Interim Report 2014

PETRO-KING OILFIELD SERVICES LIMITED

(Formerly known as Termbray Petro-king Oilfield Services Limited)

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178

CONTENTS

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Mr. Zhao Jindong (趙錦棟)

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MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the six months ended 30 June 2014 ("**1H2014**"), Petro-king Oilfield Services Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**", "**we**" or "**our**") recorded a revenue of HK$353.3 million, representing a decrease of HK$142.4 million or 28.7% from that of HK$495.7 million for the six months ended 30 June 2013 ("**1H2013**"). The decrease in revenue was partly due to the general slowdown in business activities of the Group's major customers in China and partly due to the risk control measures taken by the Group in order to tackle the issue of slow settlement of the Group's accounts receivable from a major customer in South America. The Group's operating costs for 1H2014 amounted to HK$326.7 million, representing a decrease of HK$63.9 million or 16.4% from that of HK$390.6 million in 1H2013. The Group's operating profit in 1H2014 dropped by HK$80.3 million or approximately 74.9% to HK$26.9 million from that of HK$107.2 million in 1H2013. The operating profit margin decreased by 14 percentage points to 7.6% in 1H2014, from 21.6% in 1H2013. The decrease in operating profit margin was mainly due to the decrease in revenue and the increase in operating costs (excluding tools and materials) as the Group has invested in oilfield service equipment and expanded its service engineering team to enhance its service capability and capacity in 2013 and 1H2014, substantial part of such investment and capacity enhancement have yet to contribute to the Group's revenue and operating profits. The net profit attributable to the owners of the Group in 1H2014 dropped by 80.3% to HK$13.5 million from HK$68.6 million in 1H2013.

BUSINESS REVIEW

The China Market

Despite the winning of biddings and the gaining of market share from our customers in the Ordos Basin, the Tarim Basin and the Songliao Plain in China, the Group's business was affected by the fact that China oilfield services industry had experienced a general slowdown in 1H2014 compared to that of 1H2013. The general decline in volume of the multistage fracturing activities for tight gas/oil wells in the Ordos Basin was the major cause of the Group's revenue decline in 1H2014. Nevertheless, the second quarter of 2014 started to show recoveries in the volume of fracturing activities from a major customer in the Ordos Basin and other oilfields, after suspension of certain well drilling activities for a few months. We believe that the general slowdown in 1H2014 is temporary and the industry will recover in the near future at a much more healthy way and with more open market biddings.

With the cost advantage of having self-developed and self-manufactured down-hole fracturing tools, the Group has been keeping on winning biddings and contracts of fracturing tools and services from our major customers in the Ordos Basin. During the period, the Group won a bidding from Sinopec Northern China Company, a subsidiary of China Petrochemical Corporation ("**Sinopec**"), for the provision of multistage fracturing services in a block of horizontal wells of tight oil and tight gas in the Ordos Basin. Contracts for a total of 60 oil/gas wells had been subsequently granted. In addition, the Group had been invited to submit tenders for the provision of the horizontal well multistage fracturing tools and services in the Changqing oilfield of China National Petroleum Corporation ("**CNPC**") in 1H2014 and was subsequently awarded as the "first-place winner" among eight bidding parties of the tendering.

After developing our own turbine drilling tools and adding certain key tools and equipment for directional drilling, the Group expanded its scope of drilling services in 1H2014 and became an all-rounded high-end drilling service provider. We won an Integrated Project Management ("**IPM**") drilling service contract from a major customer for an extended reach shallow well in northern Shaanxi Province.

During the period, the Group successfully completed a complicated fishbone horizontal well in the Liaohe Oilfield. In this project, the Group helped reviving a depleted well by applying advanced drilling techniques customized for the well with complex down-hole structure. The success of these operations has once again enhanced the Group's leading position as a high-end oilfield service provider in the industry.

The high-pressure pumping fracturing equipment with 37,500 hydraulic horsepower ("**HHP**") that the Group ordered in December 2013, was delivered to our Jiaoshiba Base in the second quarter of 2014, and has started to work on two shale gas wells for a major customer in the Sichuan Basin. Although the Group performed fracturing services for two shale gas wells in the Sichuan Basin, progress in shale gas fracking business in the Sichuan Basin was slower than what we expected. Apart from the provision of fracturing services for shale gas projects for customers in the Sichuan Basin, the Group has been proactively promoting its IPM services to certain shale gas investors of the first round and second round bidding winners of the shale gas blocks from the Ministry of Land and Resources of China. During the period, the Group had been providing IPM services for shale gas projects at Yukuang located in Henan, Xiushan and Chengkou located in Chongqing, and Tongren located in Guizhou.

The Overseas Market

Expanding our customer base and diversifying our markets for the overseas operations has been major strategies for the Group's overseas market development since 2013. During the period, the Group was proactively promoting its high-end oilfield services and well completion tools in Iraq, Kuwait, and Abu Dhabi. In the second quarter of 2014, the Group established a wholly-owned subsidiary in Dubai, the United Arab Emirates (the "**UAE**") as the Group's regional headquarters responsible for the business development in the Middle East.

In 1H2014, we have progressed well in the market diversification strategy and had gained certain achievements in the Middle East. Further to the provision of tools and services to certain Chinese National Oil Companies ("**NOCs**") owned oilfields in Iraq, the Group had started winning biddings and gaining service contracts for the provision of high-end oilfield services (such as directional drilling, well completion and production enhancement services) for the oilfield projects owned by International Oil Companies ("**IOCs**") in Iraq. During the period, the Group started to provide technical support and consultant services in certain projects in Iraq and has been preparing tools and equipment for the projects. We expect substantial parts of the services to the IOCs' projects will be provided in the second half of 2014. The recent political unrest in northern Iraq did not affect our customers' operations as their oilfields are located in the southern part of the country.

South America is another major overseas market of the Group. In 1H2014, the Group did not proactively expand its operations in Venezuela due to the unstable political situation earlier this year. Certain shipments of goods and provision of services for a major customer in Venezuela were postponed in 1H2014. As the political situation in Venezuela seemed to be much more stable than it was a few months ago and the collection of the outstanding accounts receivable from the customer in Venezuela has improved significantly in the second quarter, the Group speeded up its multistage fracturing services in the second quarter of 2014 in Venezuela and has completed four wells in 1H2014. The Group collected approximately HK$44.6 million in 1H2014 and HK$46.7 million in July 2014 from the customer in Venezuela and is expecting more settlements in the second half of 2014.

New Service/Product Development

As a high-end integrated oilfield services provider, the Group places great importance on technology and prides itself in introducing innovative products and services in its oilfield services in a number of areas. In 1H2014, the Group continued to seek advancement in technology and enhancement in service capability and capacity.

In 1H2014, the Group has further developed and expanded the product variety of its down-hole completion and fracturing tools, designed and developed new series of safety valves and packers, including KingFrac™ tools, a new down-hole fracturing tools for shale gas wells. The Group started trial production of KingFrac™ tools in 1H2014. We expect that these new tools can be launched to the market in the second half of 2014.

The Group purchased a set of high-pressure pumping fracturing equipment, with 37,500 HHP in December 2013 and the equipment has been delivered to our Jiaoshiba Base in April 2014. The high-pressure pumping fracturing equipment has started to provide fracturing services for our customer in the Sichuan Basin and has finished the fracturing of two wells in the second quarter of 2014. In addition, three sets of coiled tubing equipment, two units of measurement-while-drilling and two units of logging-while-drilling that the Group placed order to purchase in the second half of 2013 have all been delivered to our service bases and put into operation in the oilfield service projects of the Group.

In 1H2014, the Group improved the recipe of slick water for fracturing of shale gas wells. Our slick water technology has such characteristics as low resistance, leaving minimal residue, and being highly recyclable and environmental friendly. We successfully applied the slick water to our shale gas project in Guizhou.

Geographical Market Analysis

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 1H2014 (%)**	Approximate percentage of total revenue in 1H2013 (%)
China market	**179.8**	241.7	-25.6%	**50.9%**	48.8%
Overseas market	**173.5**	254.0	-31.7%	**49.1%**	51.2%
Total	**353.3**	495.7	-28.7%	**100%**	100%

In 1H2014, the Group's revenue from the China market amounted to HK$179.8 million, decreased by HK$61.9 million or approximately 25.6% as compared to HK$241.7 million in the same period last year. Decrease in revenue was recorded in various regions in China. The region with the most significant drop in revenue was the Ordos Basin of Northern China region as discussed in previous paragraphs.

In 1H2014, the Group continued to achieve a balanced development in both China and overseas markets. The revenue from the overseas market amounted to HK$173.5 million in 1H2014, accounting for approximately 49.1% of the Group's total revenue, decreased by HK$80.5 million, representing a decrease of approximately 31.7% as compared to the revenue of HK$254.0 million in the same period last year. The drop in revenue in the overseas market was mainly caused by the risk control measures taken by the Group in order to tackle the issue of slow settlement of the Group's accounts receivable from a major customer in South America.

Revenue from China Market

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total in 1H2014 (%)**	Approximate percentage of total in 1H2013 (%)
Northern China	**70.3**	122.2	-42.5%	**39.1%**	50.6%
Northwestern China	**7.7**	12.5	-38.4%	**4.3%**	5.2%
Southwestern China	**19.5**	26.4	-26.1%	**10.8%**	10.9%
Other regions in China	**82.3**	80.6	2.1%	**45.8%**	33.3%
Total	**179.8**	241.7	-25.6%	**100%**	100%

In 1H2014, the Group's revenue from Northern China amounted to HK$70.3 million, decreased by HK$51.9 million or approximately 42.5% as compared to the revenue of HK$122.2 million in the same period last year. The decrease was mainly due to the general slowdown in business volume of tight gas/oil wells in the Ordos Basin for multistage fracturing services and the drop in per-well average-price as compared to the same period last year. The decrease in the per-well average-price was mainly due to the cost saving from the replacement of self-made tools and the benefit of the cost saving passed by us to the customers.

The revenue from Southwestern China amounted to HK$19.5 million in 1H2014, decreased by HK$6.9 million or approximately 26.1% as compared to the revenue of HK$26.4 million in the same period last year. The decrease in the revenue from Southwestern China was caused by the decrease in the demand of turbine drilling services in the region. However, due to the success of the application of our newly developed turbine drilling tools, we promoted and started to provide our turbine drilling services to other regions in China in 1H2014.

In 1H2014, the Group's revenue from Northwestern China amounted to HK$7.7 million, decreased by HK$4.8 million or approximately 38.4% as compared to the revenue of HK$12.5 million in the same period last year. Although there was a drop in revenue in the area, our oil-based mud business had achieved a major market breakthrough in the region. The Group is expecting a continuous growth in the oil-based mud services due to successful applications to certain projects in the region.

Revenue from Overseas Market

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total in 1H2014 (%)**	Approximate percentage of total in 1H2013 (%)
South America	**67.2**	240.5	-72.1%	**38.8%**	94.7%
Middle East	**105.9**	12.6	740.5%	**61.0%**	5.0%
Other overseas regions	**0.4**	0.9	-55.6%	**0.2%**	0.3%
Total	**173.5**	254.0	-31.7%	**100%**	100%

During the reporting period, the Group recorded a significant decrease in revenue from South America and a significant growth in revenue from the Middle East.

In South America, the revenue dropped from HK$240.5 million in 1H2013 to HK$67.2 million in 1H2014, representing a decrease of approximately 72.1%. The decrease in revenue from South America was mainly due to the risk control measures taken by the Group as discussed in the previous paragraphs. The Group collected approximately HK$44.6 million in 1H2014 and HK$46.7 million in July 2014. The Group will continue to put extra efforts to monitor the settlement progress of our accounts receivable and carefully control the risk exposure in the country.

In the Middle East, the revenue grew by approximately 740.5% year-on-year, from HK$12.6 million in 1H2013 to HK$105.9 million in 1H2014. As discussed earlier, in addition to the Chinese NOCs in Iraq, the Group made a major market breakthrough in provision of high-end oilfield services in the oilfield projects owned by IOCs in the Middle East market. In 1H2014, the Group won various biddings for the provision of drilling, well completion and production enhancement services for projects owned by IOCs in Iraq.

Business Segment Analysis

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 1H2014 (%)**	Approximate percentage of total revenue in 1H2013 (%)
Oilfield project services	**213.5**	401.8	-46.9%	**60.4%**	81.0%
Consultancy services	**64.4**	18.7	244.4%	**18.2%**	3.8%
Manufacturing and sales of tools and equipment	**75.4**	75.2	0.2%	**21.4%**	15.2%
Total	**353.3**	495.7	-28.7%	**100%**	100%

In 1H2014, the Group's revenue from oilfield project services amounted to HK$213.5 million, accounting for approximately 60.4% of the Group's total revenue, decreased by HK$188.3 million or approximately 46.9% from HK$401.8 million in 1H2013. The decrease in revenue of oilfield project services was mainly caused by the decline of revenue from the production enhancement services in the Ordos Basin as discussed in the previous paragraphs.

The Group's revenue from consultancy services amounted to HK$64.4 million in 1H2014, increased by HK$45.7 million or approximately 244.4% from HK$18.7 million in 1H2013. The growth of the revenue from consultancy services mainly came from the projects in the Middle East.

In 1H2014, the Group's revenue from manufacturing and sales of tools and equipment was increased by HK$0.2 million or approximately 0.2% to HK$75.4 million, from HK$75.2 million in 1H2013. The Group aims to maintain a stable growth in this business segment.

Oilfield Project Services

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	Approximate percentage of total in 1H2014 (%)	Approximate percentage of total in 1H2013 (%)
Drilling	**65.9**	29.0	127.2%	**30.9%**	7.2%
Well completion	**29.5**	214.0	-86.2%	**13.8%**	53.3%
Production enhancement	**118.1**	158.8	-25.6%	**55.3%**	39.5%
Total	**213.5**	401.8	-46.9%	**100%**	100%

Drilling Services

In 1H2014, the Group's revenue from drilling services increased by HK$36.9 million or approximately 127.2% as compared to that of HK$29.0 million in 1H2013. Although the Group recorded a decrease in revenue in the Southwestern region, other regions in China and the overseas market both recorded a significant growth. During the first half of 2014, the Group completed drilling services in a couple of complicated wells, including an extended reach shallow well (淺層大位移井) in northern Shaanxi Province and a fish bone horizontal well in the Songliao Plain. The successful completion of these technically difficult wells has once again enhanced the Group's leading position as a high-end oilfield service provider in the industry.

In 1H2014, the Group provided directional drilling or turbine drilling services for 17 wells, of which 10 wells were completed before 30 June 2014 and seven wells were still in progress as at 30 June 2014.

Well Completion Services

In 1H2014, the Group's revenue from well completion services amounted to HK$29.5 million, dropped by HK$184.5 million or approximately 86.2% from HK$214.0 million in 1H2013. In 1H2014, the Group provided well completion services for a total of six wells. The decrease in revenue from well completion services was mainly due to the risk control measures taken by the Group on a major customer in South America as discussed in the previous paragraphs. Accordingly, the Group did not record any revenue from well completion for the period from South America versus a revenue of HK$202.6 million in the first half of 2013.

Production Enhancement Services

In 1H2014, the Group's revenue from production enhancement services amounted to HK$118.1 million, dropped by HK$40.7 million or approximately 25.6% from HK$158.8 million in 1H2013, which was mainly due to the decline of the business in the Ordos Basin as discussed in previous paragraphs.

In 1H2014, the Group provided production enhancement services for a total of 45 wells, of which 31 wells were fully completed and 14 wells were still in progress as at 30 June 2014.

Customer Analysis

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 1H2014 (%)**	Approximate percentage of total revenue in 1H2013 (%)
Customer 1	**67.2**	240.5	-72.1%	**19.0%**	48.5%
Customer 2	**43.3**	168.1	-74.2%	**12.3%**	33.9%
Customer 3	**78.5**	–	N/A	**22.2%**	0.0%
Others *(Note)*	**164.3**	87.1	88.6%	**46.5%**	17.6%
Total	**353.3**	495.7	-28.7%	**100%**	100%

Note: Others include two major NOCs in China and a few IOCs.

In 1H2014, revenue from Customer 1 amounted to HK$67.2 million, representing a decrease of HK$173.3 million or approximately 72.1%, as compared to HK$240.5 million in 1H2013. The decrease was mainly due to the risk control measures taken by the Group on the customer in order to encourage faster settlement of the Group's accounts receivable. The revenue from Customer 2 declined by HK$124.8 million or approximately 74.2%, from HK$168.1 million in 1H2013 to HK$43.3 million in 1H2014. The decrease in revenue was mainly due to the decline in revenue from production enhancement services in the Ordos Basin. Customer 3 is a new customer to the Group, the revenue from Customer 3 amounted to HK$78.5 million in 1H2014. The revenue from other customers, including two major NOCs in China and a few IOCs, surged by approximately 88.6% from HK$87.1 million in 1H2013 to HK$164.3 million in 1H2014.

Huizhou Base

The Group's Huizhou Base including mainly two factory buildings with offices and a staff quarters has been substantially completed in 1H2014. First batch of employees has moved into the base in July 2014. We expect the base to be ready for commercialised operations in the third quarter of 2014.

The Huizhou Base was designed to enhance the production capacity of the Group's self-developed tools and equipment for better supporting the Group's oilfield services business, lower the reliance on major suppliers, optimize the cost structure of principal operations and enhance the product and service qualities. The Huizhou Base will provide a solid foundation for the Group's business development in the next few years and maintain its market position as a leading China-based service provider of high-end oilfield services.

Human Resources

The Group believes that employees are the most valuable asset. The development of employees has always been the Group's top priority in human resources management. The human resources development system of the Group aims at training up our employees' knowledge to reach professional standard.

We offer a reasonable remuneration policy to employees. Specific remuneration packages include salary, bonuses and other cash compensations. In general, we determine the salary of each employee according to his/her qualifications, position and seniority. Our decision on increase in salary, bonus and promotion is made in accordance with the evaluation of the employee's performance through the review system. In 1H2014, the Group's employee benefit expenses amounted to HK$93.1 million, increased by 36.1% as compared to HK$68.4 million of the same period in 2013. The increase was mainly due to the fact that the number of the Group's employees has increased substantially in 2013 and 2014.

The Group has recruited a number of experienced technical personnel as well as talents from university fresh graduates. As at 30 June 2014, the Group had 931 employees, which represented an increase of approximately 7.9% as compared to 863 employees in February 2014. The Group planned to continue recruiting young talents from universities well-known for studies of the petroleum industry.

Research and Development

As a high-end oilfield services provider, the Group places great emphasis on the research and development of products and services in various areas, such as turbine drilling, multistage fracturing, surface facilities of safety and surface flow control system, safety valve, packer, drilling fluid and fracturing fluid. In 1H2014, the Group spent HK$8.2 million on research and development, representing an increase of approximately 7.9% year-on-year as compared to HK$7.6 million in 1H2013.

In 1H2014, the Group has successfully developed the KingFrac™ tool and new recipe of the slick water for fracturing shale gas wells.

In the pipeline of research and development projects, there are various types of safety valves, packers, coiled tubing and different types of well completion tools. Some of the models of the tools are at the stage of applying for API license. Furthermore, our research and development team will also put efforts to improve the design and functionality of existing tools and products.

The Group has been developing the non-fresh water fracturing fluid system and recyclable fracturing system. These systems are designed to save a large amount of fresh water in fracturing and help to protect the environment. It will also bring a cost saving in fracturing projects in areas where water is scarce.

Litigation

As disclosed in the announcement of the Company dated 29 July 2014, a contracting party of the Group (the "**Contracting Party**") initiated legal proceedings (the "**Litigation**") as plaintiff in 鄭州市中級人民法院 (Zhengzhou Intermediate People's Court, Henan, the People's Republic of China (the "**PRC**")*) against 深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited*) ("**Petro-king Shenzhen**"), an indirect wholly-owned subsidiary of the Company, as defendant. The Contracting Party alleged a failure by Petro-king Shenzhen to provide the stipulated amount of drilling works to it under certain drilling engineering operation and service contracts entered into in 2012 and 2013 and therefore claimed for a total amount of RMB16,412,367 as damages. After consulting the Group's PRC lawyer, the directors of the Company (the "**Directors**") are of the view that the Litigation is not expected to have material effect on the financial or business position of the Group as a whole. The first hearing of the Litigation is scheduled to be held on 10 September 2014.

Outlook

In the China market, we believe that the state-owned enterprise reform and deregulation in oil and gas industry will, in the long-run, give rise to more market-based operations such as public tendering in most of the major oilfields in China. High-end oilfield service providers with their proprietary technology and self-made tools will be benefited from such developments, as evidenced by our recent success in the winning of a bidding in the provision of horizontal well multistage fracturing tools and services in the Changqing oilfield of CNPC.

* *For identification purposes only*

The Chinese Government has been consistently and continuously showing its determination in increasing the utilisation of clean energy, such as fossil gas, in order to solve the air pollution problem in China. We strongly believe that the deregulation in oil and gas industry will encourage more and more private sector investments, led by investments in unconventional upstream resources, such as shale gas. Production enhancement services for unconventional gas projects (including those for shale gas and tight gas wells) will continue to be the Group's major business focus in China. Further to the addition of high-pressure pumping fracturing equipment and the success in new product development of down-hole fracturing tools, the Group will continue its efforts in technology innovation so as to provide our customers with much more cost-effective and environmental friendly solutions in the provision of our production enhancement services for their unconventional gas projects.

In addition, in order to apply the Group's self-developed drilling tools and technology more widely in improving the drilling penetration rate of oilfield service projects, we have expanded our drilling service engineer team and have become an all-rounded high-end drilling service provider. We believe such move will enhance the Group's capability to serve China's major markets with our high-end drilling services. We target to provide more high-end drilling services for oilfields in the Tarim Basin, the Sichuan Basin and the Songliao Plain.

For the overseas market, our business development in the Middle East was progressing well in 1H2014. Following the establishment of its regional headquarters in the UAE, the Group will continue to explore the business opportunities to provide high-end oilfield services for Chinese NOCs and IOCs in the Middle East. Anticipating more turnkey projects in Iraq, the Group placed an order to purchase two sets of drilling rigs in June 2014. The oilfield service projects that the Group is aiming to win are all located in the southern part of the country, which is a safer area.

The recent political situation in Venezuela seemed to be much more stable than it was a few months ago. The collection of our accounts receivable from a major customer in Venezuela, showed a significant improvement in the first half of 2014. Since the beginning of the year and up to the end of July 2014, we had received total payments of about HK$91.3 million from the customers. The Group will maintain its business relationship with the customer by provision of production enhancement services in various oil and gas fields in Venezuela and continue to put extra efforts to chase the remaining balance of our accounts receivable from the customer.

Looking ahead to the second half of 2014, we will continue our marketing efforts in both China and the overseas market and will continue to maintain balanced proportion of our domestic and overseas business in terms of business activities and revenue. The Group will also speed up the execution of its existing service contracts and enhance the utilization of its service equipment in both China and overseas. Barring unforeseeable adverse circumstances (if any) from the aforementioned political situations, we are confident that the Group's overall business operations will be able to grow and expand further in the second half of 2014 and thereafter.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to HK$353.3 million in 1H2014, representing a decrease of HK$142.4 million, or approximately 28.7% as compared to HK$495.7 million in the same period of 2013. The decrease in revenue was partly due to the slowdown in business activities of major customers in various oilfields in China and partly due to the postponement of delivery of goods and services to a major customer in South America. However, the growth of the business in the Middle East market has largely compensated the decrease in the China and Venezuela markets.

Material Costs

The Group's material costs decreased by HK$97.0 million, or approximately 50.5%, from HK$191.9 million in 1H2013 to HK$94.9 million in 1H2014. The decrease was partially due to the drop of revenue of oilfield project services, and partially contributable to the cost saving in material and tools as the Group used more self-designed and self-made tools in its oilfield projects, and the cost of self-made tools is much lower than those outsourced.

Employee Benefit Expenses

In 1H2014, the Group's employee benefit expenses amounted to HK$93.1 million, representing an increase of HK$24.7 million, or approximately 36.1% as compared to HK$68.4 million in the same period of 2013. The increase was mainly due to the fact that the number of the Group's employees has increased by approximately 44.6% from 644 in June 2013 to 931 in June 2014.

Distribution Expenses

The Group's distribution expenses was decreased by HK$3.2 million, or approximately 29.1%, from HK$11.0 million in 1H2013 to HK$7.8 million in 1H2014, which was in line with the decrease in revenue.

Technical Service Fees

Technical service fees were mainly paid to the oilfield equipment rental services, technical supporting services and sales supporting services provided by our suppliers. In 1H2014, the technical service fees amounted to HK$36.0 million, representing a decrease of HK$12.0 million, or approximately 25.0%, as compared to HK$48.0 million in 1H2013. Such decrease was in line with the decrease in revenue.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was increased by HK$14.0 million, or approximately 264.2%, from HK$5.3 million in 1H2013 to HK$19.3 million in 1H2014, primarily due to the depreciation of newly purchased equipment.

Other Expenses

Other expenses of the Group's operations were HK$43.0 million for 1H2014, representing an increase of HK$13.9 million, or approximately 47.8% as compared to HK$29.1 million in the same period of 2013, mainly due to the increase of professional service fee, office utilities and other overhead expenses due to expansion of regional offices in order to build a foundation that supports a larger business operation.

Operating Profit

As a result of the foregoing, the Group's operating profit decreased from HK$107.2 million in 1H2013 to HK$26.9 million in 1H2014, representing a drop of HK$80.3 million, or approximately 74.9%. The Group's operating profit margin for 1H2014 was approximately 7.6%, representing a decrease of 14 percentage points as compared to approximately 21.6% in 1H2013. The decrease in operating profit margin was mainly due to the decrease in revenue and the increase in operating costs (excluding tools and materials) as the Group has invested in oilfield service equipment and expanded its service engineering team to enhance its service capability and capacity in 2013 and 1H2014, substantial part of such investment and capacity enhancement have yet to contribute to the Group's revenue and operating profits.

Net Finance Costs

Net finance costs in 1H2014 were HK$7.7 million, representing an increase of HK$4.2 million, or approximately 120.0% as compared to HK$3.5 million in the same period of 2013, mainly due to the foreign exchange losses for borrowings on RMB against Hong Kong dollar which the Group's consolidated financial information was presented in.

Income Tax Expenses

Income tax expenses were HK$4.6 million for 1H2014, representing a decrease of HK$21.7 million or approximately 82.5% as compared to HK$26.3 million for the same period of 2013, mainly due to the drop in operating profit.

Profit for the Period

As a result of the foregoing, the Group's profit for 1H2014 was HK$14.6 million, representing a decrease of HK$62.7 million or approximately 81.1%, as compared to HK$77.3 million in the same period of 2013.

Profit Attributable to Owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company for 1H2014 was HK$13.5 million, representing a decrease of HK$55.1 million or approximately 80.3% as compared to HK$68.6 million in the same period of 2013.

Property, Plant and Equipment

Property, plant and equipment mainly comprise of building, construction in progress, and equipment for oilfield services, such as pressure pumping truck. As at 30 June 2014, the Group's property, plant and equipment were HK$686.6 million, representing an increase of HK$393.2 million or approximately 134.0%, from HK$293.4 million as at 31 December 2013. The increase was primarily due to purchases of new equipment and construction of building of new service bases for supporting the Group's business expansion.

Intangible Assets

Intangible assets primarily consist of goodwill. The Group's intangible assets increased from HK$570.1 million as at 31 December 2013 to HK$570.6 million as at 30 June 2014, which was mainly due to the translation of goodwill at prevailing exchange rate at the period end.

Inventories

The Group's inventories increased from HK$298.6 million as at 31 December 2013 to HK$324.0 million as at 30 June 2014, representing an increase of HK$25.4 million, or approximately 8.5%. The average turnover days of inventories increased from 181 days in 1H2013 to 591 days in 1H2014. The increase of inventories turnover days was primarily due to the stock up on inventories for business expansion and the risk control measures taken by the Group to tackle the slow payment from a major customer in South America and the delayed delivery of well completion tools by the Group to the customer.

Trade Receivables

As at 30 June 2014, the trade receivables were HK$1,092.8 million, representing an increase of HK$88.4 million or approximately 8.8% as compared to HK$1,004.4 million as at 31 December 2013. The average turnover days of trade receivables were 534 days in 1H2014, representing an increase of 280 days as compared to 254 days in the same period of 2013. The increase of average turnover days of trade receivables was mainly due to the delay in settlement of trade receivables from a major customer in South America. However, the Group collected approximately HK$44.6 million in 1H2014 and HK$46.7 million in July 2014 from the abovementioned customer. The Group will continue to put extra efforts to monitor the repayment of our trade receivables and carefully control the risk exposure in Venezuela.

Trade Payables

As at 30 June 2014, the trade payables were HK$259.6 million, representing an increase of HK$16.2 million or 6.7% as compared to HK$243.4 million as at 31 December 2013. The increase was primarily resulted from the growth of inventories. The average turnover days of trade payables increased from 194 days in 1H2013 to 346 days in 1H2014, representing an increase of 152 days, which was mainly attributable to the Group obtaining longer credit terms from its suppliers.

Liquidity, Capital Resources and Capital Management

The Group's primary objective of capital management is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for its shareholders 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 obtain borrowings from financial institutions or related parties, issue new shares or sell assets. The Group reviews and analyses its trade payables, trade receivables and cash and cash equivalents on a regular basis. The Group closely monitors its trade receivables and has established procedures to manage and control the recoverability of the trade receivables. The Group may also obtain bank borrowings if required.

As at 30 June 2014, the Group's cash and cash equivalents were HK$168.4 million, representing a decrease of HK$177.0 million as compared to HK$345.4 million as at 31 December 2013, which was primarily due to the cash outflows for the purchases of equipment. The cash and cash equivalents were mainly held in HK$, RMB and US$. HK$200.8 million cash was pledged in the bank as bank deposits for the Group's borrowings, bidding and performance bond. The Group has no other pledged assets. As at 30 June 2014, the Group's bank borrowings were HK$615.2 million, all of which were short-term borrowings and HK$400.3 million was denominated in RMB; HK$71.0 million was denominated in HK$ and the rest was in US$. All the bank borrowings carried floating interest. The Group has undrawn facilities of HK$830.9 million under its banking facilities from major banks.

As at 30 June 2014, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 20.2%.

The Group's equity attributable to the owners of the Company decreased from HK$2,191.0 million as at 31 December 2013 to HK$2,177.8 million as at 30 June 2014. The decrease was primarily due to the declaration of a dividend of HK$0.05 per share of the Company for the year ended 31 December 2013, amounting to a total dividend of HK$53.4 million payable as at 30 June 2014.

Foreign Exchange Risk

The Group mainly operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB, and with minimal amount of Venezuelan Bolivar. Foreign exchange risk arises from trade and other receivables, cash and cash equivalents, trade and other payables and bank borrowings denominated in foreign currencies.

Contractual Obligations

The Group's contractual obligations mainly include the capital expenditure commitments and the payment obligations under operating lease arrangements. The capital expenditure commitments were approximately HK$232.7 million as at 30 June 2014, mainly include the contract for the purchase of equipment of approximately HK$146 million and construction of a factory of approximately HK$48 million. The operating leases mainly include the leases of offices and warehouses. The Group's commitment under operating leases was approximately HK$29.1 million as at 30 June 2014. The Group has sufficient facilities to fund its operation to satisfy its future working capital and other financing requirements from its operating cash flow and available bank financing.

Contingent Liabilities

As at 30 June 2014, the Group had a litigation claimed for a total amount of HK$20.7 million and a guarantee for the performance bond of HK$0.3 million.

Off-balance Sheet Arrangements

As at 30 June 2014, the Group did not have any off-balance sheet arrangements.

CHANGE OF NAME

In order to reconcile the name of the Company with the Group's principal business name in the China market and the international market, effective from 30 May 2014, the name of the Company has been changed from "Termbray Petro-king Oilfield Services Limited 添利百勤油田服務有限公司" to "Petro-king Oilfield Services Limited 百勤油田服務有限公司".

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner.

The board of Directors (the "**Board**") comprises two executive Directors, three non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**Code Provisions**") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). During the reporting period, the Company has complied with the Code Provisions save and except for the following deviation:-

Code A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Wang Jinlong ("**Mr. Wang**") is currently performing both the roles of chairman and chief executive officer of the Group. Taking into account Mr. Wang's strong expertise in the oil and gas industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply with Code Provisions, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of practice for carrying out securities transactions by the Directors. After specific enquiry with all members of the Board, the Company confirms that all Directors have fully complied with the relevant standards stipulated in the Model Code during the reporting period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

USE OF PROCEEDS

The net proceeds from the Company's initial public offering, including those shares issued pursuant to the full exercise of the over-allotment option, after deducting underwriting fees and related expenses, amounted to approximately HK$912.7 million. As at 30 June 2014, HK$610.1 million was applied in accordance with the proposed application set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 22 February 2013, and the applied proceeds was mainly used in the acquisition of a range of production enhancement related tools and equipments, while the rest was used in the construction of the Huizhou Base, investment in the Group's research and development in new services and technologies, and enhancement of regional offices in China and overseas, respectively.

AUDIT COMMITTEE

Pursuant to the requirements of the Code Provisions and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") which composes of three independent non-executive Directors, namely Mr. Wong Lap Tat Arthur (Chairman of the Audit Committee), Mr. He Shenghou and Mr. Tong Hin Wor. The unaudited interim condensed consolidated financial information has been reviewed by the Audit Committee.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2014, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), 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 they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

Our Company

Name of Director	Capacity/ Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Wang Jinlong	Interest in a controlled corporation *(Note 2)*	338,492,414(L)	31.33%
	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	340,774,104(L)	31.54%
	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. Ko Po Ming	Beneficial owner	1,000,000(L)	0.09%
	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. Zhao Jindong	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Ms. Ma Hua	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. He Shenghou	Beneficial owner *(Note 4)*	100,000(L)	0.01%

Name of Director	Capacity/ Nature of interest	Number of shares (Note 1)	Approximate percentage of interest in the Company
Mr. Tong Hin Wor	Beneficial owner (Note 4)	100,000(L)	0.01%
Mr. Wong Lap Tat Arthur	Beneficial owner (Note 4)	100,000(L)	0.01%

Notes:

1. "L" denotes long position and "S" denotes short position.

2. Mr. Wang holds approximately 41.19% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 31.33% of the total number of issued shares of the Company. Therefore, Mr. Wang is taken to be interested in the number of shares held by King Shine pursuant to Part XV of the SFO.

3. 63.99% of the total issued share capital of Termbray Industries International (Holdings) Limited ("Termbray Industries") is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (B.V.I.) Limited ("**Termbray Electronics (BVI)**") which in turn holds 100% of the issued share capital of Termbray Natural Resources Company Limited ("**Termbray Natural Resources**"). Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited, First Trend Management (PTC) Limited, Lee & Leung (B.V.I.) Limited, Termbray Industries and Termbray Electronics (BVI) are taken to be interested in the number of shares held by Termbray Natural Resources pursuant to Part XV of the SFO.

4. 100,000 share options were granted to each of the Directors on 29 April 2014 pursuant to the share option scheme of the Company. Therefore under Part XV of the SFO, the Directors are taken to be interested in the underlying shares that they are entitled to subscribe for subject to the exercise of the share options granted.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), 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 they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the following persons (other than a Director or chief executive of our Company) had an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity/ Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding in the Company
Mr. Lee Lap	Settlor of a discretionary trust *(Note 2)*	340,774,104(L)	31.54%
HSBC International Trustee Limited	Trustee *(Note 2)*	340,774,104(L)	31.54%
First Trend Management (PTC) Limited	Trustee *(Note 2)*	340,774,104(L)	31.54%
Lee & Leung (B.V.I.) Limited	Interest in a controlled corporation *(Note 2)*	340,774,104(L)	31.54%
Termbray Industries	Interest in a controlled corporation *(Note 2)*	340,774,104(L)	31.54%
Termbray Electronics (BVI)	Interest in a controlled corporation *(Note 2)*	340,774,104(L)	31.54%
Termbray Natural Resources	Beneficial owner	340,774,104(L)	31.54%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%

Name of Shareholder	Capacity/ Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding in the Company
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%
Excel Top Holdings Limited	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%
Jade Win Investment Limited	Beneficial owner	74,242,724(L)	6.87%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	338,592,414(L)	31.34%
King Shine	Beneficial owner	338,492,414(L)	31.33%

Notes:

1. "L" denotes long position and "S" denotes short position.

2. 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (BVI) which in turn holds 100% of the issued share capital of Termbray Natural Resources. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited, First Trend Management (PTC) Limited, Lee & Leung (B.V.I.) Limited, Termbray Industries and Termbray Electronics (BVI) are taken to be interested in the number of shares held by Termbray Natural Resources pursuant to Part XV of the SFO.

3. TCL Corporation directly holds 100% of the issued share capital of TCL HK, which in turn holds 100% of the issued share capital of Excel Top Holdings Limited, which in turn holds 100% of the issued share capital of Jade Max Holdings Limited, which in turn holds 100% of the issued share capital of Jade Win Investment Limited. Therefore, TCL Corporation, TCL HK, Excel Top Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of shares held by Jade Win Investment Limited pursuant to Part XV of the SFO.

4. Ms. Zhou holds approximately 17.21% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the shares in which Mr. Wang is interested for the purpose of the SFO.

Save as disclosed above, as at the 30 June 2014, the Directors are not aware that there is any party (not being a Director) who had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such shares.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012). As at 30 June 2014, 42,244,108 share options have been granted under the Pre-IPO Share Option Scheme, 34,009,203 of which has been exercised by the grantees.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme as at 30 June 2014:

Grantee	Number of options granted at date of Listing	Options exercised since date of Listing	Options lapsed/ cancelled since date of Listing	Options outstanding as at 30 June 2014
Employees and senior management	42,244,108	34,009,203	5,939,418	2,295,487

Save as disclosed above, at no time during the first six months of 2014 was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Details of the Pre-IPO Share Option Scheme are stated in note 15 to the interim condensed consolidated financial information.

SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. As at 30 June 2014, 20,000,000 share options have been granted under the Share Option Scheme, none of which has been exercised by the grantees.

Set out below are details of the movements of share options during the six months ended 30 June 2014:

Grantee	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant (HK$)	Options outstanding as at 1 January 2014	Options granted since 1 January 2014	Options exercised since 1 January 2014	Options lapsed/ cancelled since 1 January 2014	Options outstanding as at 30 June 2014
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Zhao Jindong	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Ko Po Ming	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Lee Tommy	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Ma Hua	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
He Shenghou	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Tong Hin Wor	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Wong Lap Tat Arthur	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Employees	29 April 2014	2.606	2.44	–	19,100,000	0 *(Note)*	0	19,100,000
Others	29 April 2014	2.606	2.44	–	100,000	0 *(Note)*	0	100,000
Total				–	20,000,000	0	0	20,000,000

Note:

One third of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 29 April 2015 to 28 April 2019, both dates inclusive.

Another one third of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 29 April 2016 to 28 April 2019, both dates inclusive.

The remaining of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 29 April 2017 to 28 April 2019, both dates inclusive.

The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The Share Option Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

The Board may, at its discretion, grant an option to eligible participants to subscribe for the shares of the Company at a subscription price and subject to the other terms of the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 100,000,000 shares, being 10% of the total number of shares in issue at the time dealings in the shares first commenced on the Stock Exchange. The total number of shares issued and to be issued upon the exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

A share option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which an option was granted, at any time during the option period after the option has been granted by the Board but in any event, not longer than 10 years from the date of grant. There are neither any performance targets that need to be achieved by the grantee before an option can be exercised nor any minimum period for which an option must be held before the option can be exercised. Subject to the provisions of the Share Option Scheme and the Listing Rules, the Board may when making the offer of options impose any conditions, restrictions or limitations in relation to the option as it may at its absolute discretion think fit. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The Directors consider that the values of the share options are subject to a number of assumptions and the limitation of the models. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix V to the prospectus of the Company dated 22 February 2013.

By Order of the Board
PETRO-KING OILFIELD SERVICES LIMITED
Wang Jinlong
Chairman

Hong Kong, 22 August 2014

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF PETRO-KING OILFIELD SERVICES LIMITED

(Formerly known as Termbray Petro-king Oilfield Services Limited)
(Incorporated in the British Virgin Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 32 to 66, which comprises the interim condensed consolidated balance sheet of Petro-king Oilfield Services Limited (formerly known as Termbray Petro-king Oilfield Services Limited) (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of these interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 August 2014

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2014 HK$	Audited As at 31 December 2013 HK$
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**686,615,393**	293,367,628
Intangible assets	*8*	**570,631,649**	570,086,032
Land use right	*8*	**11,811,543**	12,042,244
Other receivables, deposits and prepayments	*9(b)*	**122,002,025**	15,483,332
Deferred tax assets		**6,961,986**	2,938,116
		1,398,022,596	893,917,352
Current assets			
Inventories		**324,045,126**	298,595,476
Trade receivables	*9(a)*	**1,092,808,118**	1,004,403,841
Other receivables, deposits and prepayments	*9(b)*	**226,785,123**	146,103,272
Pledged bank deposits		**200,790,838**	160,699,613
Cash and cash equivalents		**168,355,809**	345,446,842
		2,012,785,014	1,955,249,044
Total assets		**3,410,807,610**	2,849,166,396
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*10*	**1,658,187,323**	1,634,591,001
Other reserves		**39,232,339**	36,174,501
Retained earnings			
– Proposed dividends	*19*	**–**	53,405,022
– Others		**480,351,898**	466,872,665
		2,177,771,560	2,191,043,189
Non-controlling interests		**35,467,535**	34,523,674
Total equity		**2,213,239,095**	2,225,566,863

	Note	Unaudited As at 30 June 2014 HK$	Audited As at 31 December 2013 HK$
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**14,731,471**	14,589,423
		14,731,471	14,589,423
Current liabilities			
Trade payables	*11(a)*	**259,597,654**	243,373,379
Other payables and accruals	*11(b)*	**192,622,072**	109,464,337
Current income tax liabilities		**14,661,212**	22,749,194
Loan from a related party	*23(c)*	**100,784,000**	–
Bank borrowings	*12*	**615,172,106**	233,423,200
		1,182,837,044	609,010,110
Total liabilities		**1,197,568,515**	623,599,533
Total equity and liabilities		**3,410,807,610**	2,849,166,396
Net current assets		**829,947,970**	1,346,238,934
Total assets less current liabilities		**2,227,970,566**	2,240,156,286

The notes on pages 40 to 66 are an integral part of this unaudited interim condensed consolidated financial information.

The financial information on pages 32 to 66 was approved by the Board of Directors on 22 August 2014 and was signed on its behalf.

Mr. Wang Jinlong
Director

Mr. Zhao Jindong
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2014 HK$	 2013 HK$
Revenue	*7*	**353,281,044**	495,688,297
Other income		**353,145**	2,048,380
Operating costs			
Material costs		**(94,886,376)**	(191,885,093)
Depreciation of property, plant and equipment	*8*	**(19,334,564)**	(5,319,478)
Amortisation of intangible assets	*8*	**(782,902)**	(4,474,147)
Operating lease rental		**(8,234,832)**	(6,421,818)
Employee benefit expenses		**(93,063,412)**	(68,404,171)
Distribution expenses		**(7,843,420)**	(11,017,989)
Technical service fees		**(35,976,198)**	(48,011,213)
Research and development expenses		**(8,201,274)**	(7,594,504)
Listing costs		**–**	(5,432,892)
Entertainment and marketing expenses		**(10,073,176)**	(11,638,975)
Other expenses	*13*	**(42,980,898)**	(29,137,863)
Other losses, net	*14*	**(5,341,101)**	(1,230,069)
Operating profit		**26,916,036**	107,168,465
Finance income	*16*	**3,647,418**	1,388,237
Finance costs	*16*	**(11,317,974)**	(4,875,004)
Finance costs, net		**(7,670,556)**	(3,486,767)
Profit before income tax		**19,245,480**	103,681,698
Income tax expense	*17*	**(4,648,126)**	(26,337,986)
Profit for the period		**14,597,354**	77,343,712
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**12,758,738**	11,309,780
Total comprehensive income for the period		**27,356,092**	88,653,492

		Unaudited Six months ended 30 June	
	Note	**2014** **HK$**	2013 HK$
Profit for the period attributable to:			
Owners of the Company		**13,479,233**	68,616,107
Non-controlling interests		**1,118,121**	8,727,605
		14,597,354	77,343,712
Total comprehensive income for the period attributable to:			
Owners of the Company		**26,412,231**	79,194,979
Non-controlling interests		**943,861**	9,458,513
		27,356,092	88,653,492
Earnings per share attributable to owners of the Company during the period	*18*		
Basic earnings per share (HK cents)		**1**	7
Diluted earnings per share (HK cents)		**1**	7
Dividends	*19*	**–**	–

The notes on pages 40 to 66 are an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK$	Other reserves HK$	Retained earnings HK$	Total HK$	Non–controlling interests HK$	Total Equity HK$
Balance at 1 January 2014	1,634,591,001	36,174,501	520,277,687	2,191,043,189	34,523,674	2,225,566,863
Total comprehensive income for the period ended 30 June 2014	–	12,932,998	13,479,233	26,412,231	943,861	27,356,092
Total transactions with owners, recognised directly in equity:						
Exercise of share options	23,596,322	(11,658,591)	–	11,937,731	–	11,937,731
Recognition of share-based payment	–	1,783,431	–	1,783,431	–	1,783,431
Dividends	–	–	(53,405,022)	(53,405,022)	–	(53,405,022)
Total transactions with owners, recognised directly in equity	23,596,322	(9,875,160)	(53,405,022)	(39,683,860)	–	(39,683,860)
Balance at 30 June 2014	1,658,187,323	39,232,339	480,351,898	2,177,771,560	35,467,535	2,213,239,095

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK$	Other reserves HK$	Retained earnings HK$	Total HK$	Non–controlling interests HK$	Total Equity HK$
Balance at 1 January 2013	671,891,801	50,496,932	330,214,537	1,052,603,270	38,234,999	1,090,838,269
Total comprehensive income for the period ended 30 June 2013	–	10,578,872	68,616,107	79,194,979	9,458,513	88,653,492
Total transactions with owners, recognised directly in equity:						
Capitalisation issue *(Note 10)*	100	–	–	100	–	100
Issuance of shares *(Note 10)*	895,681,627	–	–	895,681,627	–	895,681,627
Total transactions with owners, recognised directly in equity	895,681,727	–	–	895,681,727	–	895,681,727
Balance at 30 June 2013	1,567,573,528	61,075,804	398,830,644	2,027,479,976	47,693,512	2,075,173,488

The notes on pages 40 to 66 are an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June 2014 HK$	 2013 HK$
Cash flows from operating activities			
Cash used in operations		**(133,691,941)**	(139,116,999)
Interest paid		**(6,155,765)**	(6,476,624)
Income tax paid		**(16,383,707)**	(33,423,212)
Net cash used in operating activities		**(156,231,413)**	(179,016,835)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(372,899,571)**	(49,083,360)
Prepayment of property, plant and equipment and land use right		**(105,595,322)**	–
Purchases of intangible assets		**(387,619)**	(743,260)
Proceeds from disposal of property, plant and equipment		**–**	578,078
Interest received	*16*	**2,152,788**	415,065
Increase in pledged bank deposits		**(38,571,541)**	(44,995,167)
Advance to an associate		**–**	632,538
Net cash used in investing activities		**(515,301,265)**	(93,196,106)
Cash flows from financing activities			
Proceeds from bank borrowings	*12*	**441,531,781**	437,300,459
Repayments of bank borrowings	*12*	**(58,465,966)**	(371,074,719)
Repayment of advance from related parties, net		**(1,012,951)**	(637,928)
Net proceeds from issuance of ordinary shares		**11,937,731**	912,657,274
Loan from a related party	*23(c)*	**100,784,000**	–
Dividend paid		**–**	(120,000,000)
Share issuance costs		**–**	(16,975,547)
Net cash generated from financing activities		**494,774,595**	841,269,539

	Note	Unaudited Six months ended 30 June 2014 HK$	2013 HK$
Net (decrease)/increase in cash and cash equivalents		**(176,758,083)**	569,056,598
Cash and cash equivalents at beginning of period		**345,446,842**	136,810,868
Exchange (losses)/gain on cash and cash equivalents		**(332,950)**	311,719
Cash and cash equivalents at end of period		**168,355,809**	706,179,185

The notes on pages 40 to 66 are an integral part of this unaudited interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Petro-king Oilfield Services Limited (the "**Company**") was incorporated in British Virgin Islands on 7 September 2007 as an exempted company with limited liability. The address of the Company's registered office is at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands ("**B.V.I.**").

The Company is an investment holding company and its subsidiaries (together "**the Group**") are principally engaged in the provision of oilfield technology and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.

The Company has its primary listing on Main Board of The Stock Exchange of Hong Kong Limited on 6 March 2013.

This interim condensed consolidated financial information is presented in Hong Kong dollars (HK$), unless otherwise stated. This interim condensed consolidated financial information was approved for issue on 22 August 2014.

This interim condensed consolidated financial information has been reviewed, not audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with the International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

Venezuela as a hyperinflationary economy

A Venezeulan subsidiary incorporated on 17 September 2012 commenced its operations in the current period. To date, a number of factors arose in the Venezuelan economy that triggered the adoption of the adjustments required by IAS 29 'Financial Reporting in Hyperinflationary Economies'. Within these factors it is worth highlighting the cumulative threshold of 100% over the past years, the restrictions to the official foreign exchange market and finally the devaluation of the Bolivar fuerte on 8 February 2013.

Pursuant to the requirements of IAS 29, the Venezuelan subsidiary which reports its financial statements in Bolivar Fuerte, i.e. currency of a hyperinflationary economy, should be stated in terms of the measuring unit current on the date of the financial statements. All balances that are not stated in terms of the measuring unit current on the date of the financial statements must be restated by applying a general price index. All statement of comprehensive income components must be stated in terms of the measuring unit current on the date of the financial statements, applying the change in the general price index that occurred since the date when revenues and expenses were originally recognised in the financial statements. The restatement of the financial statement amounts was carried out using Venezuela's consumer price index (INPC). In June 2014, the index was 646.3 (June 2013: 398.6) and the year-over-year change in the index was 62.14%.

2 BASIS OF PREPARATION (CONTINUED)

Venezuela as a hyperinflationary economy (Continued)

Pursuant to this standard, the 2013 figures should not be restated, and the Venezuelan subsidiary is required to adjust the historical cost of non-monetary assets and liabilities, and the statement of comprehensive income to reflect the changes in purchasing power of the currency caused by inflation.

In preparing the Group's consolidated financial statements, all components of the financial statements of the Venezuelan subsidiary were translated at the official exchange rate, which at 30 June 2014 was 6.30 Bolivares Fuertes per United States dollar ("US$") (or 1.2303 HK$ per Bolivar Fuerte).

As at 30 June 2014, the Group have revaluated the non-monetary assets and liabilities, and the gain derived from the revaluation is reflected as finance income on the statement of comprehensive income of HK$1,494,630 (June 2013: HK$973,172). The deferred tax liabilities on temporary difference associated with reinstatement of the non-monetary assets and liabilities amounted to HK$3,045,562 (Dec 2013: HK$2,538,251).

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2014. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

		Effective for annual periods beginning on or after
IAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 (Amendment)	Impairment of Assets	1 January 2014
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRS 10, IFRS 12 and IAS 27	Exemption from Consolidation for Investment Entities	1 January 2014
IFRIC – Int 21	Levies	1 January 2014

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The Group has not applied any new standards and interpretations that are not yet effective for current accounting period.

4 ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

There have been no changes in the risk management department or in any risk management policies since the year end.

5.2 Credit risk

Credit risk arises from cash and cash equivalents and pledged bank deposits, as well as credit exposures to the customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a good reputation are accepted. For credit exposures to the customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Credit risk is managed at company level, except for credit risk relating to trade receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

The Group has policies in place to ensure that sales of its services and products are made to customers with sufficient level of creditworthiness and the Group generally grants its customers a credit term of up to nine months.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Credit risk (Continued)

Individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group maintains different billing policies for different customers based on the negotiated terms with each customer. The Group will issue progress billing at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment and due date of payment varies from contract to contract. The Group negotiates with those debtors with overdue balances to agree a repayment schedule by both parties and regularly evaluates the credit quality of its debtors to assess the necessity to revise the credit term.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concerns of credit risk primarily due to significant exposure to individual customers. For those trade receivables where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amount of the trade receivables and the present value of estimated future cash flows discounted at the borrowing rate of the related debtor. As at 30 June 2014, 44% (31 December 2013: 46%) of the total receivable was due from the Group's largest debtor, a Venezuelan state-owned oil company. Accordingly, the Group's consolidated results would be heavily affected by the financial capability of the debtor to fulfill its obligations with the Group. The Group's credit risk monitoring activities relating to the debtors include review of the credit profile, business prospects, background and their financial capacity. As at 30 June 2014, the Group recorded provision for doubtful receivable of HK$8,201,122 (31 December 2013: HK$7,124,977) which represents the discounting effect of total receivable due from the Group's largest debtor.

5.3 Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

As at 30 June 2014 and 31 December 2013, all of the financial liabilities of the Group were contractually due for settlement within one year.

5.4 Fair value estimation

The Directors considered that the carrying amounts of financial assets and liabilities recorded at amortised cost approximate their fair values due to their short maturity.

6 SEASONAL NATURE OF THE BUSINESS

For most of the Group's businesses, and particularly the oilfield business, the first half of the financial period is marked by lower business volumes than in the second half of the year as most of the customers, particularly state-owned enterprises, set annual budgets and finalise work scope early in the year and request work to be done later in the year, particularly in the third and fourth quarters. The seasonality was also due to the fact that the weather conditions of some regions where the Group operates were too cold for oilfield operations in the winter which also restricted the Group's operations in the first half of the year.

Sales levels and results in the first half cannot therefore be extrapolated to the full financial year.

The seasonal nature of business is reflected in a net use of cash over the first half of the year, due to the low level of cash receipts during the period, most of which are generated in the second half of the year.

7 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 these reports.

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services.

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

7 SEGMENT INFORMATION (CONTINUED)

The CODM assesses performance of three reporting segments: oilfield project services, consultancy services and manufacturing and sales of tools and equipment. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

(a) Revenue

Revenue recognised during the six months ended 30 June 2014 and 2013 is as follows:

	Six months ended 30 June	
	2014	2013
	HK$	HK$
Oilfield project services		
– Drilling	**65,945,991**	28,994,038
– Well completion	**29,489,331**	213,957,736
– Production enhancement	**118,082,372**	158,861,872
Total oilfield project services	**213,517,694**	401,813,646
Consultancy services	**64,393,182**	18,711,077
Manufacturing and sales of tools and equipment	**75,370,168**	75,163,574
Total revenue	**353,281,044**	495,688,297

The CODM evaluates the performance of the reportable segments based on a measure of revenue and revenue less all directly attributable costs.

7 SEGMENT INFORMATION (CONTINUED)

(b) Segment information

The segment information for the six months ended 30 June 2014 and 2013 is as follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
Six months ended 30 June 2014				
Total segment revenue	**249,864,137**	**64,393,182**	**93,698,957**	**407,956,276**
Inter-segment revenue	**(36,346,443)**	**–**	**(18,328,789)**	**(54,675,232)**
Revenue from external customers	**213,517,694**	**64,393,182**	**75,370,168**	**353,281,044**
Segment results	**85,289,346**	**42,843,066**	**5,293,834**	**133,426,246**
Net unallocated expenses				**(114,180,766)**
Profit before income tax				**19,245,480**
Other information:				
Amortisation	**(611,960)**	**–**	**–**	**(611,960)**
Depreciation	**(14,025,127)**	**–**	**(3,309,581)**	**(17,334,708)**
Income tax credit	**–**	**–**	**404,275**	**404,275**
Six months ended 30 June 2013				
Total segment revenue	401,813,646	18,711,077	117,980,037	538,504,760
Inter-segment revenue	–	–	(42,816,463)	(42,816,463)
Revenue from external customers	401,813,646	18,711,077	75,163,574	495,688,297
Segment results	190,880,232	8,678,769	12,360,479	211,919,480
Net unallocated expenses				(108,237,782)
Profit before income tax				103,681,698
Other information:				
Amortisation	(186,247)	–	(4,263,099)	(4,449,346)
Depreciation	(1,998,060)	–	(2,036,608)	(4,034,668)
Income tax expenses	–	–	(5,156,081)	(5,156,081)

7 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment assets as at 30 June 2014 and 31 December 2013 are as follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
As at 30 June 2014				
Segment assets	**2,257,243,089**	**196,918,563**	**579,660,109**	**3,033,821,761**
Unallocated assets				**376,985,849**
Total assets				**3,410,807,610**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**465,017,760**	**–**	**37,324,486**	**502,342,246**
As at 31 December 2013				
Segment assets	1,683,416,788	128,902,041	546,250,952	2,358,569,781
Unallocated assets				490,596,615
Total assets				2,849,166,396
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	58,256,479	–	106,057,339	164,313,818

The segment results included the material costs, technical service fee, depreciation, amortisation, distribution expenses, fair value change on forward share exchange contract and direct labour costs allocated to each operating segment.

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the assets.

Segment assets included property, plant and equipment, land use right, intangible assets, deferred tax assets, inventories, trade and other receivables and prepayments, pledged bank deposits and cash and cash equivalents.

7 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

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

	As at 30 June 2014 HK$	As at 31 December 2013 HK$
Segment assets for reportable segments	**3,033,821,761**	2,358,569,781
Unallocated assets		
– Unallocated property, plant and equipment	**16,037,149**	16,173,637
– Unallocated intangible assets	**1,474,897**	1,266,060
– Unallocated other receivables, deposits and prepayments	**48,108,139**	27,631,986
– Unallocated pledged bank deposits	**188,584,486**	146,974,437
– Unallocated cash and cash equivalents	**122,781,178**	298,550,495
	376,985,849	490,596,615
Total assets per consolidated balance sheet	**3,410,807,610**	2,849,166,396

A reconciliation of operating segment's results to total profit before income tax is provided as follows:

	Six months ended 30 June 2014 HK$	Six months ended 30 June 2013 HK$
Segment results	**133,426,246**	211,919,480
Other income	**353,145**	2,048,380
Material costs	**(3,855,669)**	(3,886,428)
Depreciation of property, plant and equipment	**(1,999,856)**	(1,284,810)
Amortisation of intangible assets	**(170,942)**	(24,801)
Operating lease rental	**(5,107,972)**	(4,714,694)
Employee benefit expenses	**(47,932,261)**	(41,127,258)
Distribution expenses	**(7,182,747)**	(10,277,927)
Research and development expenses	**(7,654,517)**	(7,562,343)
Listing costs	**–**	(5,432,892)
Entertainment and marketing expenses	**(8,182,906)**	(10,519,203)
Other expenses	**(23,786,854)**	(21,214,550)
Other losses, net	**(5,341,101)**	(1,297,343)
Finance income	**3,647,418**	817,563
Finance costs	**(6,966,504)**	(3,761,476)
Profit before income tax	**19,245,480**	103,681,698

7 SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

The following table shows revenue generated from segments of oilfield project services and consultancy services by geographical area according to location of the customers' oilfields and revenue generated from segment of manufacturing and sales of tools and equipment by geographical area according to location of the customers:

	Six months ended 30 June	
	2014	2013
	HK$	HK$
Mainland China	**179,808,454**	241,692,612
South America	**67,245,513**	240,497,863
Middle East	**105,858,780**	12,557,198
Others	**368,297**	940,624
	353,281,044	495,688,297

During the six months ended 30 June 2014, revenue from three customers (2013: two) of the oilfield project services segment amounted to ten percent or more of the Group's total consolidated revenue for the period. The revenues of these customers of the oilfield project services segment during the relevant periods are summarised below:

	Six months ended 30 June	
	2014	2013
	HK$	HK$
Customer 1	**43,315,308**	168,109,885
Customer 2	**67,245,513**	240,497,863
Customer 3	**78,472,628**	–
	189,033,449	408,607,748

8 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LAND USE RIGHT

	Property, Plant and equipment HK$	Intangible assets HK$	Land use right HK$
Six months ended 30 June 2014			
Net book value			
Opening amount as at 1 January 2014	**293,367,628**	**570,086,032**	**12,042,244**
Additions	**412,753,056**	**387,619**	**–**
Depreciation and amortisation	**(19,334,564)**	**(782,902)**	**–**
Monetary correction for hyperinflation	**1,222,930**	**–**	**–**
Transferred in/(out)	**121,768**	**–**	**(121,768)**
Disposals	**(74,968)**	**–**	**–**
Exchange differences	**(1,440,457)**	**940,900**	**(108,933)**
Closing amount as at 30 June 2014	**686,615,393**	**570,631,649**	**11,811,543**
Six months ended 30 June 2013			
Net book value			
Opening amount as at 1 January 2013	157,092,704	571,619,992	–
Additions	49,083,359	5,629,981	11,325,756
Depreciation and amortisation	(5,319,478)	(4,474,147)	–
Monetary correction for hyperinflation	465,857	–	–
Transferred in/(out)	120,328	–	(120,328)
Disposals	(638,100)	–	–
Exchange differences	558,508	536,517	803,913
Closing amount as at 30 June 2013	201,363,178	573,312,343	12,009,341

9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	As at 30 June 2014 HK$	As at 31 December 2013 HK$
Trade receivables	**1,101,009,240**	1,011,528,818
Less: Provision for impairment of trade receivables	**(8,201,122)**	(7,124,977)
Trade receivables, net	**1,092,808,118**	1,004,403,841

As at 30 June 2014 and 31 December 2013, ageing analysis of net trade receivables by services completion and delivery date are as follows:

	As at 30 June 2014 HK$	As at 31 December 2013 HK$
Up to 3 months	**320,132,786**	464,795,740
3 to 6 months	**89,643,435**	50,871,773
6 to 12 months	**265,884,924**	297,194,761
Over 12 months	**417,146,973**	191,541,567
	1,092,808,118	1,004,403,841

Before accepting any new customers, the Group applies an internal credit assessment policy to assess the potential customer's credit quality. Management closely monitors the credit quality of trade receivables and considers that the trade receivables to be of good credit quality since most counterparties are leaders in the oilfield industry with strong financial position. The Group generally allows a credit period ranged from 30 to 270 days after invoice date to its customers.

As at 30 June 2014, based on the Group's review of the credit risk exposure and expected pattern of settlement at period end, management has determined to record a provision for doubtful receivable amounted to HK$8,201,122 (31 Dec 2013: HK$7,124,977) which represents the discounting effect of total receivable due from the Group's largest debtor.

9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

(b) Other receivables, deposits and prepayments

	As at	
	30 June 2014 HK$	31 December 2013 HK$
Other receivables		
– Third parties	**14,059,485**	9,100,977
– Related parties *(Note 23(b))*	**472,656**	–
Receivables on land bidding in the Mainland China ("**PRC**")	**5,039,200**	5,085,200
Value-added tax recoverables	**105,423,828**	35,545,654
Rental and utilities deposits	**1,529,449**	1,575,681
Cash advances to staff	**21,924,770**	7,220,540
Prepayments for materials	**70,014,045**	80,260,536
Prepayments for rents and others	**8,321,690**	7,314,684
Deposits for purchase of factory	**2,867,714**	2,770,332
Prepayment for property, plant and equipment	**112,999,086**	12,713,000
Prepayment for land use right	**6,135,225**	–
	348,787,148	161,586,604
Less: Non-current deposits for purchase of factory	**(2,867,714)**	(2,770,332)
Non-current prepayment for property, plant and equipment	**(112,999,086)**	(12,713,000)
Non-current prepayment for land use right	**(6,135,225)**	–
	226,785,123	146,103,272

10 SHARE CAPITAL

	Number of Shares	Total HK$
Issued and fully paid:		
At 1 January 2014	1,068,100,437	1,634,591,001
Issuance of ordinary shares for share options exercised	12,289,446	23,596,322
At 30 June 2014	1,080,389,883	1,658,187,323
At 1 January 2013	10,102	671,891,801
Capitalisation issue *(Note (i))*	749,989,898	100
Issuance of shares for Global Offering *(Note (ii))*	250,000,000	820,000,000
Issuance of shares of the over-allotment option in the Global Offering *(Note (iii))*	37,500,000	123,000,000
Share issuance costs	–	(47,318,373)
At 30 June 2013	1,037,500,000	1,567,573,528

Note (i):

Subsequent to the Hong Kong Public and the International Placing took place on 6 March 2013, the Company capitalised an amount of HK$100 from the amount standing to the credit of share capital accounts of the Company and that the said sum be applied in paying up in full 749,989,898 shares.

Note (ii):

On 6 March 2013, the Company issued 250,000,000 new shares of HK$3.28 each in relation to the Global Offering. The gross proceeds received by the Company from the Global Offering amounted to approximately HK$820,000,000.

Note (iii):

Pursuant to full exercise of the over-allotment option granted by the Company in the Global Offering, a total of 37,500,000 new shares of the Company were allotted and issued by the Company on 28 March 2013 at HK$3.28 per share.

11 TRADE AND OTHER PAYABLES AND ACCRUALS

(a) Trade payables

As at 30 June 2014 and 31 December 2013, the ageing analysis of the trade payables based on invoice date was as follows:

	As at	
	30 June 2014 HK$	31 December 2013 HK$
Up to 1 month	**92,705,137**	86,151,776
1 to 2 months	**31,293,197**	59,739,419
2 to 3 months	**18,649,514**	3,508,166
Over 3 months	**116,949,806**	93,974,018
	259,597,654	243,373,379

(b) Other payables and accruals

	As at	
	30 June 2014 HK$	31 December 2013 HK$
Consideration payable for further acquisition of interest in a subsidiary	**18,600,000**	18,600,000
Other payables		
– Third parties	**61,287,038**	33,951,521
– Related parties *(Note 23(b))*	**310,415**	540,296
Receipt in advance	**14,679,284**	5,504,472
Accrued expenses		
– Payroll and welfare	**20,046,756**	19,376,031
– Others	**1,865,767**	550,766
Value-added tax payable	**12,994,070**	20,165,809
Other tax and surcharge payables	**9,433,720**	10,775,442
Dividend payable	**53,405,022**	–
	192,622,072	109,464,337

12 BANK BORROWINGS

	As at 30 June 2014 HK$	As at 31 December 2013 HK$
Current	**615,172,106**	233,423,200

Movements in borrowings are analysed as follows:

	HK$
Six months ended 30 June 2014	
Opening amounts as at 1 January 2014	**233,423,200**
Proceeds from borrowings	**441,531,781**
Repayments of borrowings	**(58,465,966)**
Exchange differences	**(1,316,909)**
Closing amount as at 30 June 2014	**615,172,106**
Six months ended 30 June 2013	
Opening amounts as at 1 January 2013	198,689,503
Proceeds from borrowings	437,300,459
Repayments of borrowings	(371,074,719)
Exchange differences	(2,118,489)
Closing amount as at 30 June 2013	262,796,754

Interest expense on bank borrowings for the six months ended 30 June 2014 is HK$7,431,195 (30 June 2013: HK$6,476,624).

The Group has the following undrawn borrowing facilities:

	As at 30 June 2014 HK$	As at 31 December 2013 HK$
Floating rate		
– Expiring within one year	**723,792,318**	744,287,038
– Expiring beyond one year	**107,083,000**	109,931,762
	830,875,318	854,218,800

As at 30 June 2014, secured bank borrowings are secured by pledged bank deposits and guaranteed by certain group companies. All bank borrowings are due within 1 year.

13 OTHER EXPENSES

	Six months ended 30 June	
	2014	2013
	HK$	HK$
Auditor's remuneration	**571,119**	524,739
Communications	**945,356**	838,092
Professional service fees	**3,668,057**	1,713,981
Motor vehicle expenses	**2,500,259**	2,216,548
Travelling	**14,124,566**	11,402,176
Insurance	**1,234,433**	296,069
Office utilities	**9,315,746**	5,390,103
Other tax-related expenses and custom duties *(Note(i))*	**4,177,930**	2,042,408
Bank charges	**1,527,913**	513,548
Provision for impairment of trade receivable	**–**	1,942,469
Write off of inventories *(Note (ii))*	**1,246,753**	–
Others	**3,668,766**	2,257,730
	42,980,898	29,137,863

Note (i): Other tax-related expenses comprise mainly stamp duty and business tax.

Note (ii): As at 30 June 2014, assembling materials with cost of HK$1,246,753 were considered as obsolete and were written down (30 June 2013: Nil).

14 OTHER LOSSES, NET

	Six months ended 30 June	
	2014	2013
	HK$	HK$
Foreign exchange losses	**(5,266,133)**	(1,237,321)
Loss on disposals of property, plant and equipment	**(74,968)**	(60,022)
Fair value change on forward share exchange contract	**–**	67,274
	(5,341,101)	(1,230,069)

15 SHARE-BASED PAYMENTS

The Company adopted two Share Option Schemes (the "**Schemes**"). A pre-IPO share option scheme ("**Pre-IPO Share Option Scheme**") was approved and adopted by shareholders of the Company on 20 December 2010. Another share option scheme ("**Post-IPO Share Option Scheme**") was approved on 29 April 2014 by the shareholders. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Post-IPO Share Option Scheme.

Pre-IPO Share Option

The Company adopted the Pre-IPO Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group and any entity in which any member of the Group holds any equity interest. Share options are granted to all directors and selected employees with a contractual option term of five years. The Pre-IPO Share Option Scheme was supplemented and amended by an addendum on 25 September 2012, where the Company shall issue the relevant number of ordinary shares instead of non-voting shares at the revised exercise price on or after the listing of the Company. All the outstanding options are exercisable and will be expired in 2015.

The fair value of each option granted as at 20 December 2010 as determined by using the Binomial model ranges from HK$24,411 to HK$34,141, average exercise price of HK$65,649, volatility of 47%, expected option life of 5 years, dividend yield of 1% and annual risk-free interest rate of 3.497%. Expected volatility is assumed to be based on historical volatility of the comparable companies.

Details in the number of share options outstanding and their exercise prices as at June 2014 and 2013 are as follows:

		Number of share options		
Group of participant *(Note)*	**Exercise price per share** HK$	**As at 1 Jan 2014**	**Exercised during the period**	**As at 30 June 2014**
A	0.7783	7,151,554	(5,227,281)	1,924,273
B	0.9339	2,969,708	(2,969,708)	–
C	1.09	371,214	–	371,214
D	1.2452	4,092,457	(4,092,457)	–
Total		14,584,933	(12,289,446)	2,295,487

Note: The participant of the Pre-IPO Share Option Scheme is divided into 4 groups for based on the date of joining the Group.

There is no movement in the number of share options as at June 2013.

15 SHARE-BASED PAYMENTS (CONTINUED)

Post-IPO Share Option

The Company adopted the Post-IPO Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group. Share options are granted to all directors, selected senior managements and employees. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the scheme for directors, selected senior management and employees are 800,000, 12,100,000 and 7,100,000 respectively. The exercise price is HK$2.606 per ordinary share. Options have a contractual option term of five years which will mature on 28 April 2019. Vesting period of the Post-IPO Share Option Scheme varies from one to three years. All the options are conditional in which only one third and two third are vested and exercisable after one and two years from the grant date respectively. The remaining options are vested and exercisable after three years from the grant date. The Group does not have a legal or constructive obligation to repurchase or settle the options in cash. As at June 2014, all the share options are not exercisable and will be expired in 2019.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of services received is measured based on the Binomial model. The contractual life of the options is used as input into this model.

The fair value Post-IPO Share Option Scheme as determined by using the Binomial model ranges from HK$2.615 to HK$2.653, average exercise price of HK$2.606, volatility of 49.72%, expected option life of 5 years, dividend yield of 1.15% and annual risk-free interest rate of 1.418%. Expected volatility is assumed to be based on historical volatility of the comparable companies.

Movements in the number of share options outstanding and their exercise prices are as follows:

	Exercise price per share	Number of share options HK$
As at 1 January 2014	–	–
Granted	2.61	20,000,000
As at 30 June 2014	2.61	20,000,000

16 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2014	2013
	HK$	HK$
Interest expenses:		
– Bank borrowings	**(7,431,195)**	(6,476,624)
– Loan from a related party	**(311,548)**	–
– Net foreign exchange (losses)/gains on financing activities	**(2,499,086)**	1,601,620
– Provision for impairment of trade receivables	**(1,076,145)**	–
Finance costs	**(11,317,974)**	(4,875,004)
Finance income:		
– Interest income from bank deposits	**2,152,788**	415,065
– Gain on the net monetary position	**1,494,630**	973,172
Finance income	**3,647,418**	1,388,237
Finance costs, net	**(7,670,556)**	(3,486,767)

17 INCOME TAX EXPENSE

The Company was incorporated in the B.V.I. and under the current B.V.I. tax regime, is not subject to income tax.

For the Company's subsidiaries, income tax is provided on the basis of their profits for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purpose. The applicable enterprise income tax rate for PRC subsidiaries of the Group was 25% for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 25%), based on the relevant PRC tax laws and regulations, except those subsidiaries that were approved by relevant local tax bureau authorities as the High-technological Enterprise, and was entitled to a preferential Enterprise income tax rate of 15% during the period. The subsidiaries established in Hong Kong and overseas are subject to 16.5% (2013: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively. Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (2013: 17%) during the period. Subsidiary established in Venezuela is subject to Venezuelan corporate tax at a rate of 34% during the period.

17 INCOME TAX EXPENSE (CONTINUED)

	Six months ended 30 June	
	2014	2013
	HK$	HK$
Current tax		
– Hong Kong profits tax	**3,696,849**	9,752,957
– PRC enterprise income tax	**1,063,147**	17,850,541
– Singapore corporate tax	**30,860**	–
– Venezuela corporate tax	**3,401,172**	–
	8,192,028	27,603,498
Under/(Over) provision in prior year		
– PRC enterprise income tax	**337,921**	(564,033)
Deferred income tax	**(3,881,823)**	(701,479)
Income tax expense	**4,648,126**	26,337,986

18 EARNINGS PER SHARE FOR THE PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

(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 period.

	Six months ended 30 June	
	2014	2013
Profit attributable to owners of the Company (HK$)	**13,479,233**	68,616,107
Weighted average number of ordinary shares in issue (Number of shares)	**1,075,095,209**	932,219,142
Basic earnings per share (HK$ cents)	**1**	7

18 EARNINGS PER SHARE FOR THE PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY (CONTINUED)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined using discounted cash flow model) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2014	2013
Profit attributable to owners of the Company (HK$)	**13,479,233**	68,616,107
Weighted average number of ordinary shares in issue (Number of shares)	**1,075,095,209**	932,219,142
Adjustment for:		
– Share options	**12,491,462**	34,693,837
– Contingently issuable shares *(Note)*	**–**	248,359
Weighted average number of ordinary shares for diluted earnings per share	**1,087,586,671**	967,161,338
Diluted earnings per share (HK$ cents)	**1**	7

Note: The contingently issuable shares represent the share exchange in respect of the further acquisition of 4% interest in Sheraton Investment Worldwide Limited ("**Sheraton**") where the conditions governing exercisability have been satisfied as at the end of the reporting period.

The basic and diluted earnings per share for the six months ended 30 June 2013 have been taken into account the share capitalisation issue which took place upon the completion of the Global Offering. The weighted average number of shares outstanding was retrospectively increased to reflect the proportionate ratio between the number of shares before and after the capitalisation issue.

19 DIVIDENDS

A dividend in respect of the year ended 31 December 2013 of HK$0.05 per share, amounting to a total dividend of HK$53,405,022, that was proposed at the annual general meeting on 30 May 2014 has not yet been paid as at 30 June 2014. The dividend was subsequently paid on 25 July 2014.

The Board of Company does not recommend the payment of interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

20 CONTINGENCIES

	As at	
	30 June 2014 HK$	31 December 2013 HK$
Performance bonds *(Note 1)*	**340,146**	2,049,336
Litigation claim *(Note 2)*	**20,676,300**	–

Note 1:

Performance bonds related to the guarantees provided by the banks to the Group's customers in respect of the oilfield project services or consultancy services in certain overseas projects. In the event of non-performance, the customers might call upon the performance bonds and the Group would be liable to the banks in respect of the performance bonds provided.

Note 2:

On 27 June 2014, the Group was sued by one of a contracting parties alleging a failure to provide stipulated amount of drilling works under the contracts entered in 2012 and 2013 and claimed for a total amount of HK$20,676,300. No provision in relation to this claim has been recognised in this condensed interim financial information, as the advice from the Group's legal counsel indicates that it is not probable that there is an outflow of resources embodying economic benefits will be required to settle any obligation and the amount of obligation cannot be reasonably estimated.

21 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at the balance sheet date are as follows:

	As at	
	30 June 2014 HK$	31 December 2013 HK$
Land use right		
– Contracted but not provided for	**14,323,926**	–
Property, plant and equipment		
– Contracted but not provided for	**218,344,829**	403,109,369

21 COMMITMENTS (CONTINUED)

(b) Operating lease commitments – group as lessee

The Group leases various offices, residential properties and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at	
	30 June 2014 HK$	31 December 2013 HK$
No later than 1 year	**12,619,508**	11,817,710
Later than 1 year and no later than 5 years	**11,971,203**	12,375,950
Later than 5 years	**4,533,212**	5,177,653
	29,123,923	29,371,313

22 BUSINESS COMBINATIONS

(a) Acquisition of Sheraton

Pursuant to the agreement in relation to the subscription and sale and purchase of shares of Sheraton entered into among Sheraton, Natural Peak Overseas Limited ("Natural Peak") and a subsidiary of the Group, Hero Gain Investments Limited ("Hero Gain") dated 24 January 2011, Hero Gain agreed to purchase and subscribe for up to 55% interest in Sheraton from Natural Peak. As at 30 April 2011, the Group has already acquired a total of 45.5% equity interest in Sheraton and Sheraton was accounted for as a jointly controlled entity.

Pursuant to the agreement (as amended by a supplemental agreement dated 21 June 2012 between the above mentioned same parties), Hero Gain further acquired 5.5% equity interest in Sheraton on 21 June 2012 in consideration of the issuance of 102 shares of the Company to Natural Peak. As a result, the Group reached ownership of 51% equity interest in Sheraton and gained the power to govern the financial and operating policies in Sheraton, thus Sheraton turned from being a jointly controlled entity into a subsidiary since 21 June 2012.

22 BUSINESS COMBINATIONS (CONTINUED)

(b) Acquisition of additional interests in Sheraton

On 25 November 2013, Hero Gain further acquired 4% equity interest in Sheraton in consideration of issuance of 1,552,075 shares of the Company to the seller at the issue price of HK$4.23, for the total consideration of approximately HK$6,565,000.

Pursuant to the further acquisition agreement dated on 2 December 2013, Hero Gain acquired the remaining 45% equity interest in Sheraton with a cash consideration of US$1,600,000 (equivalent to approximately HK$12,400,000), US$4,000,000 (equivalent to approximately HK$31,000,000) by allotment and issue of 7,328,605 shares of the Company at issue price HK$4.23, and a contingent cash consideration of US$2,400,000 (equivalent to approximately HK$18,600,000).

With regards to the contingent consideration payable of US$2,400,000, in the event that the adjusted 2013 net profit of Sheraton falls short of US$2,250,000 (equivalent to approximately HK$17,437,000), Hero Gain shall be entitled to a consideration adjustment. The consideration adjustment is calculated based on the guaranteed profit of US$2.5 million less adjusted net profit of Sheraton in 2013, multiplied by 0.96 (consideration of US$2.4 million divided by guaranteed profit of US$2.5 million).

As a result of the above transactions, Sheraton became a wholly-owned subsidiary of the Group. The following table summarises the consideration paid and payable for Sheraton:

	HK$
Shares issued in exchange	37,570,000
Forward contract for acquisition of additional equity interest *(Note)*	(773,939)
Cash payment	12,400,000
Consideration payable *(Note 11(b))*	18,600,000
	67,796,061

22 BUSINESS COMBINATIONS (CONTINUED)

Note:

The forward contract was initially recognised for the Company's obligation to acquire the further 15% ownership in Sheraton in 3 tranches pursuant to the Initial Sheraton Acquisition agreement. The amount HK$773,939 represents the fair value of the forward share exchange contract related to the obligation to acquire the remaining 4% as at date of transaction and is thus included in the purchase consideration. Nil balance remains in the balance sheet as at 31 December 2013 as all three tranches have been completed and the forward share exchange contracts were settled.

The carrying amount of the non-controlling interests in Sheraton Group on the date of acquisition was HK$18,660,659. The Group recognised a decrease in non-controlling interests of HK$18,660,659 and a decrease in equity attributable to owners of the Company of HK$49,135,402. The effect of changes in the ownership interest in Sheraton on the equity attributable to owners of the Company in 2013 is summarised as follows:

	HK$
Carrying amount of non-controlling interests acquired	18,660,659
Consideration paid/payable to non-controlling interests	(67,796,061)
Excess of consideration paid recognised within equity	(49,135,402)

23 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2014 and 2013, and balances arising from related party transactions as at 30 June 2014 and 31 December 2013.

Name	**Beneficial Owner**
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Mr. Lee Lap	Substantial shareholder

23 RELATED PARTY TRANSACTIONS (CONTINUED)

During the six months ended 30 June 2014, the Group carried out the following transactions with the related parties:

(a) Key management compensation

Key management personnel are deemed to be the members of the board of directors and top management of the Company who have the responsibility for the planning and controlling the activities of the Group.

	Six months ended 30 June	
	2014 **HK$**	2013 HK$
Salaries and other short-term employee benefits	**2,959,294**	4,696,176

(b) Balances with related parties

	As at	
	30 June **2014** **HK$**	31 December 2013 HK$
Amounts due from/(to) related parties *(Note)*	**472,656**	(540,296)
Interest payable on loan from a related party *(Note 23(c))*	**(310,415)**	–

Note:

The balances primarily represent cash advances to/expenses paid on the Group's behalf by the Directors, Wang JinLong and Zhao JinDong.

As at 30 June 2014 and 31 December 2013, the balances are interest-free, and unsecured, and receivable/repayable on demand, and approximate to their fair values.

(c) Loan from a related party

	As at	
	30 June **2014** **HK$**	31 December 2013 HK$
Loan from a related party *(Note)*	100,784,000	–

As at 30 June 2014, the balance is unsecured, interest bearing of 6.16% per annum, and repayable in September 2014, and approximates to its fair value.

Note:

The balance primarily represents cash advanced from the Group's substantial shareholder, Lee Lap.