108)
Cash and liquid investments	**303,180**	277,536
Gross debt-fixed interest rates	**(514,785)**	(567,135)
Gross debt-variable interest rates	**(2,852)**	(3,509)
Net debt	**(214,457)**	(293,108)

Notes to the Consolidated Financial Statements

27. CASH FLOW INFORMATION (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 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)
Net debt as at 1 January 2023	277,536	(499,548)	(43,035)	(28,061)	(293,108)
Cash flows	22,856	26,916	11,970	11,887	73,629
Lease changes	–	–	–	(7,568)	(7,568)
Foreign exchange adjustments	2,788	(58)	–	(479)	2,251
Accrued interest expenses	–	(6,866)	–	–	(6,866)
Change from a subsidiary to a joint venture (Note 27(d))	–	–	9,887	–	9,887
Reclassification of amounts to current portion	–	63,346	(63,346)	–	–
Payments of financing fee and deposits	–	–	7,318	–	7,318
Net debt as at 31 December 2023	**303,180**	**(416,210)**	**(77,206)**	**(24,221)**	**(214,457)**

Notes to the Consolidated Financial Statements

27. CASH FLOW INFORMATION (CONTINUED)

(d) Cash disposed on change from a subsidiary to a joint venture

According to the SSAM Shareholders' resolution on 22 November 2023, there are a total of six members of the board of directors, and each shareholder has the right to appoint three directors. Therefore, Cornerstone Business PTE. LTD. (a subsidiary of the Group) and another shareholder have joint control on SSAM.

Relevant financial information of SSAM as of transaction date and the gain on the change from a subsidiary to a joint venture is calculated as follows:

	As at 22 November, 2023 *RMB'000*
Property, plant and equipment	**48,165**
Right-of-use assets	**2,144**
Inventories	**9,845**
Prepayments and other receivables	**4,569**
Cash and cash equivalents	**3,513**
Total assets	**68,236**
Borrowings	**(18,430)**
Non-current lease liabilities	**(1,537)**
Accounts payable	**(45,024)**
Contract liabilities, other payables and accruals	**(16,613)**
Total liabilities	**(81,604)**
Carrying amount of SSAM's net assets	**(13,368)**
Non-controlling interest	**(3,039)**
Share of net assets attributable to the Group	**(10,329)**
Consideration received or receivable	**–**
Fair value of retained investment in SSAM	**–**
Foreign currency translation reserve transfer to loss	**895**
Gain on change from a subsidiary to a joint venture	**(9,434)**

Notes to the Consolidated Financial Statements

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 2023 and 2022, the Directors did not anticipate that any material liabilities will arise from the contingent liabilities other than those provided for in the financial statements.

29. COMMITMENTS

Capital commitments

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Property, plant and equipment	**17,486**	32,239
Exploration and evaluation	**46,288**	80,685

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 2023 and 2022:

(a) Transactions with related parties

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 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"). The Transactions had been completed in 2022 with the consideration (equivalent to RMB14,872,000) yet to be paid.

Notes to the Consolidated Financial Statements

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(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	
	2023	2022
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**7,939**	13,319
Share-based payments	**1,906**	–
Retirement benefits and others	**1,279**	1,251
	11,124	14,570

(c) Outstanding balances arising from sales of property, plant and equipment

	2023	2022
	RMB'000	*RMB'000*
Other receivables (Note 12)		
– a joint venture	**38,053**	–

(d) Loans to a related party

	2023	2022
	RMB'000	*RMB'000*
Loans to a related party (Note 12)		
– a joint venture	**11,448**	–

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 2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries		**1,256,670**	1,215,343
Current assets			
Prepayments and other receivables		**1,452**	22
Cash and cash equivalents		**90**	739
Total assets		**1,258,212**	1,216,104
Equity and liabilities			
Share capital		**1,247**	1,178
Share premium		**869,853**	848,026
Other reserves	*Note (a)*	**423,348**	415,091
Currency translation differences		**85,389**	71,542
Accumulated losses	*Note (a)*	**(149,736)**	(145,397)
Total equity		**1,230,101**	1,190,440
Liabilities			
Non-Current liabilities		**–**	–
Current liabilities			
Accruals and other payables		**28,111**	25,664
Total liabilities		**28,111**	25,664
Total equity and liabilities		**1,258,212**	1,216,104

The balance sheet of the Company was approved by the Board of Directors on 26 March 2024 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 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
At 1 January 2023	**(145,397)**	**848,026**	**415,091**	**71,542**	**1,189,262**
Loss for the year	**(4,339)**	**–**	**–**	**–**	**(4,339)**
Issue of ordinary shares	**–**	**21,827**	**–**	**–**	**21,827**
Share options exercised	**–**	**–**	**8,257**	**–**	**8,257**
Currency translation differences	**–**	**–**	**–**	**13,847**	**13,847**
At 31 December 2023	**(149,736)**	**869,853**	**423,348**	**85,389**	**1,228,854**

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 2023 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)*	–	1,500	–	43	9	1,552
Mr. 吳東方 (Mr. Ethan Wu) *(Chief Executive Officer)*	–	1,300	–	66	112	1,478
Mr. 李強 (Mr. Li Qiang)	–	600	–	47	116	763
Non-executive Directors						
Ms. 陳春花 (Ms. Chen Chunhua)	473	–	–	57	7	537
Mr. 武吉偉 (Mr. Wu Jiwei)	396	–	–	–	3	399
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	270	–	–	–	–	270
Ms. 張渝涓 (Ms.Zhang Yujuan)	270	–	–	–	–	270
Mr. 馬小虎 (Mr. Ma Xiaohu)	270	–	–	–	–	270
	1,679	3,400	–	213	247	5,539

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 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 tendered his 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)

(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 (2022: 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 (2022: 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 (2022: 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 (2022: 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 (2022: nil).

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES

33.1 Principles of consolidation and equity accounting

(a) 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 33.2).

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.

(b) 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 33.1(d) below), after initially being recognised at cost.

(c) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.1 Principles of consolidation and equity accounting (Continued)

(d) 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 33.8.

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.1 Principles of consolidation and equity accounting (Continued)

(e) 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.

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.2 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.

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

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.3 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.

33.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to 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.

33.5 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

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.5 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.

(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.

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.6 Property, plant and equipment

(a) Fixed assets and construction in progress

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.

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.

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 33.8).

(b) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells, the related supporting equipment and proved mineral interests in properties are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. The exploratory well costs are usually not carried as an asset for more than one year following completion of drilling, unless (i) the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made; (ii) drilling of the additional exploratory wells is under way or firmly planned for the near future; or (iii) other activities are being undertaken to sufficiently progress the assessing of the reserves and the economic and operating viability of the project. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals to explore for or use oil and natural gas, are expensed as incurred. Capitalised costs of proved oil and gas properties are amortised on a unit-of production method based on volumes produced and reserves.

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.7 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.

(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.

(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.

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.8 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.

33.9 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").

(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.

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.9 Investments and other financial assets (Continued)

(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.

- 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.

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.9 Investments and other financial assets (Continued)

(c) Measurement (Continued)

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.

33.10 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.

33.11 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 33.9 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.12 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.

33.13 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.

33.14 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.

33.15 Borrowings

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

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

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

Notes to the Consolidated Financial Statements

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.16 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.

33.17 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

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.17 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

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.18 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.

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.18 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

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.19 Dividend income

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

33.20 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.

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.20 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

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICES (CONTINUED)

33.21 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.

33.22 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.

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* For identification purpose only