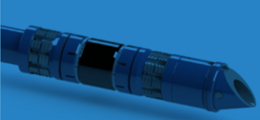
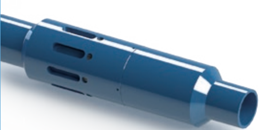
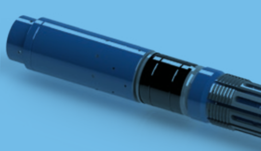
PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Petro-king
百勤油服







INTERIM REPORT 2015

Stock Code: 2178

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Jinlong (王金龍)
Mr. Zhao Jindong (趙錦棟)

NON-EXECUTIVE DIRECTORS

Mr. Ko Po Ming (高寶明)
Mr. Lee Tommy (李銘浚)
Ms. Ma Hua (馬華)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Lap Tat Arthur (黃立達)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)

AUDIT COMMITTEE

Mr. Wong Lap Tat Arthur (黃立達) *(Chairman)*
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)

REMUNERATION COMMITTEE

Mr. He Shenghou (何生厚) *(Chairman)*
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)
Mr. Wang Jinlong (王金龍)
Mr. Lee Tommy (李銘浚)

NOMINATION COMMITTEE

Mr. Wang Jinlong (王金龍) *(Chairman)*
Mr. Lee Tommy (李銘浚)
Mr. He Shenghou (何生厚)
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)

SANCTION OVERSIGHT COMMITTEE

Mr. Wong Lap Tat Arthur (黃立達) *(Chairman)*
Mr. Wang Jinlong (王金龍)
Mr. He Shenghou (何生厚)

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗)

AUTHORISED REPRESENTATIVES

Mr. Wang Jinlong (王金龍)
Mr. Tung Tat Chiu, Michael (佟達釗)

REGISTERED OFFICE IN THE BRITISH VIRGIN ISLANDS

Commerce House
Wickhams Cay 1
P.O. Box 3140
Road Town, Tortola
British Virgin Islands
VG1110

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office No. 504, 5th Floor
Tower 1, Silvercord
No. 30 Canton Road
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

7/F, Tower A, Tiley Central Plaza
No. 3 Haide Road
Nanshan District
Shenzhen
Guangdong
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

Codan Trust Company (B.V.I.) Ltd.
Commerce House, Wickhams Cay 1
P.O. Box 3140
Road Town, Tortola
British Virgin Islands VG1110

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Standard Chartered Bank (China) Limited
11/F Tower A, Kingkey 100 Building
No. 5016 Shennan East Road,
Luohu District
Shenzhen 518001
China

China Merchants Bank
China Merchants Building, Shekou
Shenzhen 518067
China

Hang Seng Bank Limited
83 Des Voeux Road
Central
Hong Kong

Ping An Bank Company Ltd.
Floor 45, Tower B, Sinopec Building
No. 191, Tiyuxi Road
Tianhe District
Guangzhou
China

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS (HONG KONG LAW)

Tung & Co.
In association with Jia Yuan Law Office

COMPANY'S WEBSITE

www.petro-king.cn

STOCK CODE

2178

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the six months ended 30 June 2015 ("**1H2015**"), Petro-King Oilfield Services Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**", "**we**" or "**our**") recorded a revenue of HK$416.4 million, representing an increase of HK$63.1 million or approximately 18% from that of HK$353.3 million for the six months ended 30 June 2014 ("**IH2014**"). The increase in revenue was mainly due to the increase in business activities in the overseas market. The Group's operating costs for 1H2015 amounted to HK$385.8 million, representing an increase of HK$59.1 million or approximately 18% from that of HK$326.7 million in 1H2014, which was in line with revenue growth. The Group's operating profit in 1H2015 increased by HK$3.7 million or approximately 14% to HK$30.6 million from that of HK$26.9 million in 1H2014. The operating profit margin decreased by 0.3 percentage point to 7.3% in 1H2015 from 7.6% in 1H2014. During the period, the Group's net finance cost increased by approximately 112% to HK$16.3 million, from that of HK$7.7 million in 1H2014. The net profit attributable to the owners of the Group in 1H2015 dropped by approximately 39% to HK$8.2 million from HK$13.5 million in 1H2014.

The first half year of 2015 was the most challenging period for the Group in the past decade. The slow-down in growth of China's economy and the weak international oil price led to a stringent cost cutting plan for most of the Group's customers in China and thus resulted in a slow-down in overall exploration and production ("**E&P**") activities in the China market. Although the Group has achieved significant business development and revenue growth from the overseas market in 1H2015, the weakened international crude oil price remained a major uncertainty for most international oil companies ("**IOCs**"). We estimate that most of the IOCs will continue to implement cost-saving measures in order to cope with the weak oil price.

In order to get through this extraordinary tough time during the industry downturn of the oilfield service sector, the Group had conducted a special risk management plan to cope with the industry downturn and implemented certain risk mitigation measures in 1H2015:

- Streamlined the cost structure of all major service lines and reduced headcount by approximately 25% to 737 employees as at 30 June 2015, from 989 employees as at 31 December 2014.

- Adjusted the compensation structure of the Group's management team by having a substantial cut in basic salary, compensated by performance-based bonus and share option incentive schemes.

- Implemented a more stringent credit control policy and intensified the management effort in collecting outstanding trade receivables.

- Entered into memoranda of understanding (the "**MOUs**") for disposing of an aggregate of 40.1% equity interest in Shenzhen Fluid Science & Technology Co., Ltd. ("**FST**") in order to receive cash considerations of RMB60,150,000 (equivalent to approximately HK$75,188,000) and it was completed in August 2015.

- Raised capital of about HK$301.8 million, partly from a rights issue exercise and partly from an issuance of three-year convertible bonds.

- Repaid substantial amounts (totalling HK$457.1 million) of bank borrowings to minimize the risk of financial distress.

As a result, the Group's financial position was enhanced in 1H2015; operating expenses were reduced; and the Group's operations started turning around in the second quarter of 2015:

- Earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") increased by 62% to HK$76.2 million in 1H2015, compared to that of HK$47.0 million in 1H2014.

- Operating cashflow turned positive and was approximately HK$5.9 million in 1H2015, compared to that of HK$156.2 million outflow in 1H2014.

- Cash flow from investing activities turned positive and was approximately HK$67.3 million in 1H2015, compared to that of HK$515.3 million outflow in 1H2014.

- Gained new customers in the China market and the overseas market, and backlog orders (including signed contracts and biddings won) increased to HK$601.7 million as at 15 August 2015.

THE CHINA MARKET

The first half year of 2015 was the most challenging half year of the Group's operations in the China market. The slowdown in growth of the China economy and the weak international oil price have generally led to fewer capital investment plans and thus a slowdown in E&P activities of the Group's major national oil companies ("**NOCs**") customers in the China market. As a result, the Group experienced a further decline in business volume and revenue in various areas in the domestic market in 1H2015, including a decline in production enhancement services in the Ordos Basin and a decline in drilling and mud services in the Sichuan Basin and the Tarim Basin. The Group's service capacity (including technical staff and service equipment) for the China market was in a relatively low utilisation during the period. In order to improve the utilisation of the Group's oilfield service capacity, we have shifted certain part of our service capacity to the Middle East and Central Asia, and spared certain part of our service capacity for non-NOCs customers in China.

In order to streamline the operating efficiency of the Group's various service lines, the Group's management reviewed the cost structure and assessed the adequacy of the staff structure of each service line. During the period, the Group adjusted its staff structure through internal transfer of talents among various service lines, implemented a staff redundancy plan and adjusted the compensation package of the management team (e.g. basic salary cut shall be compensated for with performance-based bonus and share option incentives).

Notwithstanding the weak market environment during the first half of 2015, the Group continued in seeking diversification of its customer base in 1H2015. Further to the provision of Integrated Project Management ("**IPM**") services and fracturing services for non-NOCs shale gas investors in the domestic market in 2014, the Group has been proactively promoting its high-end oilfield services among various private sector oil and gas companies in China in 1H2015. It has achieved significant progress in reaching cooperation agreements for provision of directional drilling and production enhancement services to these new customers. We believe that some of these business opportunities will start to contribute to the Group's revenue in the second half of 2015.

THE OVERSEAS MARKET

The Group's business development in the overseas market continued to progress well in 1H2015. Our capability of providing high-end oilfield services with self-developed tools and technology gained further market recognition in the overseas market. During the period, we gained new overseas customers and won service contracts in various regions including the Middle East, Central Asia, South East Asia, North America and South America.

Revenue from the overseas market recorded a significant growth of about 61% in 1H2015, which was mainly attributable to the revenue growth from the Middle East. While continuing to provide directional drilling services, production enhancement services and well completion services for our customers in Iraq, the Group has also started to execute contracts for the provision of surface engineering services and production management services in Iraq in 1H2015 as well. During the period, the Group's technical capability and professional services have gained further recognition in the Middle East, and we have gained new customers in that region.

During the period, the Group shifted part of its oilfield service capacity to Central Asia and the move has started to generate revenue in 1H2015. Currently, we are targeting a few customers in the region (mainly in Kazakhstan and Kyrgyzstan) for the provision of drilling, production enhancement and IPM services.

Subsequent to the signing of a memorandum of understanding with National Oilwell DHT, LP ("**NOV**") by Turbodynamics Pte. Ltd. ("**Turbodynamics**"), a subsidiary of the Group registered in Singapore in February 2015, the Group started to provide its self-developed turbine drilling technology and services ("**Turbodrill**") in the overseas market, and completed its first turbine drilling service in Canada in June 2015. We consider that the business cooperation agreement with NOV in respect of the Group's Turbodrill technology represents a great achievement of the Group's research and development team. It has once again reinforced the Group's determination to become a leading high-end oilfield service enterprise.

Collection of the trade receivables from a major customer in Venezuela remained slow in 1H2015. The Group has been actively requesting the customer to settle the long outstanding trade receivables during the period and we have collected approximately HK$32 million in 1H2015. As the weak oil price has jeopardised the customer's capability in settling trade receivables, we have maintained limited business operations in Venezuela in order to reduce our business risk in the country.

Business development in Australia and Russia was relatively slow in 1H2015, compared with those in other regions of the overseas market.

Geographical Market Analysis

	1H2015 (HK$ million)	1H2014 (HK$ million)	Percentage change (%)	**Percentage of total revenue in 1H2015 (%)**	Percentage of total revenue in 1H2014 (%)
China market	**136.2**	179.8	-24%	**33%**	51%
Overseas market	**280.2**	173.5	61%	**67%**	49%
Total	**416.4**	353.3	18%	**100%**	100%

In 1H2015, the Group's revenue from the China market amounted to HK$136.2 million, decreased by HK$43.6 million or approximately 24% as compared to HK$179.8 million in the same period last year. Decrease in revenue in the China market was mainly due to the drop in revenue from the production enhancement services in the Ordos Basin of Northern China.

In 1H2015, the revenue from the overseas market amounted to HK$280.2 million, increased by HK$106.7 million or approximately 61%, as compared to HK$173.5 million in the same period last year. The revenue from the overseas market accounted for 67% of the Group's total revenue in 1H2015, representing an increase of 18 percentage points from 49% in the same period last year. The increase in revenue in the overseas market was mainly attributable to the significant increase in revenue generated in the Middle East.

Revenue from China Market

	1H2015 (HK$ million)	1H2014 (HK$ million)	Percentage change (%)	Percentage of total in 1H2015 (%)	Percentage of total in 1H2014 (%)
Northern China	**19.6**	70.3	-72%	**14%**	39%
Southwestern China	**23.7**	19.5	22%	**18%**	11%
Other regions in China	**92.9**	90.0	3%	**68%**	50%
Total	**136.2**	179.8	-24%	**100%**	100%

In 1H2015, the Group's revenue from Northern China amounted to HK$19.6 million, decreased by HK$50.7 million or approximately 72% as compared to the revenue of HK$70.3 million in the same period last year. The decrease was mainly due to the decline in production enhancement projects in the Ordos Basin from Sinopec Northern China Company. The Group's revenue of production enhancement services from Sinopec Northern China Company in 1H2015 amounted to HK$8.6 million, which has decreased by HK$30.1 million from HK$38.7 million in 1H2014.

The revenue from Southwestern China amounted to HK$23.7 million in 1H2015, increased by HK$4.2 million or approximately 22% as compared to the revenue of HK$19.5 million in the same period last year. The increase in the revenue from Southwestern China was attributable to the development of oilfield services for shale gas customers, which amounted to HK21.7 million in 1H2015, increased by HK$7.4 million as compared to HK$14.3 million in the same period last year.

In 1H2015, the Group's revenue from other regions in China amounted to HK$92.9 million, increased by HK$2.9 million or approximately 3% as compared to the revenue of HK$90.0 million in the same period last year. The increase in revenue in the area was attributable to the increase in sales of well completion tools to two major customers in Hong Kong.

Revenue from Overseas Market

	1H2015 (HK$ million)	1H2014 (HK$ million)	Percentage change (%)	**Percentage of total in 1H2015 (%)**	Percentage of total in 1H2014 (%)
Middle East	**218.6**	105.9	106%	**78%**	61%
South America	**27.0**	67.2	-60%	**10%**	39%
Others	**34.6**	0.4	8550%	**12%**	0%
Total	**280.2**	173.5	61%	**100%**	100%

Note: The Middle East region includes Iraq, the United Arab Emirates, etc. Other overseas regions include Indonesia, Kyrgyzstan, Uganda, Qatar, etc.

In 1H2015, the Group continued in achieving revenue growth in the Middle East. The Group's revenue from the Middle East amounted to HK$218.6 million in 1H2015, increased by HK$112.7 million or approximately 106% as compared to the revenue of HK$105.9 million in the same period last year. The increase in revenue was partly attributable to the provision of high-end oilfield services in the oilfield projects owned by IOCs in the Middle East, such revenue increased by HK$45.6 million as compared to that of the same period last year. In 1H2015, the revenue from China National Petroleum Corporation and China National Offshore Oil Corporation ("**CNOOC**") in this region increased by HK$22.4 million and HK$21.8 million, respectively.

The Group's revenue from South America amounted to HK$27.0 million in 1H2015, decreased by HK$40.2 million or approximately 60% as compared to the revenue of HK$67.2 million in the same period last year. The decrease in revenue was mainly due to risk control measures taken by the Group to a major customer in Venezuela against its slow payment of trade receivables. The customer's financial position had been weakened by the slump in international oil price since the second half of 2014. The Group will continue to monitor the settlement progress of our trade receivables and control the risk exposure with caution in South America.

In respect of other areas of the overseas market, the Group continued its effort in developing new customers and new markets. In 1H2015, the Group's revenue from other areas of the overseas market amounted to HK$34.6 million, increased by HK$34.2 million as compared to HK$0.4 million in the same period last year. The increase in revenue was mainly attributable to the provision of production enhancement services in Kyrgyzstan.

Business Segment Analysis

	1H2015 (HK$ million)	1H2014 (HK$ million)	Percentage change (%)	**Percentage of total revenue in 1H2015 (%)**	Percentage of total revenue in 1H2014 (%)
Oilfield project services	**260.7**	213.5	22%	**63%**	61%
Consultancy services	**20.4**	64.4	-68%	**5%**	18%
Manufacturing and sales of tools and equipment	**135.3**	75.4	79%	**32%**	21%
Total	**416.4**	353.3	18%	**100%**	100%

In 1H2015, the Group's revenue from oilfield project services amounted to HK$260.7 million, which accounted for 63% of the Group's total revenue, increased by HK$47.2 million or approximately 22% from HK$213.5 million in 1H2014. The increase in revenue of oilfield project services was mainly attributable to revenue growth from the overseas market, such as the Middle East.

In 1H2015, the Group's revenue from consultancy services amounted to HK$20.4 million, decreased by HK$44.0 million or approximately 68% from HK$64.4 million in 1H2014. The drop of the revenue from consultancy services was mainly due to the completion of IPM services in the same period last year and the IPM services provided by the Group in 1H2015 were minimal.

In 1H2015, the Group's revenue from manufacturing and sales of tools and equipment amounted to HK$135.3 million, increased by HK$59.9 million or approximately 79% from HK$75.4 million in 1H2014. The increase in revenue of this segment was attributable to the revenue generated from sale of tools and equipment in the Middle East.

Oilfield Project Services

	1H2015 (HK$ million)	1H2014 (HK$ million)	Percentage change (%)	Percentage of total in 1H2015 (%)	Percentage of total in 1H2014 (%)
Drilling	**125.7**	65.9	91%	**48%**	31%
Well completion	**61.2**	29.5	107%	**24%**	14%
Production enhancement	**73.8**	118.1	-38%	**28%**	55%
Total	**260.7**	213.5	22%	**100%**	100%

Drilling Services

In 1H2015, the Group's revenue from drilling services amounted to HK$125.7 million, increased by HK$59.8 million or approximately 91% from HK$65.9 million in 1H2014, accounting for 48% of the total revenue of oilfield project services. It has increased by 17 percentage points as compared to 31% in the same period last year. The increase in revenue of drilling services was mainly attributable to its significant business development in the Middle East. In 1H2015, the revenue from drilling services in the Middle East amounted to HK$100.8 million, increased by HK$80.9 million from that of HK$19.9 million in the same period last year. In 1H2015, the Group provided directional drilling or turbine drilling services for 7 wells, all of which were completed before 30 June 2015. Out of the completed wells, 3 wells were in the China market and 4 wells were in the overseas market.

Well Completion Services

In 1H2015, the Group's revenue from well completion services amounted to HK$61.2 million, increased by HK$31.7 million or approximately 107% from HK$29.5 million in 1H2014, accounting for 24% of the total revenue of oilfield project services. It has increased by 10 percentage points as compared to 14% in the same period last year. The increase in revenue of well completion services was mainly attributable to its significant business development in the Middle East. In 1H2015, the revenue from well completion services in the Middle East amounted to HK$53.7 million, increased by HK$26.9 million from that of HK$26.8 million in the same period last year. In 1H2015, the Group provided well completion services for 23 wells, all of which were completed before 30 June 2015. Out of the completed wells, 15 wells were in the China market and 8 wells were in the overseas market.

Production Enhancement Services

In 1H2015, the Group's revenue from production enhancement services amounted to HK$73.8 million, dropped by HK$44.3 million or 38% from HK$118.1 million in 1H2014, accounting for 28% of the total revenue of oilfield project services. It has decreased by 27 percentage points as compared to 55% in the same period last year. The drop of revenue was mainly due to the decline of the business in South America and Northern China. In 1H2015, the revenue from production enhancement services in South America amounted to HK$27.0 million, decreased by HK$40.2 million as compared to that of HK$67.2 million in the same period last year. The Group has taken risk control measures to a major customer in South America against its slow payment of our trade receivables. In 1H2015, the production enhancement services provided to Sinopec Northern China Company amounted to HK$8.6 million, which has decreased by HK$30.1 million from HK$38.7 million in 1H2014. In 1H2015, the Group provided production enhancement services for 47 wells, of which 45 wells were completed before 30 June 2015 and the works at 2 wells were still in progress as at 30 June 2015. Out of the abovementioned wells, 26 wells were in the China market and 21 wells were in the overseas market.

Consultancy Services

	1H2015 (HK$ million)	1H2014 (HK$ million)	Percentage change (%)	**Percentage of total in 1H2015 (%)**	Percentage of total in 1H2014 (%)
Integrated project management	**–**	54.8	-100%	**0%**	85%
Supervisory	**20.4**	9.6	113%	**100%**	15%
Total	**20.4**	64.4	-68%	**100%**	100%

In 1H2015, the Group has no revenue from IPM services, as several IPM services projects were completed last year.

In 1H2015, the Group's revenue from supervisory services amounted to HK$20.4 million, increased by HK$10.8 million or approximately 113% from that of HK$9.6 million in the same period last year. The increase in revenue was attributable to the provision of supervisory services in the oilfield projects owned by IOCs in the Middle East and the increase of business in the oilfield projects owned by CNOOC in Uganda, Iraq and Qatar.

Manufacturing and sales of tools and equipment

In 1H2015, the Group's revenue from manufacturing and sales of tools and equipment amounted to HK$135.3 million, increased by HK$59.9 million or 79% from HK$75.4 million in 1H2014. The increase of revenue was mainly attributable to significant business development in sales of completion tools in the Middle East.

Customer Analysis

	1H2015 (HK$ million)	1H2014 (HK$ million)	Percentage change (%)	**Percentage of total revenue in 1H2015 (%)**	Percentage of total revenue in 1H2014 (%)
Customer 1	**27.0**	67.2	-60%	**6%**	19%
Customer 2	**50.3**	27.4	84%	**12%**	8%
Customer 3	**42.4**	1.3	3162%	**10%**	0%
Customer 4	**28.2**	2.7	944%	**7%**	1%
Customer 5	**23.6**	43.3	-45%	**6%**	12%
Customer 6	**35.4**	6.7	428%	**9%**	2%
Customer 7	**140.4**	78.5	79%	**34%**	22%
Others	**69.1**	126.2	-45%	**16%**	36%
Total	**416.4**	353.3	18%	**100%**	100%

The Group continued to make efforts to diversify its customer base so as to reduce the risk of relying heavily on a few customers for revenues. In 1H2015, revenue from Customer 1 amounted to HK$27.0 million, decreased by HK$40.2 million or approximately 60% as compared to that of the same period last year. The decrease in the revenue was mainly due to risk control measures taken by the Group to this customer in South America against its slow payment of our trade receivables. In 1H2015, the revenues from Customer 2, Customer 4, Customer 6 and Customer 7 were increased significantly, which was attributable to the Group's business development in the Middle East and the quality of products and services provided by the Group being well recognised by several customers in this area. Besides the Middle East, the Group made a sales breakthrough in well completion tools sold to Customer 3 in other areas in the overseas market. The revenue was increased significantly by HK$41.1 million as compared to that of the same period last year. The revenue from Customer 5 amounted to HK$23.6 million, decreased by HK$19.7 million or approximately 45% as compared to that of HK$43.3 million in the same period last year. The decrease in revenue was mainly due to the decline in revenue from production enhancement services in the Ordos Basin.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself in introducing innovative products and services in a number of areas in oilfield services, such as turbine-drilling and directional drilling, multistage fracturing, down-hole completion and surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 1H2015, the Group continued to seek advancement in technology and introduced new products to the market. As a substantial part of the research and development activities for Turbodrill was finished in 2014, the Group's spendings on research and development decreased in 1H2015. During the period, the Group spent HK$5.5 million on research and development, representing a decrease of approximately 33% from that of HK$8.2 million in 1H2014.

During the period, the Group's new products and technology have received further recognition by IOCs customers in the overseas market: (i) subsequent to the entering of the memorandum of understanding with NOV by Turbodynamics, the Group started to provide high-speed turbine drilling technology and services in Canada; (ii) after completion of field and surface tests of down-hole tools manufactured by Star Petrotech Pte. Ltd. ("**Star**"), a wholly-owned subsidiary of the Group in Singapore; Star has successfully entered into the vendor list of TOTAL E&P Indonesie in 1H2015; (iii) the Group's down-hole completion tools have passed various tests conducted by a major international oilfield service player and is in the process of finalising a supply contract of completion tools with this potential customer.

In addition, the Group continued to develop and introduce to the market new technology and tools in 1H2015 such as the following:

- Filed patent applications for KingFrac™ and Queen Sleeve™ and have developed a few more prototypes in various sizes of the KingFrac™ and Queen Sleeve™ series products for marketing purpose;

- Developed a new series of safety valves (including a wireline safety valve and a back pressure valve) and upgraded the American Petroleum Institute ("**API**") license of the packer group from API 11D1 Grade V6 to Grade V3;

- Developed Phantom™ Ball, a degradable ball of high pressure rating and low density for multistage fracturing;

- Developed Dual Ball-Activated Frac Sleeve and Hydro-Activated Frac Sleeve and Ball Seat Circulation Valve 2 in 1 at the request of a potential Australian customer, we expect that these technologies could largely increase the success rate in fracturing jobs of coal bed methane ("**CBM**") projects; and

- Developed a new generation of inflow control device – SAICD, which was designed to optimise the production output of oil wells.

While developing new and advanced oilfield service technology and products, the Group has been actively applying for patents for its newly developed technology and products. As at 30 June 2015, the Group held 1 invention patent and 29 utility model patents and has made applications for 14 invention patents and 5 utility model patents.

The Group will continue to develop more down-hole completion tools and fracturing tools, as well as various drilling and other oilfield services in order to maintain its leading position in the high-end oilfield service sector.

HUMAN RESOURCES

It has always been the Group's belief that its employees are its most valuable assets and the development of each employee has always been the Group's first priority in human resources management. The Group is eager to improve its employees' professional knowledge and enhance their professional standard through its modern training system.

As at 30 June 2015, the Group had 737 employees, decreased by 252 as compared to 989 employees as at 31 December 2014. The downsizing is due to the downturn of the industry. The management would like to optimise the human resources by reducing the number of employees and staff cost in general.

OUTLOOK

Looking ahead to the second half of 2015, we believe that the business environment for the oilfield service sector as a whole is likely to remain challenging. The international oil price dropped further after the rebound early this year, and market estimates of the oil price were revised down generally. According to the Morgan Stanley Research report released on 5 August 2015, their estimates of the average oil prices (Brent) were revised down to US$58/bbl, US$61/bbl, and US$65/bbl, for each of the years 2015, 2016 and 2017, respectively, from their previous estimates of US$60/bbl, US$70/bbl, and US$80/bbl, for each of the years 2015, 2016 and 2017, respectively. It appears that the market is still bearish about the oil price and believes that the oil companies will continue to exercise a cautious approach in capital investments.

In response to the industry downturn, the Group launched an action plan and cost control measures in 1H2015. The Group's operations and financial positions are much more stable and safe now as compared to that in the first quarter of 2015. However, as the current business environment of the oilfield services is still associated with uncertainties such as the weak oil price and the China economy slow down, we will continue to exercise a cautious approach in seeking business development in the second half of 2015.

In the China market, we estimate that the business activities of the NOCs are likely to remain low level in the second half of 2015. However, the rapid development of those non-NOCs oil and gas companies in China in the past few years offered us a good opportunity to expand our customer base and gain new service contracts. In July/August 2015, the Group won a few biddings in the China market, including one from Sinopec Northern China Company for the provision of multistage fracturing services of 36 horizontal tight gas wells in the Ordos Basin, and two biddings from non-NOCs customers for the provision of directional drilling services and fracturing services of CBM wells. We believe that further expansion in the Group's clientele is likely to benefit the Group's business development in the long run.

For the overseas market, subsequent to the successful business development in the Middle East in 2014, the Group has been proactively promoting its oilfield services and products in various other regions, such as Central Asia, Australia, South East Asia and North America. Thanks to the high market recognition of the Group's self-developed technology and tools, our highend oilfield services with self-developed technology and tools have been widely accepted by some IOCs customers, and we believe this development will continue to help in further market penetration of the Group's oilfield services and technology in the overseas market. However, as oil companies are responding to the low oil price dampened by the combination of capital expenditure cuts and cost savings measures in 2015, we believe that this may temporarily limit the Group's business growth in the second half of 2015.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to HK$416.4 million in 1H2015, which has increased by approximately HK$63.1 million or 18% as compared to that of HK$353.3 million in the same period of 2014. The increase in revenue was mainly due to the growth of business activities in the Middle East, with an increase of HK$112.7 million or approximately 106% as compared with that of the same period of 2014, which has largely compensated the decrease in revenue generated from the China market and the South America market.

Material Costs

In 1H2015, the Group's material costs were HK$129.3 million, which has increased by HK$34.4 million or approximately 36% as compared to that of HK$94.9 million in 1H2014. The increase of material costs were in line with the increase of revenue from oilfield project services and manufacturing and sales of tools and equipment in 1H2015.

Depreciation of Property, Plant and Equipment

In 1H2015, the depreciation of property, plant and equipment amounted to HK$44.6 million, which has increased by HK$25.3 million or approximately 131% as compared to that of HK$19.3 million in 1H2014, primarily resulted from increase in depreciation for buildings at the Huizhou base, fracturing equipment and other newly purchased equipment that were put into operation.

Employee Benefit Expenses

In 1H2015, the Group's employee benefit expenses were HK$87.9 million, which has dropped by HK$5.2 million or approximately 6% as compared to that of HK$93.1 million in 1H2014. This was a result of the change in current staff structure and compensation package in order to streamline the cost structure and improve the operational efficiency of its business operations.

Distribution Expenses

In 1H2015, the Group's distribution expenses amounted to HK$5.1 million, which has decreased by HK$2.7 million or approximately 35% from that of HK$7.8 million in 1H2014. It was mainly driven by an improvement in the logistic management as well as less transportation of tools and equipment to distant areas as compared with the same period of 2014.

Technical Service Fees

In 1H2015, the Group's technical service fees amounted to HK$48.9 million, which has increased by HK$12.9 million or approximately 36% from HK$36.0 million in 1H2014. The increase was in line with the increase in revenue from oilfield project services.

Provision for Impairment of Trade Receivables, net

In 1H2015, the net amount of provision for impairment has increased by HK$2.8 million. It was mainly due to the recognition of the provision for impairment of trade receivables from the Group's certain customers, based on the review of the credit profile, business prospects, background and their financial capabilities. It was partially set off by the reversal of provision for impairment provided at the end of 2014 as a result of subsequent receipt of settlements.

Other Expenses

In 1H2015, the Group's other expenses were HK$45.4 million, increased by HK$2.4 million or 6% from that of HK$43.0 million in 1H2014, mainly due to the increase in provision for impairment of inventories by HK$4.4 million.

Operating Profit

The Group's operating profit in 1H2015 amounted to HK$30.6 million, which has increased by HK$3.7 million or 14% as compared to the operating profit of HK$26.9 million in 1H2014. It was mainly driven by the increase in revenue compared with the same period in 2014.

Net Finance Costs

In 1H2015, the Group's net finance costs amounted to HK$16.3 million, which has increased by HK$8.6 million or 112% as compared to that of HK$7.7 million in 1H2014. This change was mainly due to the increase in upfront arrangement fees for term loans.

Income Tax Expense

In 1H2015, the Group's income tax expense amounted to HK$6.7 million, representing an increase of HK$2.1 million or 46% as compared to that of HK$4.6 million for the same period of 2014, mainly due to taxable profits increased in Star, and HK$2.6 million deferred income tax accrual in 1H2015.

Profit for the Period

As a result of the foregoing, the Group's profit in 1H2015 amounted to HK$7.6 million, which has decreased by approximately HK$7.0 million or 48% as compared to HK$14.6 million in the same period of 2014.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company in 1H2015 was HK$8.2 million, which has decreased by HK$5.3 million or 39% as compared to that of HK$13.5 million in the same period of 2014.

Property, Plant and Equipment

Property, plant and equipment normally include items such as oilfield service equipment, buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, construction in progress and plant and machinery. As at 30 June 2015, the Group's property, plant and equipment amounted to HK$858.7 million, which has increased by HK$43.6 million or 5% from HK$815.1 million as at 31 December 2014. The increase was primarily due to the purchase of new equipment for expected business growth in the Middle East and Central Asia.

Intangible Assets

As at 30 June 2015, the Group's intangible assets amounted to HK$523.7 million, representing a decrease of approximately HK$43.6 million as compared to that of HK$567.3 million as at 31 December 2014. It is mainly due to the reclassification of goodwill to assets of disposal group classified as held for sale of a subsidiary of the Group of HK$42.4 million.

Inventories

As at 30 June 2015, the Group's inventories amounted to HK$324.1 million, representing a decrease of HK$43.9 million or 12% as compared to that of HK$368.0 million as at 31 December 2014. The average turnover days of inventories decreased from 591 days in 1H2014 to 485 days in 1H2015. The decrease in inventories was mainly due to the quicker delivery of tools and equipment by the Group to the customers.

Trade Receivables

As at 30 June 2015, the Group's trade receivables amounted to HK$812.7 million, representing an increase of HK$34.3 million or 4% as compared to that of HK$778.4 million as at 31 December 2014. The average turnover days of trade receivables were 346 days in 1H2015, representing a decrease of 188 days as compared to 534 days in 1H2014. The decrease of turnover days was mainly due to enhanced settlement of trade receivables. The Group will continue to put extra efforts to monitor the settlement process of our trade receivables and carefully control the risk exposure in South America.

Trade Payables

As at 30 June 2015, the Group's trade payables were HK$324.5 million, which has increased by HK$12.5 million or 4% as compared to that of HK$312.0 million as at 31 December 2014. The average turnover days of trade payables decreased from 346 days in 1H2014 to 323 days in 1H2015, representing a decrease of 23 days.

Liquidity and Capital Resources

The Group's objectives are to safeguard the Group's ability to continue as a going concern in order to maintain an optimal capital structure and to reduce the cost of capital, while maximising the return to shareholders through improving the debts and equity balance.

As at 30 June 2015, the Group's cash and cash equivalents amounted to HK$93.3 million, representing an increase of HK$38.0 million as compared to HK$55.3 million as at 31 December 2014, which was primarily due to net cash inflows from operating activities, an aggregate deposit of HK$44.3 million received by the Group for disposing 40.1% equity interest in FST and the release of pledged bank deposits of HK$54 million upon repayment of bank borrowings. The cash and cash equivalents were mainly held in HK$, RMB and US$. As at 30 June 2015, the Group had deposits of HK$141.7 million which was pledged in the bank for the Group's borrowings and bidding activities.

As at 30 June 2015, the Group's bank borrowings were HK$386.4 million, and the Group had undrawn facilities of HK$359.9 million under its banking facilities from major banks.

Based on the Group's interim condensed consolidated financial information for the period ended 30 June 2015, the Group breached certain restrictive financial covenant requirements of a term loan amounting to US$20.0 million (equivalent to approximately HK$156.0 million). The breach of the restrictive financial covenants constituted an event of default under the term loan agreement for which the Group has obtained from all the financiers on 25 August 2015 a waiver from complying with such restrictive financial covenants.

As at 30 June 2015, the Group had total bank and other borrowings of approximately HK$533.8 million, of which approximately HK$361.0 million will be due in the coming twelve months. The current bank and other borrowings included current bank borrowings of approximately HK$348.1 million, comprising (i) a term loan of HK$156.0 million that may become immediately repayable due to the aforementioned breach of certain restrictive financial covenants; and (ii) other short-term bank borrowings of HK$192.1 million that have scheduled repayment dates from July 2015 to February 2016. As at 30 June 2015, the Group had cash and cash equivalents and pledged bank deposits of approximately HK$93.3 million and HK$141.7 million, respectively. The Group does not currently have sufficient committed working capital and long-term financings to fund the repayment of the term loan or the short-term bank borrowings on their scheduled repayment dates.

The above conditions indicate the existence of a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company (the "**Directors**") and the Group's management have given careful consideration to the future liquidity and performance of the Group and its available sources of financing to assess whether the Group will have sufficient working capital to fulfill its financial obligations as a going concern.

In the Directors' assessment, they have considered the financing activities that the Group was able to complete during the period ended 30 June 2015, including, (i) completion of a rights issue of the Company's shares (the "**Shares**") that had raised net proceeds of approximately HK$147.9 million in February 2015; (ii) issuance of 3-year 5% convertible bonds in March 2015 that had raised net proceeds of HK$153.9 million to refinance an equivalent amount of bank loan; and (iii) repayment of short-term bank borrowings totalling HK$457.1 million that matured during the first half of 2015. In addition, the Directors also considered a number of measures that the Group has put in place to improve its financial position and alleviate its liquidity pressure, including:

(i) On 31 July 2015, the Group entered into a placing agreement for the issuance of three-year bonds (the "**Bonds**") with a total principal amount of HK$180.0 million. Estimated net proceeds are approximately HK$153.0 million. The final issuance of the Bonds is subject to the fulfilment of certain terms and conditions under the placing agreement;

(ii) On 3 August 2015, the Group entered into certain agreements to dispose of an aggregate of 40.1% equity interest in FST, a 60% owned subsidiary of the Group, for a cash consideration of RMB60.2 million (equivalent to approximately HK$75.2 million) of which approximately HK$44.3 million was received on 30 June 2015. On 17 August 2015, the above disposal was completed and part of the consideration of approximately HK$14.8 million was received on 18 August 2015. The remaining consideration of approximately HK$16.2 million is not due to be paid as of the date of this report and the Group expects to receive this balance by the end of August 2015;

(iii) On 25 August 2015, the Group has obtained from all the financiers of the above term loan of US$20.0 million a waiver from complying with the relevant restrictive financial covenants that the Group has breached. The Group will closely monitor its financial position to ensure the compliance with the relevant financial covenants and undertaking requirements at the end of each reporting period;

(iv) The Group has engaged in on-going discussions with a financier to obtain a long term borrowing facility of up to US$20.0 million (equivalent to approximately HK$156.0 million) to refinance a portion of the current bank borrowings; and

(v) The Group is continuing its efforts to strengthen its working capital position by expediting collection of outstanding trade receivables, diversifying its revenue source to new markets, including in the Middle East and Central Asia, and implementing measures to control capital and operating expenditures.

Charges on Group Assets

As at 30 June 2015, banking facilities of approximately HK$782 million (31 December 2014: HK$1,028 million) were granted by banks to the Group, of which approximately HK$422 million (31 December 2014: HK$749 million) have been utilised by the Group. The facilities are secured by:

(i) certain pledged bank deposits;

(ii) corporate guarantees given by certain Group companies;

(iii) floating charge on all trade receivables of certain subsidiaries of the Company of approximately HK$605 million (31 December 2014: HK$641 million); and

(iv) a building under construction which is included in property, plant and equipment of the Group.

For further information on the charges on the Group's assets, please refer to note 12 to the interim condensed consolidated financial information.

Gearing ratio

As at 30 June 2015, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 13% (31 December 2014: 21%).

Foreign Exchange Risk

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

Contractual Obligations

The Group's contractual obligations include the capital commitments and the payment obligations under operating lease arrangements. The capital commitments mainly represent the purchase of machines and land use rights which amounted to HK$141.6 million as at 30 June 2015. The Group leases various offices, warehouses and a land in Singapore under non-cancellable operating lease agreements. The Group's commitment under operating leases amounted to HK$42.0 million as at 30 June 2015.

Contingent Liabilities

As disclosed in the announcements of the Company dated 29 July 2014 and 8 June 2015, a contracting party of the Group (the "**Contracting Party**") initiated legal proceedings 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 "**Court**") against 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 approximately RMB25,000,000 as damages. The Court has ruled in favour of Petro-king Shenzhen and has dismissed the claims of the Contracting Party, with litigation costs to be borne by the Contracting Party on 1 June 2015. The Contracting Party has filed a petition for appeal. As at 30 June 2015, restricted deposits of HK$6,340,500 are held at bank as reserve under the litigation claim (31 December 2014: HK$6,338,000).

* For identification purpose only

Non-current assets held for sale

On 9 June 2015, FST, an indirectly owned subsidiary of the Company, the management shareholders of FST and Petro-king Shenzhen, entered into memoranda of understanding ("**MOUs**") with three intended purchasers, pursuant to which Petro-king Shenzhen intended to sell an aggregate of 40.1% equity interest in FST to the purchasers for an aggregate consideration of RMB60,150,000 (equivalent to approximately HK$75,188,000) in cash. FST together with its wholly-owned subsidiaries (the "**Disposal Group**") are engaged in the manufacturing and sales of tools and equipment in China. The relevant assets related to the Disposal Group have been presented as held for sale in the interim condensed consolidated financial information following the board of Directors' (the "**Board**")approval of the disposal of such equity interest and disposal agreements were entered into between Petro-king Shenzhen and each of the purchasers on 3 August 2015.

Off-balance Sheet Arrangements

As at 30 June 2015, the Group did not have any off-balance sheet arrangements (31 December 2014: Nil).

LOAN AGREEMENT WITH SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

On 25 September 2014, the Company, Petro-king International Co., Limited (as borrowers and corporate guarantors), Petro-king Holding Limited (as corporate guarantor), both wholly owned subsidiaries of the Company and two banks entered into a 3-year term loan facility agreement (the "**Loan Agreement**") of up to an aggregate amount of US$40 million (the "**Term Loan**").

Pursuant to the Loan Agreement, one of the events of default is that King Shine Group Limited, a controlling shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 20% of the equity interest in the Company during the term of the Term Loan. On and at any time after the occurrence of an event of default, the banks may (i) cancel the commitments of the lenders and reduce them to zero, (ii) cancel any part of the commitments of the lenders and reduce them accordingly, (iii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable, and/or (iv) declare that all or part of the loans be payable on demand.

OTHER INFORMATION

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 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. 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 to 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.

EVENTS AFTER REPORTING PERIOD

(a) Placing of bonds

On 31 July 2015, the Company entered into a placing agreement for the issuance of three year bonds for an aggregate principal amount of up to HK$180,000,000 with an interest rate of 5.5% per annum.

The final issuance of the bonds is subject to the fulfilment of certain terms and conditions under the placing agreement. The Company intends to use the net proceeds to repay part of its outstanding bank borrowings.

(b) Disposal of 40.1% equity interest in FST and grant of buy-back options

On 3 August 2015, Petro-king Shenzhen entered into agreements with the purchasers to dispose of an aggregate of 40.1% of equity interest in FST for an aggregate cash consideration of RMB60,150,000 (equivalent to approximately HK$75,188,000) of which approximately HK$44,257,000 was received as at 30 June 2015. On 17 August 2015, the above disposal was completed and part of the consideration of approximately HK$14,750,000 was received on 18 August 2015. The remaining consideration of approximately HK$16,181,000 is not due to be paid as of the date of this report and the Group expects to receive this balance by the end of August 2015. The Group's equity interest in FST was reduced from 60% to 19.9% and FST ceased to be a subsidiary of the Group upon the completion of the disposal.

The net proceeds from the disposal are estimated to be approximately RMB59,500,000 (equivalent to approximately HK$74,375,000). The Group has undertaken to apply half of the entire net proceeds from the disposal to repay outstanding amounts of the Term Loan pursuant to the waiver obtained from the financiers of the Term Loan on 25 August 2015. The remaining will be used for general working capital of the Group.

Pursuant to the agreements, certain purchasers may request Petro-king Shenzhen to buy back all or part of its equity interest in FST if certain conditions are not fulfilled within two years following the execution of the agreements (the "**Buy-back Options**").

As a result of the disposal, the Company estimates a gain of approximately RMB18,600,000 (equivalent to approximately HK$23,250,000) being the difference between the consideration and the unaudited carrying value of FST as at 30 June 2015 before taking into account the Buy-back Options.

(c) Waivers obtained for the Term Loan

On 31 July 2015 and 25 August 2015, the Group has obtained waivers from all the financiers of the Term Loan in respect of the disposal of equity interest in FST, the incurrence of additional financial indebtedness arising from the issuance of the Bonds and those restrictive financial covenants that the Group has breached. Under the terms of the waivers, the Group is required and has agreed to apply half of the net proceeds from the disposal of equity interest in FST and the entire net proceeds from the issuance of the Bonds to partially repay the Term Loan.

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

For the six months ended 30 June 2015, 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 2015 (six months ended 30 June 2014: Nil).

USE OF PROCEEDS

(i) Use of proceeds from the initial public offering

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 2015, HK$762.5 million was applied in accordance with proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 22 February 2013, and HK$273.8 million was used in the acquisition of a range of production enhancement related tools and equipments, HK$169.2 million was used in the construction of the Huizhou Base, HK$136.9 million was used in the investment in the Group's research and development in new services and technologies, while the rest was used in the enhancement of regional offices in China and overseas and daily operation.

(ii) Use of proceeds from a rights issue

On 4 February 2015, the Group completed the rights issue of 154,341,411 ordinary shares of the Company at HK$0.98 per rights share and obtained net proceeds of HK$147,930,000.The Company used the net proceeds from the rights issue as to approximately HK$18.0 million for the purchase of oilfield services equipment, as to approximately HK$50.0 million for the repayment of bank borrowings, as to approximately HK$30.0 million for settlement of purchase of tools and materials and the remaining for daily operation.

(iii) Use of proceeds from issuance of convertible bonds

On 30 March 2015, the Company issued 3-year 5% convertible bonds in the aggregate principal amount of HK$157,000,000. The net proceeds from issuance of the convertible bonds is HK$153,860,000 and were used for partial repayment of the Term Loan.

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 consists 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 2015, 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)*	376,092,414(L)	30.46%
	Beneficial owner *(Note 4)*	102,173(L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	376,274,104(L)	30.47%
	Beneficial owner *(Note 4)*	102,173(L)	0.01%
Mr. Ko Po Ming	Beneficial owner *(Note 4)*	1,245,030(L)	0.10%
Mr. Zhao Jindong	Beneficial owner *(Note 4)*	2,602,173(L)	0.21%
Ms. Ma Hua	Beneficial owner *(Note 4)*	102,173(L)	0.01%
Mr. He Shenghou	Beneficial owner *(Note 4)*	102,173(L)	0.01%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	102,173(L)	0.01%
Mr. Wong Lap Tat Arthur	Beneficial owner *(Note 4)*	102,173(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 30.46% 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 Lee & Leung Family Investment Limited, which is wholly owned 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, a non-executive Director) 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, Lee & Leung Family Investment 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 and were adjusted to 102,173 share options after the completion of the rights issue of the Company on 4 February 2015. 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 2015, 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 2015, 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)*	376,274,104(L)	30.47%
HSBC International Trustee Limited	Trustee *(Note 2)*	376,274,104(L)	30.47%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 2)*	376,274,104(L)	30.47%
Lee & Leung (B.V.I.) Limited	Interest in a controlled corporation *(Note 2)*	376,274,104(L)	30.47%
Termbray Industries	Interest in a controlled corporation *(Note 2)*	376,274,104(L)	30.47%
Termbray Electronics (BVI)	Interest in a controlled corporation *(Note 2)*	376,274,104(L)	30.47%
Termbray Natural Resources	Beneficial owner	376,274,104(L)	30.47%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.01%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.01%

Name of shareholder	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of shareholding in the Company
Exceltop Holdings Limited	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.01%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.01%
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner	74,242,724(L)	6.01%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	376,194,587(L)	30.47%
King Shine	Beneficial owner	376,092,414(L)	30.46%
UBS AG	Beneficial owner	670,857(L) 670,857(S)	0.05% 0.05%
	Person having a security interest in shares *(Note 5)*	70,093,285(L)	5.68%
UBS Group AG	Person having a security interest in shares *(Note 5)*	70,093,285(L)	5.68%
	Interest in a controlled corporation *(Note 5)*	670,857(L) 670,857(S)	0.05% 0.05%
Greenwoods Asset Management Holdings Limited	Interest in a controlled corporation *(Note 6)*	62,824,713(L)	5.08%
Greenwoods Asset Management Limited	Interest in a controlled corporation *(Note 6)*	62,824,713(L)	5.08%
Jiang Jinzhi	Interest in a controlled corporation *(Note 6)*	62,824,713(L)	5.08%
Unique Element Corp.	Interest in a controlled corporation *(Note 6)*	62,824,713(L)	5.08%

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 Lee & Leung Family Investment Limited, which is wholly owned 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, a non-executive Director) 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, Lee & Leung Family Investment 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 Exceltop 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. Therefore, TCL Corporation, TCL HK, Exceltop Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of Shares held by Jade Win 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.

5. Information is extracted from the corporate substantial shareholder notices filed by UBS Group AG and UBS AG on 9 February 2015, respectively, pursuant to which the interest should include 83,857 shares in long position and 83,857 shares in short position, which were held in cash settled listed derivatives, and 587,000 shares in short position, which were held in cash settled unlisted derivatives.

6. Information is extracted from the individual substantial shareholder notice filed by Jiang Jinzhi on 5 February 2015, and the corporate substantial shareholder notices filed by Unique Element Corp., Greenwoods Asset Management Holdings Limited and Greenwoods Asset Management Limited on 5 February 2015, respectively.

Save as disclosed above, as at 30 June 2015, 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 (the "**Adoption Date**") (as supplemented and amended by an addendum on 25 September 2012). As at 30 June 2015, 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 2015:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2015	Options granted since 1 January 2015	Options exercised since 1 January 2015	Options lapsed/ cancelled since 1 January 2015	Options outstanding as at 30 June 2015
Employees and senior management *(Note 1)*								
Group A	20 December 2010 (as supplemented and amended on 25 September 2012)	0.7617 *(Note 2)*	N/A	1,924,273	–	–	–	1,966,100 *(Note 2)*
Group C	20 December 2010 (as supplemented and amended on 25 September 2012)	1.0668 *(Note 2)*	N/A	371,214	–	–	–	379,283 *(Note 2)*
Total				2,295,487	–	–	–	2,345,383 *(Note 2)*

Note:

1. The grantees are divided into different groups according to the date of joining the Group.

2. The exercise price and number of outstanding share options were adjusted after the completion of the rights issue of the Company on 4 February 2015. Please refer to the section headed "Adjustment to the share options under the Pre-IPO Share Option Scheme and the Share Option Scheme" of this report.

(1) Purpose

The purpose of the Pre-IPO Share Options Scheme is to attract, retain and motivate full-time employees and the Directors to contribute to the listing of the Shares on the Stock Exchange and/or strive for future developments and expansion of the Group. The Pre-IPO 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.

(2) Eligible participants

Our Board may, in its discretion, select any full-time employee and director of the Group, to participate in the Pre-IPO Share Option Scheme. The participants are divided into different groups according to the date of joining of the Group.

(3) Total number of shares available for issue

The total number of Shares which may be issued upon exercise of all options to be granted under the Pre-IPO 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 and 8% of the issued Shares as at the date of this report.

(4) The maximum entitlement of each eligible participant

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.

The Board was entitled at any time after the Adoption Date but in any event on or prior to 31 December 2010 to make an offer of the grant of an option to any participant and the Board may in its absolute discretion impose any conditions, restrictions or limitations in relation to the options, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the Pre-IPO Share Option Scheme.

(5) Option period

The share options shall be exercised within 5 years from the date on which the offer of the grant of an option is made provided that the grantee has been a participant on the date of exercise.

(6) Minimum period for which an option must be held before it is vested

There is no vesting period for options granted under the Pre-IPO Share Option Scheme.

(7) Payment on acceptance of the option

The Pre-IPO Share Option Scheme does not specify any consideration which is payable on the acceptance of an option and the Board may in its absolute discretion impose any conditions, restrictions or limitations in relation to the options, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the Pre-IPO Share Option Scheme.

(8) Basis of determining the exercise price

The exercise price (as adjusted after the completion of the rights issue of the Company dated 4 February 2015) shall be determined by the Board on the basis that (i) HK$0.7617 per Share for Group A Participants and (ii) HK$1.0668 per Share for Group C Participants.

(9) The remaining life of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further options will be granted but in respect of all options which have been granted prior to the end of such period, the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect.

The Directors consider that the values of the share options under the Pre-IPO Share Option Scheme are subject to a number of assumptions and the limitation of the models.

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. For the period ended 30 June 2015, 59,700,000 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 2015:

Set out below are details of the movements of share options during the six months ended 30 June 2015:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant (HK$)	Options outstanding as at 1 January 2015	Options granted since 1 January 2015	Options exercised since 1 January 2015	Options lapsed/ cancelled since 1 January 2015	Options outstanding as at 30 June 2015
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Zhao Jindong	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
	29 May 2015 *(Note 3)*	1.3	1.28	–	2,500,000 *(Note 3)*	–	–	2,500,000
Ko Po Ming	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Lee Tommy	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Ma Hua	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
He Shenghou	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Tong Hin Wor	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Wong Lap Tat Arthur	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Employees and senior managements	29 April 2014	2.5506 *(Note 2)*	2.44	18,600,000	–	– *(Note 1)*	–	19,004,300 *(Note 2)*
	29 May 2015 *(Note 3)*	1.3	1.28	–	57,100,000 *(Note 3)*	– *(Note 4)*	–	57,100,000
Others	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
	29 May 2015	1.3	1.28	–	100,000	– *(Note 4)*	–	100,000
Total				19,500,000	59,700,000	–	–	79,623,857 *(Note 3)*

Notes:

1. 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.

2. For details of the pro-rata adjustment to the exercise price and number of the Shares falling to be issued under the outstanding share options of the Share Option Scheme, please refer to the section headed "Adjustment to the share options under the Pre-IPO Share Option Scheme and the Share Option Scheme" of this interim report.

3. On 29 May 2015, the Group granted an aggregate of 59,700,000 share options under the Share Option Scheme, of which the grant of 17,500,000 share options to Zhao Jindong and certain senior managements is beyond the scheme mandate limit of the Share Option Scheme and is conditional on, inter alia, the approval of the shareholders of the Company in the general meeting. The share options have a validity period of 7 years from 29 May 2015 to 28 May 2022, subject to the vesting conditions as stated in the note 4 below and the provisions for early termination contained in the Share Option Scheme. For further details, please refer to the announcement of the Company dated 29 May 2015.

4. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 29 May 2016 to 28 May 2022, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 29 May 2017 to 28 May 2022, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 29 May 2018 to 28 May 2022, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 29 May 2019 to 28 May 2022, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 29 May 2020 to 28 May 2022, both dates inclusive.

Save as disclosed above, at no time during the six months ended 30 June 2015 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.

(1) Purpose

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.

(2) Eligible participants

The Board may, at its discretion, invite:

(i) any executive or non-executive Director including any independent non-executive Director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of the Group;

(iii) any adviser or consultant (in the areas of legal, technical, financial or corporate management) to the Group;

(iv) any provider of goods and/or services to the Group; or

(v) any other person who the Board considers, in its sole discretion, has contributed to the Group to take up the share options.

In determining the basis of eligibility of each participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(3) Total number of shares available for issue

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 and 8% of the issued Shares as at the date of this report.

(4) The maximum entitlement of each eligible participant

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.

(5) Option period

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.

(6) Minimum period for which an option must be held before it is vested

Unless otherwise determined by the Board and specified in the offer letter at the time of the offer of the share option, there are neither any performance targets that need to be achieved by the grantee before a share option can be exercised nor any minimum period for which a share option must be held before the share 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 share options impose any conditions, restrictions or limitations in relation to the share option as it may at its absolute discretion think fit.

(7) Payment on acceptance of the option

Offer of a share option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the share option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company within 28 days from the date of the offer.

(8) Basis of determining the exercise price

The exercise price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the participant and shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which a share option is granted, and (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date on which a share option is granted.

(9) The remaining life of the Share Option Scheme

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further share options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

The Directors consider that the values of the share options are subject to a number of assumptions and the limitation of the models.

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

ADJUSTMENT TO THE SHARE OPTIONS UNDER THE PRE-IPO SHARE OPTION SCHEME AND THE SHARE OPTION SCHEME

On 4 February 2015, the Group completed the Rights Issue of 154,341,411 ordinary shares of the Company at HK$0.98 per right share and obtained net proceeds of HK$147,930,000. As a result of the Rights Issue, pursuant to the terms of the Pre-IPO Share Option Scheme and the Share Option Scheme, adjustments may be required to be made to the exercise prices of and/or the number of the Shares falling to be issued under the outstanding share options of the Pre-IPO Share Option Scheme and the Share Option Scheme respectively.

The Company has calculated the necessary adjustments to the exercise prices of and the number of the Shares falling to be issued under the outstanding share options in accordance with the terms of the Pre-IPO Share Option Scheme and the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules. The adjustments to the exercise prices of and the number of the Shares falling to be issued under the outstanding share options of the Pre-IPO Share Option Scheme and the Share Option Scheme respectively are as follows and will become effective from 4 February 2015 upon the allotment and issue of the rights shares pursuant to the Rights Issue:

	Immediately prior to the adjustments as a result of completion of the Rights Issue		Immediately after the adjustments as a result of completion of the Rights Issue	
	Number of outstanding share options	**Exercise price per Share (HK$)**	**Adjusted number of outstanding share options**	**Adjusted exercise price per Share (HK$)**
Pre-IPO Share Option Scheme (Group A Participant)	1,924,273	0.7783	1,966,100	0.7617
Pre-IPO Share Option Scheme (Group C Participant)	371,214	1.09	379,283	1.0668
Share Option Scheme (Granted on 29 April 2014)	19,500,000	2.606	19,923,857	2.5506

The Company's auditor certified in writing that such pro-rata adjustments are in accordance with the terms of the Pre-IPO Share Option Scheme and the Shares Option Scheme and the supplementary guidance regarding the adjustment of share options under Rule 17.03(13) of the Listing Rules.

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

Hong Kong, 27 August 2015

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF 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 46 to 92, which comprises the interim condensed consolidated balance sheet of Petro-king Oilfield Services Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2015 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 this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this 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".

Emphasis of matter

We draw your attention to Note 2.2 to the unaudited interim condensed consolidated financial information, which states that the Group breached certain financial covenant requirements of a term loan amounting to US$20,000,000 as at 30 June 2015. This condition, along with other matters as described in Note 2.2 to the unaudited interim condensed consolidated financial information, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not qualified in respect of this matter.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2015

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2015 HK$	Audited As at 31 December 2014 HK$
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**858,710,252**	815,108,065
Intangible assets	*8*	**523,667,771**	567,312,381
Land use rights	*8*	**27,353,006**	27,624,161
Other receivables and prepayments	*9(b)*	**153,097,128**	142,610,890
Deferred tax assets		**11,865,414**	11,110,957
		1,574,693,571	1,563,766,454
Current assets			
Inventories		**324,083,717**	367,967,129
Trade receivables	*9(a)*	**812,682,212**	778,448,845
Other receivables, deposits and prepayments	*9(b)*	**112,598,151**	170,989,049
Current income tax recoverable		**19,024,033**	19,092,871
Pledged bank deposits		**141,703,341**	200,153,654
Restricted bank balance		**6,340,500**	6,338,000
Cash and cash equivalents		**93,280,987**	55,338,593
		1,509,712,941	1,598,328,141
Assets of disposal group classified as held for sale	*23(a)*	**214,960,241**	–
		1,724,673,182	1,598,328,141
Total assets		**3,299,366,753**	3,162,094,595
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*10*	**1,806,117,323**	1,658,187,323
Other reserves		**90,042,828**	51,761,281
Retained earnings		**49,853,728**	41,679,117
		1,946,013,879	1,751,627,721
Non-controlling interests		**42,730,434**	43,300,306
Total equity		**1,988,744,313**	1,794,928,027

	Note	Unaudited As at 30 June 2015 HK$	Audited As at 31 December 2014 HK$
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*12*	**172,838,164**	36,784,340
Deferred tax liabilities		**22,055,394**	18,673,478
		194,893,558	55,457,818
Current liabilities			
Trade payables	*11(a)*	**324,450,137**	312,042,125
Other payables and accruals	*11(b)*	**330,343,626**	274,793,350
Current income tax liabilities		**10,855,202**	12,174,721
Bank and other borrowings	*12*	**361,005,159**	712,698,554
		1,026,654,124	1,311,708,750
Liabilities of disposal group classified as held for sale	*23(b)*	**89,074,758**	–
		1,115,728,882	1,311,708,750
Total liabilities		**1,310,622,440**	1,367,166,568
Total equity and liabilities		**3,299,366,753**	3,162,094,595
Net current assets		**608,944,300**	286,619,391
Total assets less current liabilities		**2,183,637,871**	1,850,385,845

The notes on pages 54 to 92 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2015 HK$	 2014 HK$
Revenue	*7*	**416,350,989**	353,281,044
Other income		**–**	353,145
Operating costs			
Material costs		**(129,268,930)**	(94,886,376)
Depreciation of property, plant and equipment	*8*	**(44,571,321)**	(19,334,564)
Amortisation of intangible assets and land use rights	*8*	**(1,022,612)**	(782,902)
Operating lease rental		**(9,712,954)**	(8,234,832)
Employee benefit expenses		**(87,901,412)**	(93,063,412)
Distribution expenses		**(5,085,080)**	(7,843,420)
Technical service fees		**(48,918,190)**	(35,976,198)
Research and development expenses		**(5,513,141)**	(8,201,274)
Entertainment and marketing expenses		**(6,751,217)**	(10,073,176)
Provision for impairment of trade receivables, net		**(2,829,805)**	–
Other expenses	*13*	**(45,397,283)**	(42,980,898)
Other gains/(losses), net	*14*	**1,220,265**	(5,341,101)
Operating profit		**30,599,309**	26,916,036
Finance income		**12,030,852**	3,647,418
Finance costs		**(28,379,780)**	(11,317,974)
Finance costs, net	*16*	**(16,348,928)**	(7,670,556)
Profit before income tax		**14,250,381**	19,245,480
Income tax expense	*17*	**(6,662,962)**	(4,648,126)
Profit for the period		**7,587,419**	14,597,354
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		**3,184,621**	12,758,738
Total comprehensive income for the period		**10,772,040**	27,356,092

	Note	Unaudited Six months ended 30 June 2015 HK$	2014 HK$
Profit/(loss) for the period attributable to:			
Owners of the Company		**8,174,611**	13,479,233
Non-controlling interests		**(587,192)**	1,118,121
		7,587,419	14,597,354
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		**11,341,912**	26,412,231
Non-controlling interests		**(569,872)**	943,861
		10,772,040	27,356,092
Earnings per share attributable to owners of the Company during the period	*18*		(As restate)
Basic earnings per share (HK cent)		**1**	1
Diluted earnings per share(HK cent)		**1**	1

The notes on pages 54 to 92 form 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 2015	**1,658,187,323**	**51,761,281**	**41,679,117**	**1,751,627,721**	**43,300,306**	**1,794,928,027**
Total comprehensive income/(loss) for the period ended 30 June 2015	**–**	**3,167,301**	**8,174,611**	**11,341,912**	**(569,872)**	**10,772,040**
Total transactions with owners, recognised directly in equity						
Issuance of ordinary shares from rights issue *(Note 10)*	**147,930,000**	**–**	**–**	**147,930,000**	**–**	**147,930,000**
Issuance of convertible bonds *(Note 12)*	**–**	**28,462,140**	**–**	**28,462,140**	**–**	**28,462,140**
Recognition of share-based payment	**–**	**6,652,106**	**–**	**6,652,106**	**–**	**6,652,106**
Total transactions with owners, recognised directly in equity	**147,930,000**	**35,114,246**	**–**	**183,044,246**	**–**	**183,044,246**
Balance at 30 June 2015	**1,806,117,323**	**90,042,828**	**49,853,728**	**1,946,013,879**	**42,730,434**	**1,988,744,313**

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
Dividend	–	–	(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

The notes on pages 54 to 92 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited Six months ended 30 June	
	Note	**2015** **HK$**	2014 HK$
Cash flows from operating activities			
Cash generated from/(used in) operations		**20,583,051**	(133,691,941)
Interest paid		**(13,899,309)**	(6,155,765)
Income tax paid		**(806,862)**	(16,383,707)
Net cash generated from/(used in) operating activities		**5,876,880**	(156,231,413)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(36,076,980)**	(372,899,571)
Prepayment of property, plant and equipment and land use rights		**–**	(105,595,322)
Purchases of intangible assets		**–**	(387,619)
Deposit received for disposal on equity interest of a subsidiary	*11(b)*	**44,256,690**	–
Proceeds from disposal of property, plant and equipment		**3,144,593**	–
Interest received	*16*	**2,031,222**	2,152,788
Decrease/(increase)in pledged bank deposits		**53,977,919**	(38,571,541)
Net cash generated from/(used in) investing activities		**67,333,444**	(515,301,265)
Cash flows from financing activities			
Proceeds from bank borrowings	*12*	**130,458,642**	441,531,781
Repayments of bank borrowings	*12*	**(457,060,694)**	(58,465,966)
Net proceeds from issuance of convertible bonds	*12*	**153,860,000**	–
Net proceeds from rights issue	*10*	**147,930,000**	–
Net proceeds from issuance of ordinary shares		**–**	11,937,731
Loan from a related party		**–**	100,784,000
Repayment of loans to a related party		**1,720,823**	–
Advance/(repayment of advance) from related parties		**819,511**	(1,012,951)

	Note	Unaudited Six months ended 30 June 2015 HK$	 2014 HK$
Net cash (used in)/generated from financing activities		**(22,271,718)**	494,774,595
Net increase/(decrease) in cash and cash equivalents		**50,938,606**	(176,758,083)
Cash and cash equivalents at beginning of period		**55,338,593**	345,446,842
Exchange gains/(losses) on cash and cash equivalents		**70,484**	(332,950)
Cash and cash equivalents transferred to assets held for sale	*23(a)*	**(13,066,696)**	–
Cash and cash equivalents at end of period		**93,280,987**	168,355,809

The notes on pages 54 to 92 form 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 The Stock Exchange of Hong Kong Limited. This interim condensed consolidated financial information is presented in Hong Kong dollars (HK$), unless otherwise stated.

Key event

On 9 June 2015, the Group entered into memoranda of understanding with three purchasers, pursuant to which the Group intended to sell 40.1% equity interest in a 60% owned subsidiary of the Company together with its wholly-owned subsidiaries to the purchasers with a consideration of RMB60,150,000 (equivalent to approximately HK$75,188,000) in cash. Subsequently, on 3 August 2015, agreements were entered into among the Group and the purchasers to dispose of the interest in the subsidiary (Note 23 and 24).

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2015has 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 2014, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

2.1 Venezuela as a hyperinflationary economy

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

2 BASIS OF PREPARATION (CONTINUED)

2.1 Venezuela as a hyperinflationary economy (Continued)

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 current financial information amounts was carried out using Venezuela's consumer price index ("**INPC**"). The index used to reflect current values is an estimate derived from index published in 2014 and the index was 839.5 as at 31 December 2014. The estimated index used in June 2015 was 1,101.7 and the estimated movement in the period was 31.23%.

Pursuant to this standard, the 2014 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 interim condensed consolidated financial information, all components of the financial information of the Venezuelan subsidiary were translated at the official exchange rate, which at 30 June 2015 was 6.30 Bolivars Fuertes per U.S. dollar (or 1.23 H.K. dollars per Bolivar Fuerte).

As at 30 June 2015, the Group has revaluated the non-monetary assets and liabilities, and the gain derived from the revaluation is reflected as finance income on the interim condensed consolidated statement of comprehensive income of HK$9,999,630 for the six months ended 30 June 2015 (June 2014: HK$1,494,630). The deferred tax liabilities on temporary difference associated with restatement of the non-monetary assets and liabilities amounting to HK$11,432,910 as at 30 June 2015 (31 December 2014: HK$8,033,037).

2.2 Going concern

During the period ended 30 June 2015, the Group reported net profit attributable to owners of approximately HK$8,175,000 (30 June 2014: HK$13,479,000) and operating cash inflow of approximately HK$5,877,000 (30 June 2014: operating cash outflow of approximately HK$156,231,000).

2 BASIS OF PREPARATION (CONTINUED)

2.2 Going concern (Continued)

Based on the Group's interim condensed consolidated financial information for the period ended 30 June 2015, the Group breached certain financial covenant requirements of a term loan amounting to US$20,000,000 (or equivalent to approximately HK$156,000,000). The breach of the restrictive financial covenants constituted an event of default under the term loan agreement for which the Group has obtained from all the financiers on 25 August 2015 a waiver to comply with such restrictive financial covenants.

As at 30 June 2015, the Group had total bank and other borrowings of approximately HK$533,843,000, of which approximately HK$361,005,000 will be due in the coming twelve months. The current bank and other borrowings included current bank borrowings of approximately HK$348,126,000, comprising (i) a term loan of HK$156,000,000 that may become immediately repayable due to the aforementioned breach of certain restrictive financial covenants; and (ii) other short-term bank borrowings of HK$192,126,000 that have scheduled repayment dates from July 2015 to February 2016. As at 30 June 2015, the Group had cash and cash equivalents and pledged bank deposits of approximately HK$93,281,000 and HK$141,703,000, respectively. The Group does not currently have sufficient committed working capital and long-term financings to fund the repayment of the term loan or the short-term bank borrowings on their scheduled repayment dates.

The above conditions indicate the existence of a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company and the Group's management have given careful consideration to the future liquidity and performance of the Group and its available sources of financing to assess whether the Group will have sufficient working capital to fulfill its financial obligations as a going concern.

In the directors' assessment, they have considered the financing activities that the Group was able to complete during the period ended 30 June 2015, including, (i) completion of a rights issue of the Company's shares that had raised net proceeds of approximately HK$147,930,000 in February 2015; (ii) issuance of 3-year 5% convertible bonds in March 2015 that had raised net proceeds of HK$153,860,000 to refinance an equivalent amount of bank loan; and (iii) repayment of short-term bank borrowings totaling HK$457,061,000 that matured during the first half of 2015. In addition, the directors also considered a number of measures that the Group has put in place to improve its financial position and alleviate its liquidity pressure, including:

2 BASIS OF PREPARATION (CONTINUED)

2.2 Going concern (Continued)

(i) On 31 July 2015, the Group entered into a placing agreement for the issuance of three-year bonds ("**Bonds**") with total principal amount of HK$180,000,000. Estimated net proceeds are approximately HK$153,000,000. The final issuance of the Bonds is subject to the fulfilment of certain terms and conditions under the placing agreement (Note 24(a));

(ii) On 3 August 2015, the Group entered into certain agreements to dispose of 40.1% equity interest in Shenzhen Fluid Science & Technology Co., Ltd ("FST"), a 60% owned subsidiary of the Group, for a cash consideration of RMB60,150,000 (equivalent to approximately HK$75,188,000) of which approximately HK$44,257,000 was received on 30 June 2015. On 17 August 2015, the above disposal was completed and part of the consideration of approximately HK$14,750,000 was received on 18 August 2015. The remaining consideration of approximately HK$16,181,000 is not due as of the date of this report and the Group expects to receive this balance by the end of August 2015 (Note 24 (b));

(iii) On 25 August 2015, the Group has obtained from all the financiers of the above term loan of US$20,000,000 a waiver from complying with the relevant restrictive financial covenants that the Group has breached. The Group will monitor closely of its financial position to ensure the compliance with the relevant financial covenants and undertaking requirements at the end of each reporting period;

(iv) The Group has engaged in on-going discussions with a financier to obtain a long term borrowing facility of up to US$20,000,000 (equivalent to approximately HK$156,000,000) to refinance a portion of the current bank borrowings; and

(v) The Group is continuing its efforts to strengthen its working capital position by expediting collection of outstanding trade receivables, diversifying its revenue source to new markets, including in the Middle East and Central Asia, and implementing measures to control capital and operating expenditures.

The directors of the Company have reviewed the Group's cash flow projections prepared by management, which cover a period of twelve months from 30 June 2015. In the opinion of the directors, in light of the above plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2015. Accordingly, the directors consider that it is appropriate to prepare the interim condensed consolidated financial information on a going concern basis.

2 BASIS OF PREPARATION (CONTINUED)

2.2 Going concern (Continued)

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate operating and financing cash flows through (i) securing new bank loans and other sources of financings;(ii)ensuring continuous compliance with the relevant financial covenants and undertaking requirements to maintain these financings; (iii) successful issuance of the Bonds; and (iv) generating adequate operating cash inflows by collecting long-aged receivables from its major customers and realising cash from new sales or service contracts. Should the Group be unable to operate as a going concern, adjustment would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the interim condensed consolidated financial information.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements of the Group for the year ended 31 December 2014, as described in 2014 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.

3.1 Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out as described in the annual financial statements.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

3 ACCOUNTING POLICIES (CONTINUED)

3.1 Non-current assets (or disposal groups) held-for-sale and discontinued operations (Continued)

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

3.2 Compound financial instruments – convertible bonds

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The liability component of a convertible instrument is classified as current unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3.3 New accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards, amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2016. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

3 ACCOUNTING POLICIES (CONTINUED)

3.3 New accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

		Effective for annual periods beginning on or after
Annual Improvements Project	Annual Improvements 2012-2014 Cycle	1 January 2016
IAS 1	Presentation of Financial Statements	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment Entities	1 January 2016
IFRS 10 and IAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 16 and IAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16 and IAS 41 Amendment	Agriculture: Bearer Plants	1 January 2016
IAS 27 Amendment	Equity Method in Separate Financial Statements	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9	Financial Instruments	1 January 2018

The Group is in the process of making an assessment of the impact of these standards, amendments to standards and interpretations on the interim condensed consolidated financial information of the Group in the initial application and does not anticipate that the adoption will result in any material impact on the Group's operating results or financial position.

4 ESTIMATES

The preparation of interim 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 this 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 2014.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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, cash flow interest rate risk and price 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 2014.

There have been no changes in the risk management policies since 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 three months.

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.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.2 Credit risk (Continued)

The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement. Certain customers of the Group experienced deterioration in their credit ratings and worsening off market conditions which indicate increase in the respective credit default risks. In addition, the management has assessed the credit quality of customers on a case-by-case basis, taking into account the financial positions, historical record, amounts and timing of expected receipts and other factors. 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 recoverable future cash flows discounted at the borrowing rate of the relevant debtors.

The Group's consolidated results would be heavily affected by the financial capability of its debtors to fulfill their obligations to the Group. The Group's credit risk monitoring activities relating to the debtors include the review of the credit profile, business prospects, background and their financial capacities. As at 30 June 2015, management has determined to record a provision for doubtful receivable of HK$302,907,595(31 December 2014: HK$297,600,261) which represents the impairment and discounting effect of total receivable due from the Group's certain debtors as disclosed in Note 9.

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 access to debt or equity funding from major financial institutions or investors to meet its liquidity requirements in the short and long term. Details of the Group's liquidity risk exposure and the management's plan to strengthen the Group's financial position and alleviate its liquidity risk are set out in Note 2.2.

5.4 Fair value estimation

The directors considered that the carrying amounts of financial assets and liabilities recorded at amortised cost approximated 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.

6 SEASONAL NATURE OF THE BUSINESS (CONTINUED)

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.

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 2015 and 2014are as follows:

	Six months ended 30 June	
	2015	2014
	HK$	HK$
Oilfield project services		
– Drilling	**125,683,804**	65,945,991
– Well completion	**61,206,903**	29,489,331
– Production enhancement	**73,811,379**	118,082,372
Total oilfield project services	**260,702,086**	213,517,694
Consultancy services	**20,363,226**	64,393,182
Manufacturing and sales of tools and equipment	**135,285,677**	75,370,168
Total revenue	**416,350,989**	353,281,044

7 SEGMENT INFORMATION (CONTINUED)

(a) Revenue (Continued)

The segment information for the six months ended 30 June 2015 and 2014 are as follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
Six months ended 30 June 2015				
Total segment revenue	**260,702,086**	**20,363,226**	**185,247,048**	**466,312,360**
Inter-segment revenue	**–**	**–**	**(49,961,371)**	**(49,961,371)**
Revenue from external customers	**260,702,086**	**20,363,226**	**135,285,677**	**416,350,989**
Segment results	**75,578,133**	**6,338,113**	**40,315,936**	**122,232,182**
Net unallocated expenses				**(107,981,801)**
Profit before income tax				**14,250,381**
Other information:				
Amortisation	**(558,741)**	**–**	**–**	**(558,741)**
Depreciation	**(35,484,546)**	**–**	**(7,035,668)**	**(42,520,214)**
(Provision for)/reversal of provision for impairment of trade receivables	**(7,404,847)**	**1,895,460**	**202,053**	**(5,307,334)**
Income tax expenses	**–**	**–**	**(4,432,167)**	**(4,432,167)**
Six months ended 30 June 2014				
Total segment revenue	213,517,694	64,393,182	93,698,957	371,609,833
Inter-segment revenue	–	–	(18,328,789)	(18,328,789)
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)
Provision for impairment of trade receivables	(1,076,145)	–	–	(1,076,145)
Income tax credit	–	–	404,275	404,275

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)

(a) Revenue (Continued)

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

	Six months ended 30 June	
	2015	2014
	HK$	HK$
Segment results	**122,232,182**	133,426,246
Other income	**–**	353,145
Material costs	**(3,260,256)**	(3,855,669)
Depreciation of property, plant and equipment	**(2,051,107)**	(1,999,856)
Amortisation of intangible assets	**(463,871)**	(170,942)
Operating lease rental	**(5,575,059)**	(5,107,972)
Employee benefit expenses	**(51,418,459)**	(47,932,261)
Distribution expenses	**(5,067,144)**	(7,182,747)
Research and development expenses	**(5,499,311)**	(7,654,517)
Entertainment and marketing expenses	**(4,292,359)**	(8,182,906)
Other expenses	**(19,475,308)**	(23,786,854)
Other gains/(losses), net	**1,220,265**	(5,341,101)
Finance income	**12,030,852**	3,647,418
Finance costs	**(24,130,044)**	(6,966,504)
Profit before income tax	**14,250,381**	19,245,480

The segment results included the material costs, technical service fees, depreciation, amortisation, distribution expenses, operating lease rental, employee benefit expenses, research and development expenses, entertainment and marketing expenses, other expenses, other gains/(losses) and finance income and costs, allocated to each operating segment.

7 SEGMENT INFORMATION (CONTINUED)

(b) Assets

The segment assets as at 30 June 2015 areas follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
As at 30 June 2015				
Segment assets	**2,178,867,265**	**65,754,249**	**559,195,639**	**2,803,817,153**
Unallocated assets				**283,830,884**
Assets of disposal group classified as held for sale *(Note 23(a))*				**214,960,241**
Total assets				**3,302,608,278**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**56,133,967**	**–**	**19,779,155**	**75,913,122**

The segment assets as at 31 December 2014 areas follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
As at 31 December 2014				
Segment assets	2,025,872,905	187,922,752	618,787,126	2,832,582,783
Unallocated assets				329,511,812
Total assets				3,162,094,595
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	542,423,387	–	133,168,841	675,592,228

7 SEGMENT INFORMATION (CONTINUED)

(b) Assets (Continued)

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 rights, intangible assets, deferred tax assets, inventories, trade receivables, other receivables, deposits and prepayments, pledged bank deposits, restricted bank balance and cash and cash equivalents.

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

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Segment assets for reportable segments	**2,803,817,153**	2,832,582,783
Unallocated assets		
– Property, plant and equipment	**12,738,248**	20,024,511
– Intangible assets	**1,220,273**	1,452,353
– Other receivables, deposits and prepayments	**35,948,580**	40,534,950
– Deferred tax assets	**8,778,549**	8,052,118
– Current income tax recoverable	**19,024,033**	19,092,871
– Pledged bank deposits	**133,043,800**	192,470,062
– Restricted bank balance	**6,340,500**	6,338,000
– Cash and cash equivalents	**66,736,901**	41,546,947
	283,830,884	329,511,812
Assets of disposal group classified as held for sale *(Note 23(a))*	**214,960,241**	–
Total assets per consolidated balance sheet	**3,302,608,278**	3,162,094,595

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

	Property, Plant and equipment HK$	Intangible assets HK$	Land use right HK$
Six months ended 30 June 2015			
Net book value			
Opening amount as at 1 January 2015	**815,108,065**	**567,312,381**	**27,624,161**
Additions	**90,406,952**	**–**	**–**
Depreciation and amortisation	**(44,571,321)**	**(741,339)**	**(281,273)**
Monetary correction for hyperinflation	**5,786,688**	**–**	**–**
Disposals	**(3,621,811)**	**–**	**–**
Transferred to assets held for sale *(Note 23(a))*	**(3,152,388)**	**(42,381,530)**	**–**
Exchange differences	**(1,245,933)**	**(521,741)**	**10,118**
Closing amount as at 30 June 2015	**858,710,252**	**523,667,771**	**27,353,006**
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	–	–
Capitalisation in construction in progress	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

9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Trade receivables	**1,115,589,807**	1,076,049,106
Less: Provision for impairment of trade receivables	**(302,907,595)**	(297,600,261)
Trade receivables – net	**812,682,212**	778,448,845

At 30 June 2015 and 31 December 2014, ageing analysis of net trade receivables by services completion and delivery date are as follows:

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Up to 3 months	**274,718,992**	269,704,801
3 to 6 months	**96,136,674**	135,672,822
6 to 12 months	**165,528,809**	155,834,040
Over 12 months	**276,297,737**	217,237,182
Trade receivables - net	**812,682,212**	778,448,845

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 of 90 days after invoice date to its customers.

Management has assessed the credit quality of customers on a case-by-case basis, taking into account the financial positions, historical record, amounts and timing of expected receipts and other factors. For customers with higher inherent credit risk, the Group increases the price premium of the transactions to manage the risk. The Group has reviewed the credit risk exposure and the customers' pattern of settlement on a timely basis.

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

(a) Trade receivables (Continued)

Certain customers of the Group experienced significant and rapid deterioration in the credit ratings as well as other market parameters which indicated an increase in the credit default risk. Based on the above at period end, management has determined to record a provision for impairment of trade receivables as at 30 June 2015 amounting to HK$302,907,595 (31December 2014: HK$297,600,261) which represents the reversal of the impairment, provision for impairment and discounting effect of total receivables due from the Group's certain debtors. Movement on the Group's allowance for impairment of trade receivables are as follows:

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Opening amount as at 1 January 2015, 2014	**297,600,261**	7,124,977
Provision for impairment	**20,858,590**	290,475,284
Reversal of provision for impairment	**(15,551,256)**	–
Closing amount	**302,907,595**	297,600,261

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

(b) Other receivables, deposits and prepayments

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Deposits	**13,062,628**	10,977,563
Receivables on land bidding in the PRC	**5,072,400**	5,070,400
Value-added tax recoverable	**94,808,141**	97,343,868
Rental deposits	**2,023,704**	2,462,637
Cash advances to staff	**16,623,384**	11,325,954
Loans to staff	**3,288,688**	6,447,880
Other receivables – related parties	**4,116,167**	5,704,200
Prepayments for materials	**26,371,329**	66,355,293
Prepayments for rents and others	**9,371,851**	7,572,270
Prepayment for land use rights	**6,175,647**	6,173,212
Prepayment for property, plant and equipment	**84,781,340**	94,166,662
	265,695,279	313,599,939
Less:		
Non-current value-added tax recoverable	**(62,140,141)**	(42,271,016)
Non-current prepayment for land use rights	**(6,175,647)**	(6,173,212)
Non-current prepayment for property, plant and equipment	**(84,781,340)**	(94,166,662)
Non-current portion	**(153,097,128)**	(142,610,890)
Current portion	**112,598,151**	170,989,049

10 SHARE CAPITAL

	Number of Shares	Total HK$
Issued and fully paid:		
At 1 January 2015	1,080,389,883	1,658,187,323
Rights issue of ordinary shares *(Note)*	154,341,411	147,930,000
At 30 June 2015	1,234,731,294	1,806,117,323
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

Note:

On 4 February 2015, the Group completed the rights issue ("**Rights Issue**") of 154,341,411 ordinary shares of the Company at HK$0.98 per rights share and obtained net proceeds of HK$147,930,000.

11 TRADE AND OTHER PAYABLES AND ACCRUALS

(a) Trade payables

As at 30 June 2015 and 31 December 2014, the ageing analysis of the trade payables based on invoice date areas follows:

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Up to 3 months	**95,004,451**	133,696,261
3 to 6 months	**55,100,010**	64,584,453
6 to 12 months	**94,614,463**	60,816,648
Over 12 months	**79,731,213**	52,944,763
	324,450,137	312,042,125

11 TRADE AND OTHER PAYABLES AND ACCRUALS (CONTINUED)

(b) Other payables and accruals

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Other payables		
– Third parties	**159,939,277**	147,980,692
– Related parties	**21,799,588**	20,847,287
Deposit received on disposal of equity interest of a subsidiary	**44,256,690**	–
Receipts in advance	**55,763,989**	49,080,454
Accrued expenses – Payroll and staff welfare	**31,505,975**	33,376,974
Value-added tax payable	**2,806,790**	10,882,119
Other tax and surcharge payables	**14,271,317**	12,625,824
	330,343,626	274,793,350

12 BANK AND OTHER BORROWINGS

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Non-current		
Bank borrowings *(Note a)*	**38,297,704**	36,784,340
Finance lease liabilities *(Note b)*	**12,241,808**	–
Convertible bonds – liability component *(Note c)*	**122,298,652**	–
	172,838,164	36,784,340
Current		
Bank borrowings *(Note a)*	**348,126,448**	400,637,878
Non-current borrowings reclassified as current *(Note a)*	**–**	312,060,676
Finance lease liabilities *(Note b)*	**5,511,592**	–
Convertible bonds – liability component *(Note c)*	**7,367,119**	–
	361,005,159	712,698,554
	533,843,323	749,482,894

12 BANK AND OTHER BORROWINGS (CONTINUED)

Movements in bank and other borrowings are analysed as follows:

	HK$
Six months ended 30 June 2015	
Opening amount as at 1 January 2015	**749,482,894**
Proceeds from borrowings	**130,458,642**
Repayments of borrowings	**(457,060,694)**
Transferred to liabilities held for sale *(Note 23(b))*	**(35,506,800)**
Convertible bonds – liability component *(Note (i))*	**129,665,771**
Finance lease liabilities	**17,753,400**
Exchange differences	**(949,890)**
Closing amount as at 30 June 2015	**533,843,323**
Six months ended 30 June 2014	
Opening amount 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

Note (i): The movements of convertible bonds are shown in the session of convertible bonds (Note (c)).

(a) Bank borrowings

Pursuant to the requirements set out in a term loan agreement dated 25 September 2014, the Group is obliged to comply with restrictive financial covenants and certain undertakings, including not to incur additional financial indebtedness by the Group in relation to the relevant term loan (the "**Term Loan**"). As at 31 December 2014, the Term Loan amounting to US$40,000,000(equivalent to HK$312,000,000), which has scheduled repayment dates from 2015 to 2017.The Group is required to file a compliance certificate and to supply to the financiers audited financial statements for the year ended 31 December 2014. Based on the Group's financial statements for the year ended 31 December 2014, the Group has breached certain of these restrictive financial covenants. The breach of the restrictive financial covenants constituted events of default under the Term Loan agreement, which may cause the relevant Term Loan of HK$312,000,000 to become immediately repayable. In this connection, the Group has classified the entire HK$312,000,000 outstanding balance of the Term Loan under current liabilities.

12 BANK AND OTHER BORROWINGS (CONTINUED)

(a) Bank borrowings (Continued)

On 25 March 2015, the Group has obtained a waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached and the breach of incurrence of additional financial indebtedness arising from the proposed issuance of the convertible bonds. Under the terms of the waiver, the Group has agreed and repaid half of the term loan of US$20,000,000 (equivalent to approximately HK$156,000,000). The financiers have agreed to defer the due date of the remaining outstanding principal of the Term Loan to 31 January 2016 and the Group has classified the remaining balance of approximately HK$156,000,000 under current liabilities.

Based on the Group's interim condensed consolidated financial information for the period ended 30 June 2015, the Group breached certain financial covenant requirements of the Term Loan. The breach of the restrictive financial covenants constituted events of default under the Term Loan agreement, which may cause the relevant Term Loan of HK$156,000,000, which was scheduled to be repaid on 31 January 2016,to become immediately repayable. On 25 August 2015, the Group has obtained a waiver from all the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached.

The Group has the following undrawn banking facilities:

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Floating rate		
– Expiring within one year	**359,885,000**	63,380,000
– Expiring beyond one year	**–**	215,492,000
	359,885,000	278,872,000

As at 30 June 2015, banking facilities of approximately HK$782 million (31 December 2014: HK$1,028 million) were granted by banks to the Company and its subsidiaries, of which approximately HK$422million (31 December 2014: HK$749 million) have been utilised by the Company and its subsidiaries. The facilities are secured by:

(i) certain pledged bank deposits;

(ii) corporate guarantees given by certain Group companies;

(iii) floating charge on all trade receivables of certain subsidiaries of the Company of approximately HK$605million (31 December 2014: HK$641 million); and

(iv) a building under construction which is included in property, plant and equipment of the Group.

12 BANK AND OTHER BORROWINGS (CONTINUED)

(b) Finance lease liabilities

The rights to the leased assets are reverted to the lessor in the event of default of the lease liabilities by the Group.

	30 June 2015 HK$
Gross finance lease liabilities – minimum lease payments	
No later than 1 year	**6,575,215**
Later than 1 year and no later than 5 years	**13,150,430**
	19,725,645
Future finance charges on finance leases	**(1,972,245)**
Present value of finance lease liabilities	**17,753,400**
The present value of finance lease liabilities is as follows:	
No later than 1 year	**5,511,592**
Later than 1 year and no later than 5 years	**12,241,808**
	17,753,400

As at 30 June 2015, finance lease liabilities were secured by certain machineries of the Group amounting to HK$17,753,400 (2014: Nil).

(c) Convertible bonds

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Convertible bonds	**129,665,771**	–

On 30 March 2015, the Company issued convertible bonds at a par value of HK$157,000,000, bearing interest at the rate of 5% per annum and payable semi-annually in arrears. The net proceeds of the convertible bonds is HK$153,860,000. The maturity date of the convertible bonds will be on 30 March 2018. The holder has the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK$1.39 per conversion share at any period commencing from 6 months after the date of issuance of the convertible bonds and up to the close of business on the maturity date. The values of the liability component and the equity conversion component were determined at the completion of the convertible bonds.

12 BANK AND OTHER BORROWINGS (CONTINUED)

(c) Convertible bonds (Continued)

The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 13.6% which is based on market interest rates for a number of comparable convertible bonds denominated in US$ and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair value of the liability component and is included in other reserves in equity.

The convertible bonds recognised is calculated as follows:

	HK$
Net proceeds of convertible bonds issued on 30 March 2015	**153,860,000**
Equity component	**(28,462,140)**
Liability component at initial recognition at 30 March 2015	**125,397,860**
Interest expenses *(Note 16)*	**4,267,911**
Liability component at 30 June 2015	**129,665,771**
Less: Non-current convertible bond – liability component	**(122,298,652)**
Current portion	**7,367,119**

13 OTHER EXPENSES

	Six months ended 30 June	
	2015	2014
	HK$	HK$
Auditor's remuneration	**587,410**	571,119
Communications	**836,808**	945,356
Professional service fees	**2,716,754**	3,668,057
Motor vehicle expenses	**2,671,514**	2,500,259
Travelling	**11,915,808**	14,124,566
Insurance	**1,274,836**	1,234,433
Office utilities	**7,255,042**	9,315,746
Other tax-related expenses and custom duties *(Note (i))*	**4,603,559**	4,177,930
Bank charges	**1,677,803**	1,527,913
Provision for impairment of inventories *(Note (ii))*	**5,552,824**	1,246,753
Others	**6,304,925**	3,668,766
	45,397,283	42,980,898

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

Note (ii): As at 30 June 2015, assembling materials with cost of HK$5,552,824 were considered as obsolete (30 June 2014: HK$1,246,753).

14 OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2015	2014
	HK$	HK$
Foreign exchange gains/(losses)	**1,036,721**	(5,266,133)
Loss on disposals of property, plant and equipment	**(477,218)**	(74,968)
Others	**660,762**	–
	1,220,265	(5,341,101)

15 SHARE-BASED PAYMENTS

The Company adopted two share option schemes (the "**Schemes**"), namely the pre-IPO share option scheme ("**Pre-IPO Share Option Scheme**") and share option scheme ("**Share Option Scheme**").

The purposes of the Schemes are to attract, retain and motivate the grantees to strive for future developments and expansion of the Group. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme.

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was approved and adopted on 20 December 2010, 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.

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. Share options were granted to selected senior management and employees of the Company.

The Pre-IPO Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme. There is no vesting period for the Pre-IPO Share Option Scheme and it is exercisable within 5 years from the date of grant. All the outstanding options are exercisable and will be expired in December 2015.

The fair value of options granted determined by using the Binomial model ranges from HK$24,411 to HK$34,141 per option (after capitalisation issue: from HK$0.33 to HK$0.46 per option). The significant inputs into the model were weighted average exercise price of HK$65,649 (after capitalisation issue: HK$0.88), volatility of 47%, dividend yield of 1%, expected option life of 5 years and an annual risk-free interest rate of 3.5%. Expected volatility is assumed to be based on historical volatility of the comparable companies. Possibility of forfeiture is taken into account by reference to the historical employee turnover for the estimation of the fair value of options granted. The expected post-vesting exit rate is zero.

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the Rights Issue (Note 10).

15 SHARE-BASED PAYMENTS (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

Details in the exercise prices and the movement of the number of share options outstanding and exercisable as at 30 June 2015 are as follow:

	Exercise price per share option		Number of share options		
Group of participants *(Note 1)*	**Before adjustment for Rights Issue** HK$	**After adjustment for Rights Issue** HK$	**As at 1 January 2015**	**Adjustment for Rights Issue**	**As at 30 June 2015**
A	0.78	0.76	1,924,273	41,827	1,966,100
C	1.09	1.07	371,214	8,069	379,283
Total			2,295,487	49,896	2,345,383
Weighted average exercise price (HK$)			0.83	–	0.81

Details in the exercise prices and the movement of the number of share options outstanding and exercisable as at 30 June 2014 are as follow:

		Number of share options		
Group of participants *(Note 1)*	**Exercise price per share option** HK$	**As at 1 January 2014**	**Exercised during the period** (Note 2)	**As at 30 June 2014**
A	0.78	7,151,554	(5,227,281)	1,924,273
B	0.93	2,969,708	(2,969,708)	–
C	1.09	371,214	–	371,214
D	1.25	4,092,457	(4,092,457)	–
Total		14,584,933	(12,289,446)	2,295,487
Weighted average exercise price (HK$)		0.95	0.97	0.83

Note 1: The participants of the Pre-IPO Share Option Scheme are divided into four groups based on the date of joining the Group.

Note 2: The weighted average share price immediately before the dates on which the options were exercised is HK$3.13.

15 SHARE-BASED PAYMENTS (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

During the period ended 30 June 2015, no share option was granted, forfeited or expired. During the period ended 30 June 2014, no share option was granted, forfeited or expired.

During the period ended 30 June 2015, no share-based payment expense for the Pre-IPO Share Option Scheme was recognised in the statement of comprehensive income. (30 June 2014: Nil.)

Share Option Scheme

The Share Option Scheme was approved and adopted on 18 February 2013, 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 were granted to directors, selected employees and a consultant of the Company.

The Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme.

On 29 April 2014, the Group granted share options to directors, selected senior managements, employees and a consultant and the number of ordinary shares which will be issued upon exercise of all options granted are 800,000, 12,100,000 and 7,100,000 respectively. The exercise price is HK$2.6 per share option. Share options granted have a contractual option term of five years and will be expired on 28 April 2019. Vesting period of the share options ranges 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 30 June 2015, all the share options are not exercisable and will be expired in 2019.

On 29 May 2015, the Group further granted share options to a director, selected senior managements, employees and a consultant and the number of ordinary shares which will be issued upon exercise of all options granted are 2,500,000, 26,000,000 and 31,200,000, respectively. The exercise price is HK$1.3 per share option. Share options granted have a contractual option term of seven years and will be expired on 28 May 2022. Vesting period of the share options ranges from one to five years. All the options are conditional in which one fifth is vested and exercisable on every anniversary since the grant date of the share options. The Group does not have a legal or constructive obligation to repurchase or settle the options in cash. As at 30 June 2015, all the share options are not exercisable and will be expired in 2022.

15 SHARE-BASED PAYMENTS (CONTINUED)

Share Option Scheme (Continued)

The fair values of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of options granted determined by using the Binomial model ranges from HK$0.87 to HK$0.88 for the share options granted on 29 April 2014 and HK$0.62 to HK$0.66 for the share options granted on 29 May 2015. The significant inputs into the model were as follows:

	Share options by grant date	
	29 April 2014	**29 May 2015**
Weighted average share price at the grant date	HK$2.44	HK$1.28
Expected volatility *(Note)*	49.72%	56.49%
Expected option life	5 years	7 years
Dividend yield	1.15%	0%
Annual risk-free interest rate	1.42%	1.37%
Expected post-vesting exit rate	10.82% - 13.23%	6.49% - 17.32%

Note: Expected volatility is assumed to be based on historical volatility of the comparable companies.

Possibility of forfeiture is taken into account by reference to the historical employee turnover for the estimation of the fair value of options granted.

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the Rights Issue (Note 10).

The variables and assumptions used in estimating the fair value of the share options were the director's best estimates. Change in subjective input assumptions can materially affect the fair value.

15 SHARE-BASED PAYMENTS (CONTINUED)

Share Option Scheme (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 30 June 2015 are as follow:

	Exercise price per share option		Number of share options			
	Before adjustment for Rights Issue (HK$)	After adjustment for Rights Issue (HK$)	As at 1 January 2015	Granted during the period	Adjustment for Rights Issue	As at 30 June 2015
Grant date						
29 April 2014	2.61	2.55	19,500,000	–	423,857	19,923,857
29 May 2015	N/A	1.3	–	59,700,000	–	59,700,000
Total			19,500,000	59,700,000	423,857	79,623,857
Weighted average exercise price (HK$)						
Grant date						
29 April 2014			2.61	–	–	2.55
29 May 2015			–	1.3	–	1.3

During the periods ended 30 June 2015 and 2014, except for the grant of share options as mentioned above, no share option was forfeited or expired and no share option was exercised by the grantees.

During the period ended 30 June 2015, share-based payment expense of HK$6,652,106 for the Share Option Scheme was recognised in the statement of comprehensive income (30 June 2014: HK$1,783,431).

16 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2015	2014
	HK$	HK$
Interest expenses:		
– Bank borrowings	**(22,119,007)**	(7,431,195)
– Loan from related parties *(Note 22(a))*	**(43,889)**	(311,548)
– Net foreign exchange gains/(losses) on financing activities	**528,556**	(2,499,086)
– Interest cost for convertible bonds *(Note 12)*	**(4,267,911)**	–
– Provision for impairment of trade receivables	**(2,477,529)**	(1,076,145)
Finance costs	**(28,379,780)**	(11,317,974)
Finance income:		
– Interest income from bank deposits	**2,031,222**	2,152,788
– Gain on the net monetary position	**9,999,630**	1,494,630
Finance income	**12,030,852**	3,647,418
Finance costs, net	**(16,348,928)**	(7,670,556)

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 2015 (2014: 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% (2014: 15%) during the period. Subsidiaries established in Hong Kong are subject to 16.5% (2014: 16.5%). Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (2014: 17%) during the period. Subsidiary established in Venezuela is subject to Venezuelan corporate tax at a rate of 34% (2014: 34%) during the period.

17 INCOME TAX EXPENSE (CONTINUED)

	Six months ended 30 June	
	2015	2014
	HK$	HK$
Current tax		
– Hong Kong profits tax	**–**	3,696,849
– PRC enterprise income tax	**160,800**	1,063,147
– Singapore corporate tax	**4,271,367**	30,860
– Venezuela corporate tax	**507,303**	3,401,172
	4,939,470	8,192,028
(Over)/under provision in prior year		
– Hong Kong profits tax	**(921,924)**	–
– PRC enterprise income tax	**–**	337,921
Deferred income tax	**2,645,416**	(3,881,823)
Income tax expense	**6,662,962**	4,648,126

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

Basic

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

	Six months ended 30 June	
	2015	2014 (As restate)
Profit attributable to owners of the Company (HK$)	**8,174,611**	13,479,233
Weighted average number of ordinary shares in issue (Number of shares)	**1,211,192,199**	1,107,546,059
Basic earnings per share (HK cent)	**1**	1

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

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 dilutive potential ordinary shares of the Company are share options and the convertible bonds. The calculation for share options is determined by the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

	Six months ended 30 June	
	2015	2014 (As restate)
Earnings		
Profit attributable to owners of the Company (HK$)	**8,174,611**	13,479,233
Interest expense on convertible bonds (net of tax) (HK$)	**4,267,911**	–
Profit used to determine diluted earnings per share (HK$)	**12,442,522**	13,479,233
Weighted average number of ordinary shares in issue (Number of shares)	**1,211,192,199**	1,107,546,059
Adjustments for:		
Share options (number of shares)	**770,696**	12,868,507
Assumed conversion of convertible bonds (number of shares)	**112,949,640**	–
Weighted average number of ordinary shares for diluted earnings per share (number of shares)	**1,324,912,535**	1,120,414,566
Diluted earnings per share (HK cent)	**1**	1

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

For the period ended 30 June 2015 and 2014, the conversion of potential ordinary shares in relation to the share options have a dilutive effect to the basic earnings per share while the conversion of convertible bonds have an anti-dilutive effect to the basic earnings per share.

On 4 February 2015, the Group completed rights issue of 154,341,411 rights shares at HK $0.98 per rights share on the basis of one rights share for every seven existing shares held on 12 January 2015. The basic and diluted earnings per share for the period ended 30 June 2014 have been restated to take into account the rights issue in which the right shares are issued at a discount on market price subsequent to the period ended 30 June 2014. The weighted average number of shares outstanding was retrospectively increased to reflect the discount in the rights issue. For the period ended 30 June 2014, the weighted average of number of ordinary shares in issue and the incremental shares from assumed exercise of share options granted were 1,075,095,209 and 12,491,462 respectively before restatement.

19 DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (30 June 2014: Nil).

20 CONTINGENCIES

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Litigation claim *(Note)*	**30,643,000**	30,630,000

Note: During 2014, a contracting party initiated legal proceedings against the Group 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 RMB25,000,000. The case was concluded on 1 June 2015 in which the judgement of the court has been in favour of the Group and has dismissed the claim of the contracting party. The contracting party is in the process of appeal. As at 30 June 2015, restricted deposits of HK$6,340,500 are held at bank as reserve under litigation claim (31 December 2014: HK$6,338,000).

21 COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June 2015 HK$	31 December 2014 HK$
Land use rights		
– Contracted but not provided for	**14,418,297**	14,412,612
Property, plant and equipment		
– Contracted but not provided for	**127,193,181**	127,143,030

(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 30 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 2015 HK$	31 December 2014 HK$
No later than 1 year	**9,587,923**	12,136,031
Later than 1 year and no later than 5 years	**11,924,224**	14,673,765
Later than 5 years	**20,486,669**	21,653,918
	41,998,816	48,463,714

22 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 2015 and 2014, and balances arising from related party transactions as at 30 June 2015 and 31 December 2014.

Name	Relationships
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Mr. Lee Lap	Substantial shareholder
Ms. Zhou XiaoJun	Director's spouse
Ms. Sun JinXia	Senior management
Mr. Pan YuXin	Senior management
Mr. Shu Wa Tung Laurence	Senior management
Mr. Lin JingYu	Senior management
Mr. Zhang TaiYuan	Senior management
Mr. Yuan FuCun	Senior management

(a) Interest expenses from related parties

	Six months ended 30 June	
	2015	2014
	HK$	HK$
Interest expenses from loans from a substantial shareholder *(Note i)*	**–**	311,548
Interest expenses from advances from related parties *(Note ii)*	**43,889**	–
	43,889	311,548

Note (i): The loans were unsecured, interest bearing of 6.16% per annum and approximated to their fair values. It primarily represented cash advanced from the Group's substantial shareholder, Mr. Lee Lap. The amount had been fully repaid as at 31 December 2014.

Note (ii): The balance represents cash advanced from the Group's senior management which are unsecured, interest bearing of 15% per annum and approximate to their fair values as at 30 June 2015.

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) 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	
	2015	2014
	HK$	HK$
Salaries and other short-term employee benefits	**3,816,208**	2,959,294
Share-based payments	**4,081,194**	–
	7,897,402	2,959,294

23 NON-CURRENT ASSETS HELD FOR SALE

On 9 June 2015, Shenzhen Fluid Science & Technology Co., Ltd, a 60% owned subsidiary of the Company ("**Target Company**"), the other remaining shareholders of the Target Company and the Group entered into memoranda of understanding with three purchasers, pursuant to which the Group intended to sell 40.1% equity interest in the Target Company to the purchasers with a consideration of RMB60,150,000 (equivalent to approximately HK$75,188,000) in cash of which approximately HK$44,257,000 was received as at 30 June 2015 and the remaining consideration of approximately HK$30,931,000 was received in August 2015. The Target Company together with its wholly-owned subsidiaries ("**Disposal Group**") are engaged in the manufacturing and sales of tools and equipment in the PRC. The relevant assets related to the Disposal Group have been presented as held for sale in the interim condensed consolidated financial information following board's approval of the decision to dispose of the equity interest. On 3 August 2015, agreements were entered into among the Group and the purchasers for the sale of the Disposal Group to the purchasers (Note 24).

23 NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

(a) Assets of disposal group classified as held for sale

	30 June 2015 HK$
Property, plant & equipment	3,152,388
Intangible assets	42,381,530
Inventories	23,433,607
Trade receivables	95,282,858
Other receivables, deposits and prepayments	32,561,426
Pledged bank deposits	5,081,736
Cash and cash equivalents	13,066,696
Total	214,960,241

(b) Liabilities of disposal group classified as held for sale

	30 June 2015 HK$
Trade payables	20,246,416
Other payables and accruals	28,861,076
Current income tax liabilities	4,460,466
Bank and other borrowings	35,506,800
Total	89,074,758

(c) Cumulative income or expense recognised in other comprehensive income relating to disposal group classified as held for sale

	30 June 2015 HK$
Currency translation differences	2,628,529

24 EVENTS AFTER BALANCE SHEET DATE

(a) Placing of Bonds

On 31 July 2015, the Company entered into a placing agreement for the issuance of three-year Bonds for an aggregate principal amount of up to HK$180,000,000 with interest rate of 5.5% per annum. The final issuance is subject to the fulfilment of certain terms and conditions under the placing agreement.

The Group has undertaken to apply the entire net proceeds from the Bonds to repay outstanding amounts of the Term Loan pursuant to the waiver obtained from the financiers of the Term Loan on 31 July 2015 and 25 August 2015.

(b) Disposal of 40.1% equity interest in a subsidiary and grant of buy-back options

Saved as disclosed in Note 23, on 3 August 2015, the Group entered into agreements with the purchasers to dispose of the 40.1% of equity interest in the subsidiary for cash consideration of RMB60,150,000 (equivalent to approximately HK$75,188,000) of which approximately HK$44,257,000 was received as at 30 June 2015. On 17 August 2015, the above disposal was completed and part of the consideration of approximately HK$14,750,000 was received on 18 August 2015. The remaining consideration of approximately HK$16,181,000 is not due as of the date of this report and the Group expects to receive this balance by the end of August 2015. The Group's equity interest in the subsidiary was reduced from 60% to 19.9% and ceased to be a subsidiary of the Group upon the completion of the disposal.

The Group has undertaken to apply half of the entire net proceeds from the disposal to repay outstanding amounts of the Term Loan pursuant to the waiver obtained from the financiers of the Term Loan on 31 July 2015 and 25 August 2015.

Pursuant to the agreements, the purchasers may request the Group to buy back all or part of its equity interest in the Target Company if certain conditions are not fulfilled within two years following the execution of the agreements.

As a result of the disposal, the Company estimates a gain of approximately RMB18,600,000 (equivalent to approximately HK$23,250,000) being the difference between the consideration and the unaudited carrying value of the Target Company as at 30 June 2015 before taking into account of the buy-back option.