SPT Energy Group Inc.
華油能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1251

* for identification only

INTERIM REPORT 2016

CONTENTS




Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang
(Chairman and Chief Executive Officer)[Note 1]
Mr. Wu Dongfang
Mr. Liu Ruoyan
Mr. Jin Shumao

Non-Executive Directors

Mr. Lin Yang
Ms. Chen Chunhua

Independent Non-Executive Directors

Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

AUDIT COMMITTEE

Mr. Wu Kwok Keung Andrew *(Chairman)*
Ms. Chen Chunhua
Mr. Wan Kah Ming

REMUNERATION COMMITTEE

Ms. Zhang Yujuan *(Chairman)*
Mr. Wang Guoqiang
Mr. Wu Kwok Keung Andrew

NOMINATION COMMITTEE

Mr. Wang Guoqiang *(Chairman)*
Ms. Zhang Yujuan
Mr. Wu Kwok Keung Andrew

AUTHORISED REPRESENTATIVES

Mr. Wang Guoqiang
Ms. Mok Ming Wai

COMPANY SECRETARY

Ms. Mok Ming Wai *(FCIS, FCS)*

COMPANY WEBSITE

www.sptenergygroup.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN PRC

5/F, Hongmao Commercial Building
Jia No. 8 Hongjunying East Road
Chaoyang District
Beijing
PRC (zip code: 100012)

Note 1: On 23 August 2016, the board of directors of the Company has approved the appointment of Mr. Jiang Qingsong as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 1 September 2016.



REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
China Construction Bank
Huaxia Bank
CITIC Bank
Bank of Kunlun Company Limited
Bank of China

INVESTOR RELATIONS

Porda Havas

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

1251

DATE OF LISTING

23 December 2011

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2016 (the "Period" or "Reporting Period"), the crude oil market experienced two rounds of shocks and revealed a gradual recovering pattern after hitting the bottom. Brent oil futures price successively touched bottom twice early this year moving from the level of US$37 per barrel at the end of last year and fluctuated between US$27 per barrel the lowest and US$52 per barrel the highest. However, it remained more than 50% below the level prior to the plunge of oil price in June 2014. We strongly believe that the market demand and supply are returning to equilibrium after corrections in the crude oil market.

During the first half of the year, despite that the momentum for the increase in oil price was generally stronger as compared with last year, the push factors in the crude oil supply side should not be neglected. The three major push factors, namely the increase in supply of crude oil, high level of inventory and slow growth of global economy, remained a long-term suppression to oil price. The room for any rise in oil price remained very limited. It is expected that it will be very difficult for the oil price to return to the previous peak level in a long period of time. The prevailing industry landscape is now in an exceptional situation that differs from previous years, resulting in a market phenomenon of both optimistic and pessimistic industry outlook for the global oil price and the oil industry for the second half of 2016.

While exercising stringent cost control to overcome the oil price doldrums, during the first half of the year, major oil producers further reduced the investment expenditure on exploration and production. The global oil-field service market continued to shrink. Oil-field service providers successively adopted various cost control measures such as downsizing, outlay cut, reduction in infrastructure facilities and asset investment, etc. At the same time, they were forced to implement low pricing strategies to attract a few number of customer orders or give up most of the orders with low profit margin and high leverage ratio to maintain liquidity.

Faced with such challenging market environment, oil-field service providers have to adjust their growth strategies to cope with the new industry landscape in a relatively long period of time ahead. On the one hand, they have to cut down expenses and optimise business and financial structure. More importantly, they have to actively explore new profit growth points and seize market opportunities. During the Reporting Period, the Company kicked off relevant business expansion efforts in the areas of new products and new markets. As to products, the Company mainly targeted at customer energy saving, environmental protection and cost reduction. As to oil recovery technique and reservoir reformation technique, the Company introduced several new-type products including electrical pumps for oil recovery and low density fracturing sand through research and development and received high recognition from oil-field customers. At the same time, the Company actively explored new markets such as the Middle East and Russia to take pre-emptive opportunities when these emerging businesses have not developed a stable market. It is expected that this will allow the Company to stay away from the "red ocean" and move towards the "blue ocean" in an attempt to explore new survival and development opportunities.



During the Period, SPT Energy Group Inc. (the "Company") and its subsidiaries (the "Group") realised revenue of RMB400.6 million, representing a decrease of RMB94.6 million or 19.1% as compared with the comparative period. As the impacts of declining oil price have persisted and extended to all over the world, the Company's business in the domestic market and the overseas market shrank slightly. During the Period, revenue from the domestic market amounted to RMB228.1 million, representing a decrease of RMB19.2 million or 7.8% as compared with the comparative period; whereas revenue from the overseas market during the Period amounted to RMB172.5 million, representing a decrease of RMB75.4 million or 30.4% as compared with the comparative period of last year. As for the business segments, revenue from reservoir and well completion segments decreased and revenue from drilling segment only increased slightly. Revenue from reservoir service segment amounted to RMB227.2 million, representing a decrease of RMB52.9 million or 18.9% as compared with the comparative period of last year. Revenue from well completion service segment amounted to RMB58.4 million, representing a decrease of RMB45.6 million or 43.9% as compared with the comparative period of last year. Revenue from drilling service segment amounted to RMB115.1 million, representing an increase of RMB4.0 million or 3.6% as compared with the comparative period of last year.

During the Period, the Group recorded net loss attributable to equity owners of the Company of RMB54.2 million, representing a decrease of RMB144.9 million or 72.8% as compared with the comparative period. The necessary measures taken by the Group to cope with the market doldrums have gradually taken effect.

Overall speaking, the Company continued to cut down business scale in the first half of the year in order to maintain its healthy financial position and sought new growth profit points. The Company believes that this could help it regain the market share when the oil and gas industry sentiments turn positive.

REVENUE ANALYSIS

During the Period, the Group realised revenue of RMB400.6 million, representing a decrease of RMB94.6 million or 19.1% over the previous year. The analysis of the Group's revenue by business segment is as follows:

	For the six months ended 30 June		
	2016	2015	Change
	RMB'000	*RMB'000*	*(%)*
	Unaudited	Unaudited	
Reservoir	**227,156**	280,059	(18.9%)
Drilling	**115,099**	111,123	3.6%
Well Completion	**58,367**	103,994	(43.9%)
Total	**400,622**	495,176	(19.1%)

Management Discussion and Analysis

Given the turbulence of crude oil price at low levels, the market expects that the downside risks associated with oil price will remain high. As a result of which, various oil producers continued to cut down investment in oil-field development to reduce development costs. All projects, upon expiry of contract, will be subject to open tender, and many tender projects are only offered to large-scale oil-field service providers that have higher risk tolerance. Under such circumstances, many privately-owned oil-field service providers lower their tender price. To maintain a healthy financial position, the Group implemented a contraction policy and gave up projects requiring substantial capital advances or with extremely low profit margins. Accordingly, the business volume and revenue from the above three business segments decreased. During the Reporting Period, the revenue contribution from the reservoir service segment was 56.7%, representing a decrease of 0.1 percentage point as compared with the comparative period. This is because the reservoir service segment is the traditional business line of the Company and specialises in the production work of existing oil (gas) wells, which suffers minimal impacts in times of poor market. However, due to the depreciation of Kazakhstan's Tenge (Kazakhstan being the major overseas market of the Group), revenue from reservoir service segment decreased over the comparative period. The drilling service segment and well completion service segment, in aggregate, accounted for 43.3% of the revenue contribution to the Company.

RESERVOIR SERVICE SEGMENT

	For the six months ended 30 June		
Revenue	**2016**	2015	Change
	RMB'000	*RMB'000*	*(%)*
		(Restated)	
	Unaudited	Unaudited	
Overseas	**116,039**	143,047	(18.9%)
PRC	**111,117**	137,012	(18.9%)
Total	**227,156**	280,059	(18.9%)

The reservoir service segment of the Company provides geology research and oil reservoir research services, dynamic monitoring service, oil testing service, oil recovery technology service, coiled tubing service and maintenance service of surface production devices. Through the provision of the above services, a close relationship between the Company and customers can be fostered so that the Company can quickly cater to customers' needs and promote other services to the customers. Since the existing market fluctuations had a smaller impact on this business segment, it remained the largest revenue contributor during the Period. During the Reporting Period, revenue from reservoir service segment amounted to RMB227.2 million, representing a decrease of RMB52.9 million or 18.9% over the comparative period of previous year. In particular, on the overseas market front, due to the substantial depreciation of Kazakhstan's local currency in August last year, overall revenue from the overseas market decreased by RMB27.0 million or 18.9% as compared with the comparative period. On the domestic market front, in spite of growing pricing pressure, the Group was still able to renew part of the project contracts. Accordingly, revenue from the domestic market decreased slightly by RMB25.9 million or 18.9% over the comparative period of previous year.



During the Period, while focusing on the actual needs of energy saving and cost reduction among oil-field service customers, the Group stepped up the efforts of investment and market expansion in oil recovery process related technology and products. Through investment cooperation as well as research and development, the Group also introduced the direct-drive submersible screw pump product series for oil exploration, which greatly reduced the cost of oil exploration. The product series enjoyed unparalleled leading advantages in terms of exemption period extension and oil production power saving. At present, for several domestic oil field markets including China Petrochemical Corporation's North West branch, China National Petroleum Corporation's Tuha Oilfield, Changqing Oilfield and Daqing Oilfield as well as Kazakhstan's North Buzachi Oilfield, the Group had been able to make substantial breakthroughs in securing contract orders and stepped up its efforts to expand the oil rig market in an attempt to introduce such product from land to sea. As to conventional business, in addition to the traditional market in China, the Group also renewed the contracts of conventional dynamic monitoring service leveraging on its leading technology and level of operation in Kazakhstan, Indonesia, Iraq and Turkmenistan.

DRILLING SERVICE AND WELL COMPLETION SERVICE SEGMENTS

Revenue from Drilling Service Segment

	For the six months ended 30 June		
Revenue	**2016** ***RMB'000*** **Unaudited**	2015 *RMB'000* (Restated) Unaudited	Change *(%)*
Overseas	**28,109**	45,289	(37.9%)
PRC	**86,990**	65,834	32.1%
Total	**115,099**	111,123	3.6%

The drilling services of the Company include drilling rig service, workover rig service, vertical drilling technology service, horizontal drilling technology service, side tracking technology service, underbalance drilling technology service, fine managed pressure drilling (FMPD) technology service, cementing services and drilling fluid services. During the first half of the year, the drilling service segment remained difficult. As the global crude oil price remained low during the first half of the year, oil producers locally and overseas further cut down the expenditure on upstream exploration and development. In this regard, the workload of oil-field service providers locally and abroad was greatly reduced with growing operating pressure. However, as the drilling segment accounted for a relatively smaller proportion in the overall business of the Group and the Company stepped up the expansion efforts in its professional and unique drilling business during the first half of the year, the overall revenue from the drilling business remained the same level as compared with that in the same period of last year and slightly increased. During the Period, revenue from drilling service segment amounted to RMB115.1 million, representing an increase of RMB4.0 million or 3.6% over the comparative period of previous year.

Management Discussion and Analysis

On the domestic market front, in the first half of the year, the Group secured the coalbed gas drilling general contracts for the coalbed gas drilling service project in Qinshui, Shanxi and the drilling service project in Mabi, Shanxi. At the same time, leverage on the remarkable drilling performance of the Group and faced with the contraction in drilling scale among oil producers, the Group was still able to secure the drilling general contract for a three-well drilling platform in Ordos Basin. In addition, in terms of complex gas well drilling service, the Group secured the contracts from Tarim Oilfield and Chuanqing Drilling Company regarding the turbine drilling efficiency enhancement projects involving 3 wells and completed the underbalanced drilling service for 12 wells in Tarim Oilfield. Given the limited investment in the drilling service segment, the Group was able to maintain its necessary market share in drilling service with its leading technology and high customer recognition.

On the overseas market front, the Group's drilling service work is primarily based in Kazakhstan. Affected by the global oil price, the investment expenditure and expenses in Kazakhstan were substantially reduced. In the meantime, the depreciation of Tenge has raised the cost of materials for oil-field service producers and greatly squeezed out the profits. The Group timely adjusted the operating strategy and focused on the expansion of workover related work in oilfields. During the Reporting Period, the Group secured the annual workover contract from Kazakhstan's MIE Holdings Corporation, the workover general contract from Zhongke Group regarding Kazan project involving 3 wells and the annual workover service contract from Petro Kazakhstan, and maintained the necessary utilisation of the Group's self-developed drilling and workover equipment under challenging market conditions. Faced with such market conditions, the Company opened a new market area in providing waste treatment service in Russia. The waste treatment equipment was delivered to Russia in May and the trial results were well received by the Russian party with good treatment results.

Revenue from Well Completion Service

	For the six months ended 30 June		
Revenue	**2016** ***RMB'000*** **Unaudited**	2015 *RMB'000* (Restated) Unaudited	Change *(%)*
Overseas	**28,356**	59,559	(52.4%)
PRC	**30,011**	44,435	(32.5%)
Total	**58,367**	103,994	(43.9%)

The Company provides comprehensive well completion tools and service to customers, including well completion project design, well completion tools trading as well as simulation and fracturing service. During the Reporting Period, revenue from well completion service segment amounted to RMB58.4 million, representing a decrease of RMB45.6 million or 43.9% over the comparative period of previous year.

Faced with such challenging and competitive market environment, new technology and new product are the only key elements of oil-field service providers that can satisfy the demand for oil-field service. The Group closely followed market demand and devoted resources in the research and development ("R&D") of reservoir reformation technique and introduction of cost effective and efficiency well completion process to maintain its position in the major markets. On the domestic market front, the self-developed soluble ball set used for multi-stage fracturing is now available for sale and has secured the operating contract for four wells from China Petrochemical Corporation's North China Branch. At the same time, the Group has introduced the low density fracturing sand product which has a promising outlook because it completely solves the traditional shortcomings where ceramsites are unable to penetrate to the depth of reservoir during fracturing due to high density and fast subsidence.

On the overseas market front, the Group's Singapore well completion manufacturing centre obtained the American Petroleum Institute (the "API") safety valve system certification, making it one of the few manufacturers in Singapore to have the API system certification for whole set of well completion tool. During the Reporting Period, the Group successfully expanded the market and secured orders from Indonesia, Burma and Iraq. Once the drilling rig counts increase, the competitiveness of the well completion tools of the Group will be greatly enhanced.

MARKET ENVIRONMENT

In the first half of 2016, the global oil price had a great turnaround after touching the bottom twice, mainly as a result of the alleviation in the significant imbalance between the global supply and demand of crude oil, pushing the crude oil price to a more balanced level. The oil worker strike in Kuwait and Norway, Canadian wildfires, escalation of armed conflicts in Nigeria and the gradual decline in crude oil production in the United States alleviated the market worries over excess supply of oil. Driven by the demand due to strong growth of China, India and Russia, the global crude oil demand will steadily increase this year, alongside with slowing growth in supply. The demand and supply will gradually resume to an equilibrium as the market expected, thus pushing the global oil price to gradually increase. Accordingly, during the Reporting Period, the global crude oil futures contract price started at approximately US$37 per barrel at the beginning of the year and rose above US$40 per barrel and then US$50 per barrel, and fell back to approximately US$49 per barrel in the middle of the year, representing an increase of more than 30%.

Management Discussion and Analysis

Despite that the global oil price fluctuated and climbed up during the first half of the year, it also, for the first time in 12 years, fell below US$30 per barrel twice. Although it rose above US$50 per barrel driven by short-term favourable factors, we strongly believe that the oil price will resume normal and gradually increase as the demand and supply of crude oil are more balanced in the future. However, there remain uncertainties regarding the trend of global oil price in the second half of the year. Moving forward, the change in demand and supply pattern remains crucial for the global crude oil market and will continue to affect the oil and gas industry and the oil-field service market. The Group always keeps a close eye on the following:

1. Global macroeconomic conditions remain the key to determining petroleum demand. Faced with the slowing global economy since the beginning of the year, coupled with significant downside risks, recovery continues but the momentum is weaker than expected. The emerging market economy also faces tougher challenges as a result of "bearish" fluctuations in commodities, global financial instability and structural constraints. The cascade effects of these factors on the petroleum demand in key regions are likely to offset the growth in demand from China, India and Russia. The oversupply of crude oil will still persist for a period of time. In spite of a more pessimistic outlook over the global economy, there is no lack of favourable factors. The United States and Europe are considering to further increase the fiscal expenses on the construction of infrastructure facilities. In this regard, the "One Belt One Road" initiative in China and Asian Infrastructure Investment Bank expansion plan highlight the cooperation and linkage of regional economy and production capacity with a view to seeking growth. In the first quarter of the year, the economy of China achieved growth of 6.7%. Since the second quarter, China's economy is forging ahead in a steady manner.

2. The alleviation of crude oil oversupply will still continue for a period of time. Although some oil producing countries have no alternatives but to cut down production due to various reasons, other countries are going at full speed to make up for the gap in the market. For example, affected by instability, Nigeria's crude oil daily production has reduced to below 1.40 million barrels, representing a decrease of 40% as compared to the peak value. However, Iran has taken an active stand to resume petroleum export after the lifting of sanction. At present, its daily crude oil production is nearly 4.00 million barrels. Shale oil in the United States also gradually resumes its production following the rebound of oil price.

3. The US dollar performance in the foreign exchange market will affect the US dollar-denominated crude oil price. The antecedent US dollar index decreases and this should have a positive effect on the crude oil price. However, the Brexit poll results struck the global market in a short period of time, causing risk aversion in the financial market to escalate. Risk aversion assets such as the US dollar and treasury bonds are being sought. Petroleum, being a risky asset, hardly attracts any attention, which is likely to cause a new depression in oil price.

4. The economy of China has a mixed performance and the downside pressure remains high. During the first half of the year, there were strong signs of steady recovery of the economy of China. Compared with other major economies all over the world, the economic growth of China remains high. However, slowdown in investment growth, especially the slowing momentum of private investment, will continue. The rise in the price of industrial goods has given momentum to the recovery of industrial indicators. But at the same time, it has brought challenges to the mission to reduce overcapacity which has just seen improvement.

5. Renewable energy is expected to change the global energy landscape, replacing the role of coal and natural gas in power generation. In the foreseeable future, government policies will continue to contain the growth of coal production. Oil and gas companies need to accurately evaluate the rapid development of electric vehicles and renewable energy. With the increasing energy efficiency, semi autopilot and full autopilot vehicles will both reduce the demand for crude oil. Looking into future decades, the structural changes in the automobile industry will have an irreversible impact on the global demand for crude oil.

In conclusion, the current oil and gas market remains not optimistic. However, the rebound of oil price will continue to bring positive impacts to the oil and gas industry. The Company remains optimistic about the market and will endeavour to explore new growth points to cope with the challenges and seize growth opportunities.

R&D AND MANUFACTURING

Faced with the great challenge of falling international oil prices, the R&D team of the Group endeavoured to change the market perception and provide solutions targeted at cost reduction, efficiency enhancement, energy-saving and environmental protection for customers. With respect to product R&D, new technology introduction as well as scientific research and innovation, the Group closely followed the theme of cost reduction, efficiency enhancement, energy-saving and environmental protection for customers.

After a long period of technology development and accumulation, during the first half of the year, the project technology centre of the Group took the lead to launch the two technologies, namely direct-drive submersible screw pump lift method for oil exploration and FulconFrac™ full-length diversion fracturing. Of which, the direct-drive submersible screw pump adopts the permanent magnet servo motor driven technology which solves the technology bottlenecks in the traditional electric pump lift method such as short exemption period and high power consumption and is widely used in more than 50 mine wells of a number of customers. In addition to the extension of exemption period by 150%, energy saving was also enhanced by 40% compared to the traditional oil exploration pumps. The new FulconFrac™ full-length diversion fracturing technology has solved the technology bottleneck where the proppant of the traditional fracturing process moves and forms a grit along the fissure and achieved remarkable results including balanced suspension of proppant in the carrying fluid and full fissure support, substantial increase in the area of fissure effective diversion and increase in oil and gas production. At the same time, the low viscosity and low density fracturing fluid system ancillary to the FulconFracTM technology has not only better solved the pressure of new environmental laws on construction work, it also reduced the fracturing fluid material costs. The technology has completed the first-round trial involving four vertical well fracturing mines, representing an increase of 40% in terms of average simulation using traditional technologies and processes. Currently, the above two technologies are well received by the customers and are conducive to achieving cost reduction, efficiency enhancement, energy-saving and environmental protection for customers. These technologies are under trial test at mines.

Management Discussion and Analysis

Following the success of the Group's Singapore R&D centre regarding the R&D of the high-pressure permanent packer product, during the first half of 2016, we passed the API 11D1 V3 test and completed the 10000psi high-pressure test for vertically portable release retrievable packer. The Group's Tianjin manufacturing centre also closely followed market needs and developed 4 1/2" oil casing full-bore horizontal well completion ancillary tool, wireline operated retrievable packer and bridge plug as well as heat resistant 200ºC high-temperature high-pressure retrievable packer, which have been launched in the market successively. In addition, focusing on the unsafe issues regarding the sustained clearance pressure generally found at the mouth of the high-pressure gas wells of customers and the poor management of current technologies and processes, we have introduced the high molecular-based 3E system management sustaining clearance pressure solution, which has completed laboratory test and design and manufacturing of ancillary tools and is ready for trial at mines.

At our R&D base in North America, we further expanded and enhanced the properties and precision of our well-established PPS71 series and ESPLink series. Of which, following the development of PPS71 series in 2015, during the first half of the year, we further developed the PPS71Q (quartz model) ultra-high temperature logging tool to meet the high precision test requirements of customers. After our successful application of ESPLink series in approximately 50 wells, we have raised the underground source voltage from 60V to 130V and the terrestrial equipment voltage from 120V to 250V upon request of the customers. In the event of any short-term unbalanced power supply of Electrical Submersible Pump ("ESP") motor and variable-frequency drive, the equipment can remain stable to meet the working needs. Currently, these two product upgrade have completed the prototype test and calibration with technology indicators attaining internationally advanced level and state-of-the-art level respectively.

HUMAN RESOURCES

Based on the business development needs of the Group, the following human resources measures were adopted:

1. To optimise and adjust the organisational structure of the Group; rationalise and update the manuals for relevant positions of the three major management segments (namely, the China segment, the Pan Russian speaking segment and the Pan English speaking segment) and one centre (namely project technology centre); further reinforce the matching between the personnel and positions under the new structure; and clearly define the duties and responsibilities. At the same time, the Group reasonably downsized its labour force to reduce manpower costs. During the first half of the year, the total manpower costs of the Group were significantly lower than the estimated half-yearly amount. As at 30 June 2016, the total number of employees registered with the Group was further reduced to 3,143 from 3,400 as at 31 December 2015.

2. To effectively cope with the business development needs of the Group, the Group proactively took various measures to achieve synergies between the staff remuneration and market expansion efforts. The management segments of the Group kicked off the design and implementation of the compensation package to stimulate the vitality through reasonable adjustment to the remuneration system to cope with intensifying competition in the market.

3. Innovative incentive policies were introduced targeted at trial projects based on the features of various businesses and projects and employees were highly encouraged to participate in the business expansion and operations of the Company to drive the results performance of the Group as a whole.

SUBSEQUENT WORK PLAN

Based on the work plans of the Group formulated at the beginning of the year, we will continue to focus on the following four areas in the second half of the year:

1. Maintaining healthy financial structure and liquidity remains the top priority in this financial year.

2. Continuing to keep costs down through improving the organisation and management of manufacturing activities.

3. Continuing the R&D efforts in core technologies and exploring new projects; enhancing the Group's brand premium in the market; establishing brand reputation, avoiding price competition and gaining market share through providing value-added or unique services.

4. Taking measures to motivate the employees' initiative and capability in business expansion and proactively exploring market opportunities.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2016, revenue of the Group was RMB400.6 million, representing a decrease of RMB94.6 million, or 19.1%, as compared with that of RMB495.2 million for the comparative period of last year. The decrease was mainly due to the continuing decrease of crude oil prices which led to the depression of the industry investment and the shrinkage of the oil-field services market.

Other losses, net

For the six months ended 30 June 2016, other losses, net of the Group was RMB9.0 million, while other losses, net for the comparative period of last year was RMB2.7 million. The net losses for the six months ended 30 June 2016 was primarily due to the depreciation of USD-denominated assets against CAD and the appreciation of USD-denominated liabilities against RMB.

Material costs

For the six months ended 30 June 2016, material costs of the Group was RMB71.3 million, representing a decrease of RMB129.3 million, or 64.5%, as compared with that of RMB200.6 million for the comparative period of last year. The decrease of material costs was mainly due to the business structure adjustments and cost control measures.

Management Discussion and Analysis

Employee benefit expenses

For the six months ended 30 June 2016, employee benefit expenses of the Group were RMB177.2 million, representing a decrease of RMB101.9 million, or 36.5%, as compared with that of RMB279.1 million for the comparative period of last year. The decrease reflected the efforts of the Group to cut labor costs by layoff of redundant employees and reduction of salary level so as to cut down labour costs.

Operating lease expenses

For the six months ended 30 June 2016, operating lease expenses of the Group was RMB26.3 million, representing a decrease of RMB5.0 million, or 16.0%, as compared with that of RMB31.3 million for the comparative period of last year. It was mainly due to the operating activities shrinkage of the Group.

Transportation costs

For the six months ended 30 June 2016, transportation costs of the Group was RMB9.4 million, representing a decrease of RMB1.0 million, or 9.6%, as compared with that of RMB10.4 million for the comparative period of last year. The decrease was mainly due to the operating activities shrinkage of the Group.

Depreciation and Amortisation

For the six months ended 30 June 2016, depreciation and amortisation of the Group was RMB56.0 million, representing an increase of RMB2.8 million, or 5.3%, as compared with that of RMB53.2 million for the comparative period of last year. The increase was mainly due to certain equipment purchased in the end of 2014 was depreciated from the beginning of the year.

Technical service expenses

For the six months ended 30 June 2016, technical service expenses of the Group were RMB30.2 million, representing a decrease of RMB32.6 million, or 51.9%, as compared with that of RMB62.8 million for the comparative period of last year. The decrease was mainly due to the operating activities shrinkage of the Group.

Impairment loss of assets

For the six months ended 30 June 2016, impairment loss of assets of the Group was RMB10.8 million, representing an increase of RMB0.5 million, or 4.9%, as compared with that of RMB10.3 million for the comparative period of last year. The impairment loss of assets was in relation to bad-debt provision of receivables which the Group estimated uncollectable and the provision for raw materials which the Group considered unrecoverable.

Others

For the six months ended 30 June 2016, other operating costs of the Group were RMB54.4 million, representing a decrease of RMB15.6 million, or 22.3%, as compared with that of RMB70.0 million for the comparative period of last year.



Operating loss

As a result of the aforementioned changes, the Group's operating loss during the period was RMB44.0 million, representing a substantial decrease of 80.5% compared with the operating losses of RMB225.2 million for the comparative period of last year.

Finance costs, net

For the six months ended 30 June 2016, the Group's finance costs, net was RMB15.7 million, representing a decrease of RMB5.4 million, or 25.6%, as compared with that of RMB21.1 million for the comparative period. The interest-bearing debt decreased while the finance costs, net remained flat were mainly because the decrease of interesting-bearing debt mainly took place in the second half of the current year, therefore the relevant impact on interest costs was not so material.

Income tax credit

For the six months ended 30 June 2016, income tax credit was RMB0.3 million, representing a decrease of RMB35.1 million, as compared with income tax credit of RMB35.4 million for the comparative period of last year.

Loss for the period

As a result of the aforementioned reasons, the Group's loss for the period was RMB60.3 million, representing a significant decrease of RMB150.6 million, or 71.4%, as compared with that of RMB210.9 million for the comparative period of last year.

Loss attributable to equity owners of the Company

For the six months ended 30 June 2016, losses attributable to equity owners of the Company was RMB54.2 million, representing a decrease of RMB144.9 million, or 72.8%, as compared with that of RMB199.1 million for the comparative period of last year.

Property, plant and equipment

As at 30 June 2016, property, plant and equipment was RMB530.4 million, representing a decrease of RMB4.9 million, or 0.9%, from RMB535.3 million as at 31 December 2015. This was mainly due to the very limited investment in new equipment as well as continuing depreciation of existing equipment.

Inventories

As at 30 June 2016, inventories were RMB396.3 million, representing an increase of RMB2.5 million, or 0.6%, from RMB393.8 million as at 31 December 2015.

Management Discussion and Analysis

Trade and note receivables/Trade payables

As at 30 June 2016, trade and note receivables was RMB607.4 million, representing a decrease of RMB24.4 million, or 3.9%, from RMB631.8 million as at 31 December 2015. The decrease was mainly due to the shrinkage of revenue realised during the period.

As at 30 June 2016, trade payables was RMB464.0 million, representing a decrease of RMB89.8 million, or 16.2%, from RMB553.8 million as at 31 December 2015. The decrease was mainly due to the reduction of materials purchases and subcontracts.

Liquidity and capital resources

As at 30 June 2016, the Group's cash and bank deposits, comprising cash and cash equivalents, restricted bank deposits and term deposits with initial terms over 3 months, were RMB240.4 million, representing a decrease of RMB123.3 million, or 33.9%, from RMB363.7 as at 31 December 2015. The decrease was mainly due to the repayment of bank borrowings and equipment purchases.

As at 30 June 2016, the Group's short-term borrowings and current portion of long-term borrowings were RMB200.8 million while the long-term borrowings was RMB116.9 million. As at 31 December 2015, the Group's short-term borrowings and current portion of long-term borrowings were RMB259.6 million while the long-term borrowings were RMB114.4 million.

As at 30 June 2016, the Group's gearing ratio was 26.1%, representing a decrease of 3.9% as compared with 30.0% as at 31 December 2015. Gearing ratio was calculated as total borrowings divided by total equity. Total borrowings included long-term borrowings, short-term borrowings and current portion of long-term borrowings.

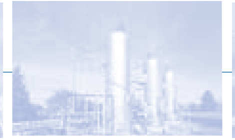
Cash flows from operating activities

For the six months ended 30 June 2016, the Group's net cash used in operating activities was RMB49.6 million, while the net cash generated from operating activities was RMB48.7 million for the comparative period of last year. While the Group suffered a loss during the period, it has managed to control its working capital so as to maintain liquidity.

Cash flows from investing activities and financing activities

For the six months ended 30 June 2016, the Group's net cash used in investing activities was RMB25.2 million, mainly due to the settlement of payables arising from last year's equipment purchases.

For the six months ended 30 June 2016, the Group's net cash used in financing activities was RMB62.5 million, mainly resulting from the decrease of bank borrowings of RMB56.3 million.


Capital structure

The capital of the Company comprises only share capital. As at 30 June 2016, the total number of share capital of the Company in issue was 1,534,790,332 shares (31 December 2015: 1,534,790,332 shares). As at 30 June 2016, equity attributable to the equity owners of the Group was RMB1,102.4 million, representing a decrease of RMB24.9 million, or 2.2%, as compared with RMB1,127.3 million as at 31 December 2015.

Significant investment held

As at 30 June 2016, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

For the six months ended 30 June 2016, the Group had no material acquisition or disposal of subsidiaries and associates.

Assets pledged

As at 30 June 2016, the Group pledged parts of its property, plant and equipment, long-term prepayments and trade and note receivables to secure the Group's borrowings. The carrying values of the assets pledged are as follows:

	As at 30 June 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Property, plant and equipment	**292**	642
Long-term prepayments	**7,620**	7,921
Trade and note receivables	**33,500**	126,000

Contingent liabilities

As at 30 June 2016, the Group had no material contingent liabilities.

Off-balance sheet arrangement

As at 30 June 2016, the Group had no off-balance sheet arrangements.

Management Discussion and Analysis

Contractual obligations

The Group's contractual commitment mainly included capital expenditure commitments and repayments under operating lease commitments. As at 30 June 2016, capital expenditure commitments were mainly acquisition of property, plant and equipment with the amount of RMB10.5 million, while operating lease commitments were mainly lease of offices, warehouses and equipments with the amount of RMB184.9 million.

Subsequent event

Subsequent to 30 June 2016, the Company had no material subsequent events.

Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2016, the Company has complied with all applicable code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except for the following provision.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Under the existing organizational structure, Mr. Wang Guoqiang is the chairman of the board (the “Board”) of directors (the “Director(s)”) and chief executive officer of the Company. The Board believes that Mr. Wang Guoqiang’s extensive experience in the oil industry is beneficial to the business prospects and management of the Group. The Board and the senior management, which comprises experienced and high calibre individuals, can ensure the balance of power and authority. The Board currently comprises four executive Directors (including Mr. Wang Guoqiang), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

On 23 August 2016, the Board has approved the appointment of Mr. Jiang Qingsong as the chief executive officer of the Company in place of Mr. Wang Guoqiang with effect from 1 September 2016. Upon such appointment, the Company will re-comply with the code provision A.2.1 of the CG Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions.

Having made specific enquiry with all Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the six months ended 30 June 2016.

REVIEW OF INTERIM RESULTS

The audit committee has jointly reviewed the accounting policies and practices adopted by the Group and the unaudited interim results for the six months ended 30 June 2016 of the Group with the management and the auditors of the Company.

PURCHASE, SALE OR REDEMPTION OF ANY OF THE COMPANY’S SECURITIES

Save as the issuance of shares by the Company pursuant to the share option scheme disclosed herein, during the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed of the Company’s securities.

Other Information

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS OR CHIEF EXECUTIVE SUBSEQUENT TO THE 2015 ANNUAL REPORT

Ms. Chen Chunhua, a non-executive director of the Company, resigned as joint chairman and chief executive officer of New Hope Liuhe Co., Ltd. (a company listed on the Shenzhen Stock Exchange; stock code: 000876). Mr. Wan Kah Ming, an independent non-executive director of the Company, resigned as vice supervisor of International Mergers and Acquisitions Committee and adjudicator of Hong Kong Registration of Persons Tribunal; and was appointed as executive president of China Merger & Acquisition Association, Hong Kong Branch.

Save as disclosed above, there is no other information which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

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

As at 30 June 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Mr. Wang Guoqiang	Beneficiary of trusts (note 1)	648,484,000 (L)	42.25%
	Beneficial owner (note 3)	1,090,000 (L)	0.07%
Mr. Wu Dongfang	Beneficiary of trusts (note 2)	648,484,000 (L)	42.25%
	Beneficial owner (note 3)	1,090,000 (L)	0.07%
Ms. Chen Chunhua (note 3)	Beneficial owner	2,000,000 (L)	0.13%
Mr. Liu Ruoyan (note 3)	Beneficial owner	2,390,000 (L)	0.16%
Mr. Wan Kah Ming (notes 3 & 4)	Beneficial owner	2,000,000 (L)	0.13%
Mr. Wu Kwok Keung Andrew (note 3)	Beneficial owner	2,000,000 (L)	0.13%
Mr. Jin Shumao (note 3)	Beneficial owner	1,090,000 (L)	0.07%
Ms. Zhang Yujuan (note 3)	Beneficial owner	1,000,000 (L)	0.07%

Notes:

1. Mr. Wang Guoqiang and his family members are the beneficiaries of Truepath Trust, a discretionary trust established by Mr. Wang Guoqiang, and therefore he is deemed to be interested in 489,512,000 shares of the Company held by Red Velvet Holdings Limited via Truepath Limited. Mr. Wang Guoqiang is also deemed to be interested in the shares held by Mr. Wu Dongfang as they are parties acting in concert.
2. (i) Mr. Wu Dongfang and his family members are the beneficiaries of Widescope Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 137,372,000 shares of the Company held by Elegant Eagle Investments Limited via Widescope Holdings Limited. (ii) Mr. Wu and his family members are the beneficiaries of True Harmony Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 21,600,000 shares of the Company held by Best Harvest Far East Limited via True Harmony Limited. (iii) Mr. Wu Dongfang is also deemed to be interested in the shares held by Mr. Wang Guoqiang as they are parties acting in concert.
3. Mr. Wang Guoqiang, Mr. Wu Dongfang, Ms. Chen Chunhua, Mr. Liu Ruoyan, Mr. Wan Kah Ming, Mr. Wu Kwok Keung Andrew, Mr. Jin Shumao and Ms. Zhang Yujuan hold share options in respect of these shares. Details of the share options are set out below in the section headed "Share Option Scheme".
4. 633,333 shares are jointly held by Mr. Wan Kah Ming and his family member.
5. "L" denotes long position.

Save as disclosed above, as at 30 June 2016, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, no time during the six months ended 30 June 2016 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES

As at 30 June 2016, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Widescope Holdings Limited	Beneficial owner	137,372,000 (L)	8.95%
Elegant Eagle Investments Limited (note 1)	Interest of controlled corporation	157,972,000 (L)	10.29%
Truepath Limited	Beneficial owner	489,512,000 (L)	31.89%
Red Velvet Holdings Limited (notes 2 and 7)	Interest of controlled corporation	489,512,000 (L)	31.89%
Credit Suisse Trust Limited (note 3)	Trustee	763,182,442 (L)	49.73%
Greenwoods Asset Management Limited (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Greenwoods Assets Management Holdings Limited (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Jiang Jinzhi (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Unique Element Corp. (note 4)	Interest of controlled corporation	120,062,000 (L)	7.82%
Central Huijin Investment Ltd. (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Group Ltd. (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Holdings Company Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Everbright Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
China Special Opportunities Fund III, L.P. (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
CSOF III GP Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%
Forebright Partners Limited (note 5)	Interest of controlled corporation	90,068,769 (L)	5.87%

Notes:

1. Widescope Holdings Limited and Best Harvest Far East Limited are wholly owned by Elegant Eagle Investments Limited and therefore Elegant Eagle Investments Limited is deemed to be interested in 137,372,000 and 21,600,000 shares of the Company held by these two companies respectively.
2. According to the records of the Stock Exchange, Truepath Limited beneficially owned 489,512,000 shares and Red Velvet Holdings Limited is deemed to be interested in 487,512,000 shares. However, as Truepath Limited is wholly owned by Red Velvet Holdings Limited, Red Velvet Holdings Limited is deemed to be interested in 489,512,000 shares of the Company.
3. Credit Suisse Trust Limited is the trustee of the Widescope Trust, the Truepath Trust, the Jumbo Wind Trust and the Windsorland Trust which are discretionary trusts holding the shares in the Company on trust for Elegant Eagle Investments Limited, Red Velvet Holdings Limited, Starshine Investments Limited, respectively. Therefore, Credit Suisse Trust Limited is deemed to be interested in shares of the Company held by True Harmony Limited, Widescope Holdings Limited, Truepath Limited, Jumbo Wind Limited.
4. Such 120,062,000 shares represent the same block of shares.
5. The shares held by Central Huijin Investment Ltd., China Everbright Group Ltd., China Everbright Holdings Company Limited, China Everbright Limited, China Special Opportunities Fund III, L.P., CSOF III GP Limited and Forebright Partners Limited refer to the same parcel of shares of the Company. These shares include 69,230,769 underlying shares of the Company (based on the adjusted conversion price of HK$1.69) which may be issued by the Company upon conversion of the convertible bonds in the principal amount of USD15,000,000 issued by the Company to Everbright Inno Investments Limited (a corporation controlled by China Everbright Limited and China Everbright Holdings Company Limited) and CSOF Inno Investments Limited (a corporation controlled by China Special Opportunities Fund III, L.P., CSOF III GP Limited and Forebright Partners Limited). Please refer to the announcements of the Company dated 12 June 2015 and 15 June 2015 for details.
6. "L" denotes long position.
7. Pursuant to section 336 of the SFO, the shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled. Therefore, substantial shareholders' latest shareholding in the Company may be different to the shareholding filed with the Company and the Stock Exchange.

Save as disclosed above, and as at 30 June 2016, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Other Information

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 1 December 2011.

1. Purpose

The purpose of the Share Option Scheme is to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group.

2. Participants

The Board are authorised, at their absolute discretion and subject to the terms of the Share Option Scheme, to grant options to subscribe the shares of the Company to, inter alia, any Directors or any employees (full-time and part-time) of the Company or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

3. Total number of Shares available for issue under the Share Option Scheme

The maximum number of shares in respect of which options may be granted under the Share Option Scheme as at 23 March 2015 were 32,250,000 shares, representing approximately 2.1% of the issued share capital of the Company. The Company has refreshed the Share Option Scheme mandate limit at the annual general meeting held on 10 June 2015, representing 10% of the shares in issue on the same date (i.e. a total of 153,479,033 shares).

As at 30 June 2016, the maximum number of shares available for issue under the Share Option Scheme was 153,479,033 shares, representing approximately 10% of the issued share capital of the Company.

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12 months period up to the date of grant shall not exceed 1% of the shares in issue.

5. Period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

6. Minimum period for which an option must be held before it can be exercised

The Board may in its absolute discretion set a minimum period for which an option must be held and performance targets that must be achieved before an option can be exercised.

7. Time of acceptance and the amount payable on acceptance of the option

An offer for the grant of options must be accepted within 8 days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

8. Basis of determining the subscription price

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

9. Life of the Share Option Scheme

The Share Option Scheme became unconditional on the date of Listing and shall be valid and effective for a period of ten years commencing on 1 December 2011, subject to the early termination provisions contained in the Share Option Scheme. The remaining life of the Scheme is 5 years and 7 months.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme does not exceed 10% of the shares in issue on the date of refreshment of the Share Option Scheme mandate limit on 10 June 2015. The Company may at any time refresh such limit, subject to the Shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

Other Information

Movements of the share options under the Share Option Scheme during the six months ended 30 June 2016 are as follows:

	Number of share options								
Grantee	Outstanding as at 1 January 2016	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 30 June 2016	Date of grant	Date of expiry	Exercise price per share
Directors									
Mr. Wang Guoqiang	1,090,000 (note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Mr. Wu Dongfang	1,090,000 (note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Mr. Liu Ruoyan	1,300,000 (note 1)	–	–	–	–	1,300,000	29/03/2012	28/03/2022	HK$1.360
	1,090,000 (note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Mr. Jin Shumao	1,090,000 (note 3)	–	–	–	–	1,090,000	13/06/2013	12/06/2023	HK$4.694
Ms. Chen Chunhua	1,000,000 (note 1)	–	–	–	–	1,000,000	29/03/2012	28/03/2022	HK$1.360
	1,000,000 (note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
Mr. Wu Kwok Keung Andrew	1,000,000 (note 1)	–	–	–	–	1,000,000	29/03/2012	28/03/2022	HK$1.360
	1,000,000 (note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
Ms. Zhang Yujuan	1,000,000 (note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
Mr. Wan Kah Ming	333,334 (note 1)	–	–	–	–	333,334	29/03/2012	28/03/2022	HK$1.360
	1,000,000 (note 3)	–	–	–	–	1,000,000	13/06/2013	12/06/2023	HK$4.694
Employees (in aggregate)									
	48,680,000 (note 3)	–	–	–	2,020,000	46,660,000	13/06/2013	12/06/2023	HK$4.694
	11,296,668 (note 2)	–	–	–	130,667	11,166,001	20/02/2012	19/02/2022	HK$1.292
	1,450,000 (note 1)	–	–	–	–	1,450,000	29/03/2012	28/03/2022	HK$1.360
Total	**73,420,002**	**–**	**–**	**–**	**2,150,667**	**71,269,335**			

Notes:

1. The closing price of the shares immediately before the date on which the share options granted on 29 March 2012 was HK$1.33. 1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
2. The closing price of the shares immediately before the date on which the share options granted on 20 February 2012 was HK$1.27. 1/3 of which are exercisable from 20/02/2013 to 19/02/2022; 1/3 of which are exercisable from 20/02/2014 to 19/02/2022; and remaining 1/3 are exercisable from 20/02/2015 to 19/02/2022.
3. The closing price of shares immediately before the date on which the share options granted on 13 June 2013 was HK$4.57. 1/3 of which are exercisable from 13/06/2014 to 12/06/2023; 1/3 of which are exercisable from 13/06/2015 to 12/06/2023; and remaining 1/3 are exercisable from 13/06/2016 to 12/06/2023.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the year ended 30 June 2016 under the Share Option Scheme.

INTERIM DIVIDEND

The Board proposed not to declare interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: nil) to the shareholders of the Company.

By order of the Board
Wang Guoqiang
Chairman

Hong Kong, 23 August 2016

Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 RMB'000 Unaudited	2015 RMB'000 Unaudited
Revenue		**400,622**	495,176
Other losses, net		**(9,008)**	(2,740)
Operating costs			
Material costs		**(71,298)**	(200,612)
Employee benefit expenses	18	**(177,216)**	(279,092)
Operating lease expenses		**(26,285)**	(31,322)
Transportation costs		**(9,411)**	(10,379)
Depreciation and amortisation		**(55,982)**	(53,171)
Technical service expenses		**(30,228)**	(62,793)
Impairment loss of assets		**(10,762)**	(10,290)
Others		**(54,424)**	(70,020)
		(435,606)	(717,679)
Operating loss	19	**(43,992)**	(225,243)
Finance income		**273**	352
Finance costs		**(15,986)**	(21,413)
Finance costs, net	20	**(15,713)**	(21,061)
Share of post-tax result of associate	11	**(898)**	–
Loss before income tax		**(60,603)**	(246,304)
Income tax credit	21	**261**	35,448
Loss for the period		**(60,342)**	(210,856)
Loss attributable to:			
Equity owners of the Company		**(54,191)**	(199,057)
Non-controlling interests		**(6,151)**	(11,799)
		(60,342)	(210,856)
Loss per share for the loss attributable to the equity owners of the Company		***RMB***	*RMB*
Basic loss per share	23	**(0.0353)**	(0.1297)
Diluted loss per share	23	**(0.0353)**	(0.1297)

The notes on page 34 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Loss for the period	**(60,342)**	(210,856)
Other comprehensive income:		
Items that will not be subsequently reclassified to profit or loss:		
Currency translation differences	**12,546**	(484)
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	**12,311**	(21,631)
Total comprehensive income for the period	**(35,485)**	(232,971)
Total comprehensive income for the period attributable to:		
Equity owners of the Company	**(29,343)**	(221,230)
Non-controlling interests	**(6,142)**	(11,741)
	(35,485)	(232,971)

The notes on page 34 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet

For the six months ended 30 June 2016

	Note	**30 June 2016** ***RMB'000*** **Unaudited**	31 December 2015 *RMB'000* Audited
ASSETS			
Non-current assets			
Property, plant and equipment	7	**530,362**	535,343
Land use right	7	**22,000**	22,241
Intangible assets	7	**55,946**	58,417
Investment in an associate	11	**3,752**	–
Deferred income tax assets	17	**138,632**	137,609
Prepayments and other receivables	10	**23,261**	35,750
		773,953	789,360
Current assets			
Inventories	8	**396,345**	393,824
Trade and note receivables	9	**607,404**	631,794
Prepayments and other receivables	10	**176,214**	171,553
Restricted bank deposits		**29,050**	18,855
Cash and cash equivalents		**211,319**	344,855
		1,420,332	1,560,881
Total assets		**2,194,285**	2,350,241
EQUITY			
Equity attributable to the Company's equity owners			
Share capital	12	**974**	974
Share premium		**591,651**	591,651
Other reserves	13	**331,748**	327,276
Currency translation differences		**(452,288)**	(477,136)
Retained earnings		**630,339**	684,530
		1,102,424	1,127,295
Non-controlling interests		**113,826**	119,968
Total equity		**1,216,250**	1,247,263

Interim Condensed Consolidated Balance Sheet

For the six months ended 30 June 2016

	Note	**30 June 2016** ***RMB'000*** **Unaudited**	31 December 2015 *RMB'000* Audited
LIABILITIES			
Non-Current liabilities			
Borrowings	14	**116,936**	114,356
Deferred income tax liabilities	17	**22,785**	23,500
		139,721	137,856
Current liabilities			
Borrowings	14	**199,741**	257,689
Current portion of long-term borrowings	14	**1,075**	1,869
Trade payables	15	**464,024**	553,838
Accruals and other payables	16	**139,157**	111,459
Current income tax liabilities		**34,317**	40,267
		838,314	965,122
Total liabilities		**978,035**	1,102,978
Total equity and liabilities		**2,194,285**	2,350,241

Wang Guoqiang
Director

Wu Dongfang
Director

The notes on page 34 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

		Unaudited							
		Equity attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 1 January 2016		974	591,651	327,276	(477,136)	684,530	1,127,295	119,968	1,247,263
Comprehensive income									
Loss for the period		–	–	–	–	(54,191)	(54,191)	(6,151)	(60,342)
Currency translation differences		–	–	–	24,848	–	24,848	9	24,857
Total comprehensive loss		–	–	–	24,848	(54,191)	(29,343)	(6,142)	(35,485)
Transactions with owners									
Share-based payments	18	–	–	4,472	–	–	4,472	–	4,472
Total transactions with owners		–	–	4,472	–	–	4,472	–	4,472
Balance as at 30 June 2016		974	591,651	331,748	(452,288)	630,339	1,102,424	113,826	1,216,250

		Unaudited							
		Equity attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Currency translation differences *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 1 January 2015		974	591,251	282,351	(196,955)	1,096,695	1,774,316	147,738	1,922,054
Comprehensive income									
Loss for the period		–	–	–	–	(199,057)	(199,057)	(11,799)	(210,856)
Currency translation differences		–	–	–	(22,173)	–	(22,173)	58	(22,115)
Total comprehensive loss		–	–	–	(22,173)	(199,057)	(221,230)	(11,741)	(232,971)
Transactions with owners									
Share-based payments	18	–	–	10,371	–	–	10,371	–	10,371
Share options exercised		–	391	(2)	–	–	389	–	389
Modification of convertible bonds		–	–	28,780	–	–	28,780	–	28,780
Total transactions with owners		–	391	39,149	–	–	39,540	–	39,540
Balance as at 30 June 2015		974	591,642	321,500	(219,128)	897,638	1,592,626	135,997	1,728,623

The notes on page 34 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Cash flows from operating activities		
Cash (used in)/generated from operations	**(27,077)**	91,325
Interest paid	**(16,383)**	(12,414)
Interest received	**273**	352
Income tax paid	**(6,380)**	(30,535)
Net cash (used in)/generated from operating activities	**(49,567)**	48,728
Cash flows from investing activities		
Purchases of property, plant and equipment	**(7,621)**	(109,976)
Proceeds from disposal of property, plant and equipment	**68**	106
Purchases of intangible assets	**(4,922)**	(9,987)
Investment in an associate	**(2,500)**	–
Restricted bank deposits	**(10,195)**	–
Net cash used in investing activities	**(25,170)**	(119,857)
Cash flows from financing activities		
Proceeds from borrowings	**161,243**	211,500
Repayments of borrowings	**(223,722)**	(195,600)
Proceeds from exercise of share options	**–**	389
Net cash (used in)/generated from financing activities	**(62,479)**	16,289
Net decrease in cash and cash equivalents	**(137,216)**	(54,840)
Cash and cash equivalents, at beginning of the period	**344,855**	595,028
Exchange gains/(losses) on cash and cash equivalents	**3,680**	(1,491)
Cash and cash equivalents at end of the period	**211,319**	538,697

The notes on page 34 to 56 form an integral part of this interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

1. GENERAL INFORMATION

SPT Energy Group Inc. (the "Company") was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 4th Floor, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY-1112, Cayman Islands. The Company had its primary listing on The Stock Exchange of Hong Kong Limited on 23 December 2011 through a global offering ("Global Offering").

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

This interim condensed consolidated financial information is presented in Renminbi ("RMB"), unless otherwise stated. This interim condensed consolidated financial information was approved for issue on 23 August 2016.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standards ("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 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2016.

Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

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

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2016.

(a) Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

(b) Impact of standards issued but not yet applied by the entity

(i) IFRS 9 Financial instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group is currently assessing whether it should adopt IFRS 9 before its mandatory date.

(ii) IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management is currently assessing the effects of applying the new standard on the Group's financial statements.

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 condensed consolidated interim 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 2015.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: 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 2015.

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

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities. The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated primarily from operating and financing activities.

5.3 Credit risk

The Group has concentrations of credit risk. Petro China Company Limited ("Petro China"), a PRC state owned enterprise with high credit rating, along with its related entities, accounted for approximately 77.4% and 66.6% of the Group's revenue for the six months ended 30 June 2016 and 2015, respectively. The Group has policies in place to ensure that services are rendered or sales of products are made to customers with an appropriate credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

5.4 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and note receivables and other receivables and financial liabilities including trade and other payables and borrowings except for the fixed rate borrowings, approximate their fair values.

6. SEGMENT INFORMATION

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

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

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

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

(a) Revenue

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Drilling	**115,099**	111,123
Well completion	**58,367**	103,994
Reservoir	**227,156**	280,059
	400,622	495,176

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

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

(i) The segment information on EBITDA is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
EBITDA		
Drilling	**26,861**	(86,535)
Well completion	**(15,367)**	(55,973)
Reservoir	**66,309**	56,017
	77,803	(86,491)

(ii) The segment information on total assets is as follows:

	30 June	31 December
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Total assets		
Drilling	**433,967**	452,307
Well completion	**764,312**	792,566
Reservoir	**454,917**	453,346
	1,653,196	1,698,219

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(iii) A reconciliation of EBITDA to total loss before income tax is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
EBITDA for reportable segments	**77,803**	(86,491)
Unallocated expenses		
– Share-based payments *(Note 18)*	**(4,472)**	(10,371)
– Other losses, net	**(9,008)**	(2,740)
– Unallocated overhead expenses	**(53,231)**	(72,470)
	(66,711)	(85,581)
	11,092	(172,072)
Depreciation and amortisation	**(55,982)**	(53,171)
Finance costs	**(15,986)**	(21,413)
Finance income	**273**	352
Loss before income tax	**(60,603)**	(246,304)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(iv) 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. Reportable segments' assets are reconciled to total assets as follows:

	30 June 2016 ***RMB'000*** **Unaudited**	31 December 2015 *RMB'000* Audited
Segment assets for reportable segments	**1,653,196**	1,698,219
Unallocated assets		
– Deferred income tax assets	**138,632**	137,609
– Unallocated inventories	**25,114**	21,986
– Unallocated prepayments and other receivables	**133,222**	128,717
– Restricted bank deposits	**29,050**	18,855
– Cash and cash equivalents	**211,319**	344,855
– Investments in an associate	**3,752**	–
	541,089	652,022
Total assets per balance sheet	**2,194,285**	2,350,241

6. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment

During the period, CODM revised its geographical segment information according to the service location of the entities in the Group. To ensure comparison against the revised classification, segment information for the prior period which is based on the country of domicile (location of its main operation) has been restated.

The following table shows revenue by geographical segment according to the service location of the entities in the Group:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
		(Restated)
	Unaudited	Unaudited
Revenue		
PRC	**228,118**	247,281
Kazakhstan	**88,218**	126,115
Turkmenistan	**31,062**	39,763
Canada	**21,208**	37,902
Middle East	**19,152**	34,110
Others	**12,864**	10,005
	400,622	495,176

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

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Non-current assets (other than deferred income tax assets)		
PRC	**463,002**	426,015
Kazakhstan	**101,543**	110,435
Canada	**20,302**	24,077
Turkmenistan	**31**	33,299
Middle East	**–**	20
Others	**50,443**	57,905
	635,321	651,751

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

7. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHT AND INTANGIBLE ASSETS

	Property, plant and equipment *RMB'000*	Land use right *RMB'000*	Intangible assets *RMB'000*
Six months ended 30 June 2016 (Unaudited)			
Net book value			
Opening amount as at 1 January 2016	535,343	22,241	58,417
Additions	45,715	–	4,922
Depreciation and amortisation	(46,745)	(241)	(8,996)
Disposals	(6,492)	–	(3)
Exchange differences	2,541	–	1,606
Closing amount as at 30 June 2016	530,362	22,000	55,946
Six months ended 30 June 2015 (Unaudited)			
Net book value			
Opening amount as at 1 January 2015	603,593	22,724	65,453
Additions	57,396	–	9,987
Depreciation and amortisation	(45,456)	(241)	(7,474)
Disposals	(712)	–	–
Exchange differences	(4,967)	–	–
Closing amount as at 30 June 2015	609,854	22,483	67,966

As at 30 June 2016, certain property, plant and equipment amounting to RMB292,000 have been pledged for the Group's bank borrowings (31 December 2015: certain property, plant and equipment amounting to RMB642,000 have been pledged for the Group's bank borrowings) (Note 14).

8. INVENTORIES

	30 June 2016 ***RMB'000*** **Unaudited**	31 December 2015 *RMB'000* Audited
Project materials and consumables	**397,493**	400,862
Project-in-progress	**51,848**	39,554
Less: Provision for impairment	**(52,996)**	(46,592)
	396,345	393,824

9. TRADE AND NOTE RECEIVABLES

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables	**635,905**	677,217
Less: allowance for impairment of trade receivables	**(60,600)**	(56,825)
Trade receivables – net	**575,305**	620,392
Note receivables	**32,099**	11,402
	607,404	631,794

(a) Most of the trade receivables are with the expected credit term of six months, except for retention money amounting to approximately RMB8,216,000 (31 December 2015: RMB9,500,000).

Ageing analysis of gross trade receivables as at the respective balance sheet date is as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	Unaudited	Audited
Up to 6 months	**359,439**	391,387
6 months – 1 year	**102,689**	88,444
1 – 2 years	**89,281**	107,193
2 – 3 years	**88,402**	86,815
Over 3 years	**28,193**	14,780
Trade receivables, gross	**668,004**	688,619
Less: Impairment of trade receivables	**(60,600)**	(56,825)
Trade receivables, net	**607,404**	631,794

(b) Trade receivables of RMB33,500,000 (31 December 2015: RMB126,000,000) have been pledged for the Group's borrowings (Note 14).

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

10. PREPAYMENT AND OTHER RECEIVABLES

	30 June 2016 ***RMB'000*** **Unaudited**	31 December 2015 *RMB'000* Audited
Current		
Advances to suppliers	**68,174**	66,602
Prepayment for taxes	**58,244**	54,590
Total non-financial assets	**126,418**	121,192
Deposits and other receivables	**57,659**	57,802
Less: impairment of other receivables	**(7,863)**	(7,441)
Total financial assets	**49,796**	50,361
	176,214	171,553
Non-current		
Advances to suppliers (Non-financial assets)	**6,708**	18,872
Prepayment for operating lease (Non-financial assets)	**16,553**	16,878
	23,261	35,750
Total	**199,475**	207,303

(a) As at 30 June 2016, non-current prepayments of RMB7,620,000 (31 December 2015: RMB7,921,000) has been pledged for the Group's borrowings (Note 14).

11. INVESTMENT IN AN ASSOCIATE

On 15 March 2016, the Group acquired 17% interest in Xin Xiang City Xia Feng Electrical Appliance Co., Ltd. for a cash consideration of RMB4,650,000, where the Group is entitled to nominate 2 directors out of total 5 seats in the board of directors.



12. SHARE CAPITAL

	Number of share *(Thousands)*	Value *RMB'000*
Authorised:		
Ordinary shares of US$0.0001 each as at 30 June 2016 and 31 December 2015	2,000,000	1,295
Issued shares:		
As at 31 December 2015 and 30 June 2016	1,534,790	974

13. OTHER RESERVES

	30 June 2016 ***RMB'000*** **Unaudited**	31 December 2015 *RMB'000* Audited
Merger reserves	**(148,895)**	(148,895)
Equity component of convertible bonds	**61,150**	61,150
Share-based payments (a)	**156,803**	152,331
Statutory reserves	**53,768**	53,768
Capital reserves	**208,922**	208,922
	331,748	327,276

(a) Pursuant to the share option scheme, the Company granted on 20 February 2012 a total of 26,500,000 share options to 86 employees to subscribe for 26,500,000 ordinary shares of US$0.0001 each at an exercise price of HK$1.292. On 29 March 2012, another 7,300,000 share options were granted by the Company to four Directors and one senior management member of the Company to subscribe for 7,300,000 ordinary shares of US$0.0001 each at an exercise price of HK$ 1.36. The Company further granted on 13 June 2013 a total of 67,450,000 share options to Directors and employees to subscribe for 67,450,000 ordinary shares of US$0.0001 each at an exercise price of HK$ 4.694. These share options will be evenly vested over 3 years from the first anniversary of the grant date and exercisable within 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

13. OTHER RESERVES (CONTINUED)

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

	Six months ended 30 June			
	2016		2015	
	Average exercise price per share options HKD	**Number of share options *(Thousands)* Unaudited**	Average exercise price per share options HKD	Number of share options *(Thousands)* Unaudited
As at 1 January	**3.94**	**73,420**	4.41	78,381
Forfeited	**4.37**	**(2,151)**	4.46	(3,880)
Exercised	**–**	**–**	1.29	(381)
As at 30 June	**3.92**	**71,269**	4.42	74,120

14. BORROWINGS

	30 June 2016 *RMB'000* Unaudited	31 December 2015 *RMB'000* Audited
Long-term borrowings		
– Secured bank borrowings (a)(i)	**6,837**	6,694
– Unsecured bank borrowings (a)(i)	**35,469**	40,000
– Unsecured liability component of convertible bonds (b)	**74,630**	67,662
	116,936	114,356
Short-term borrowings (a)		
– Secured bank borrowings (a)(i)	**168,243**	196,000
– Unsecured bank borrowings	**31,498**	61,689
	199,741	257,689
Current portion of long-term bank borrowings (a)		
– Secured bank borrowings (a)(i)	**1,075**	1,869
	1,075	1,869
	317,752	373,914

14. BORROWINGS (CONTINUED)

Note:

(a) Movement of bank borrowings

	Six months ended 30 June 2016 ***RMB'000*** **Unaudited**
As at 1 January 2016	**306,252**
Proceeds of new borrowings	**161,243**
Repayments of borrowings	**(223,722)**
Currency translation difference	**(651)**
As at 30 June 2016	**243,122**

	Six months ended 30 June 2015 *RMB'000* Unaudited
As at 1 January 2015	434,790
Proceeds of new borrowings	211,500
Repayments of borrowings	(195,600)
Currency translation difference	(2,601)
As at 30 June 2015	448,089

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

14. BORROWINGS (CONTINUED)

Note: (continued)

(a) Movement of bank borrowings (continued)

(i) The collaterals of the Group's secured bank borrowings are as follows:

	30 June 2016 *RMB'000* **Unaudited**	31 December 2015 *RMB'000* Audited
Long-term bank borrowings		
Secured by:		
– Property, plant and equipment *(Note 7)*	**292**	642
– Long-term prepayments *(Note 10)*	**7,620**	7,921
	7,912	8,563
Short-term bank borrowings		
Secured by:		
– Trade and note receivables *(Note 9)*	**33,500**	126,000
– Corporate guarantee provided by certain subsidiary of the Group	**134,743**	70,000
	168,243	196,000

(b) Movement of liability component of convertible bonds

On 20 August 2012, the Company issued US$15,000,000 unsecured and non-redeemable convertible bonds with a coupon rate of 3% per annum (the "Bonds") to certain independent parties (the "Bondholders"). The Bonds mature three years from the issue date at their nominal value of US$15,000,000 or can be converted into shares at a conversion price of HK$1.65 (subject to adjustments) per share. The Bonds were initially partially recognised as a liability which was subsequently re-measured at amortised cost and partially as a derivative liability which was subsequently re-measured at fair value through profit and loss.

Subsequently and before 31 December 2012, the Company and the Bondholders entered into a supplemental deed whereby the conditions creating the partial derivative liability were extinguished and replaced by a new equity component (the "Supplemental Agreement"), while other Bonds' conditions remained the same. As such, the carrying value of the original Bonds was derecognised and replaced by the fair value of the new Bonds.

After that, the conversion price had been amended for two times triggered by certain term of the convertible bonds agreement and the latest conversion price was HK$1.60 per share before the second amendment deed was made.

14. BORROWINGS (CONTINUED)

Note: (continued)

(b) Movement of liability component of convertible bonds (continued)

On 12 June 2015, the Company and the Bondholders entered into a second amendment deed pursuant to which the maturity date was amended to the date falling on the sixth anniversary of the issue date of the original convertible bonds issued on 20 August 2012. In addition, the conversion price was amended to HK$1.69. As such, the original convertible bonds were derecognized whilst the new convertible bonds were recognized.

The Bonds recognised in the balance sheet was calculated as follows:

	Six months ended 30 June 2016 ***RMB'000*** **Unaudited**
Liability component as at 31 December 2015	**67,662**
Add: Interest expense	**5,997**
Less: Interest paid and payable	**(1,492)**
Less: Currency translation difference	**2,463**
Liability component as at 30 June	**74,630**

	Six months ended 30 June 2015 *RMB'000* Unaudited
Fair value of the Bonds issued on initial recognition date	96,193
Less: Equity component	(34,539)
Liability component on initial recognition date	61,654
Add: Interest expense	556
Less: Interest paid and payable	(1,376)
Less: Currency translation difference	(2)
Liability component as at 30 June	60,832

The carrying amount of the new liability component was calculated using cash flow discounted at a rate of 17.35%.

Notes to the Interim Condensed Consolidated Financial Information

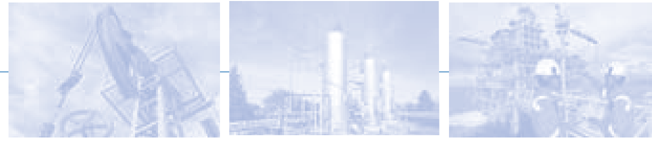
For the six months ended 30 June 2016

15. TRADE PAYABLES

	30 June 2016 **RMB'000** **Unaudited**	31 December 2015 RMB'000 Audited
Up to 6 months	**143,299**	290,696
6 months to 1 year	**139,850**	52,162
1 – 2 years	**133,158**	162,751
2 – 3 years	**25,390**	29,909
Over 3 years	**22,327**	18,320
	464,024	553,838

16. ACCRUALS AND OTHER PAYABLES

	30 June 2016 **RMB'000** **Unaudited**	31 December 2015 RMB'000 Audited
Interest payable	**2,268**	5,436
Rental payable	**4,470**	4,256
Others	**62,940**	16,331
Total financial liabilities	**69,678**	26,023
Customer deposits and receipts in advance	**5,554**	6,155
Payroll and welfare payable	**29,436**	46,882
Taxes other than income tax payable	**34,489**	32,399
Total non-financial liabilities	**69,479**	85,436
	139,157	111,459



17. DEFERRED TAXATION

The movement in deferred income tax assets and liabilities during the six months ended 2016 and 2015, without taking into consideration offsetting the balances with the same tax jurisdiction, is as follow:

Deferred tax assets

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	**137,609**	89,143
(Credited)/Charged to income statement *(Note 21)*	**(423)**	39,137
Currency translation difference	**1,446**	(1,795)
Closing balance at 30 June	**138,632**	126,485

Deferred tax liabilities

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	**23,500**	25,791
Credited to income statement *(Note 21)*	**(1,114)**	(2,314)
Currency translation difference	**399**	–
Closing balance at 30 June	**22,785**	23,477

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

18. EMPLOYEE BENEFITS EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Wages, salaries and allowances	**146,295**	234,599
Housing benefits	**5,611**	7,833
Pension costs	**14,624**	18,946
Share-based payments	**4,472**	10,371
Welfare and other expenses	**6,214**	7,343
	177,216	279,092

19. EXPENSE BY NATURE

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Losses on disposal of property, plant and equipment	**2,763**	606
Sales tax and surcharges	**2,034**	2,572
Depreciation	**46,745**	45,456
Amortisation of land use right and intangible assets	**9,237**	7,715



20. FINANCE COSTS, NET

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Finance income:		
– Interest income on short-term bank deposits	**273**	352
Finance income	**273**	352
Net foreign exchange losses on financing activities	**(47)**	–
Interest expense:		
– Bank borrowings	**(8,316)**	(12,672)
– Liability component of convertible bonds	**(5,997)**	(7,414)
– Bank charges	**(1,626)**	(1,327)
Total finance expenses	**(15,986)**	(21,413)
Net finance expenses	**(15,713)**	(21,061)

21. INCOME TAX EXPENSE

The Group operates mainly in the PRC, Kazakhstan, Singapore and Canada. During the six months ended 30 June 2016, the Company expected the profit before tax in these countries was subject to the statutory income tax rate of 25%, 20%, 10% and 25% respectively.

PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in Mainland China for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the six months ended 30 June 2016, certain subsidiaries established in the PRC were subject to a preferential tax rate of 15% while other subsidiaries established in the PRC are subject to income tax rate of 25%.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

21. INCOME TAX EXPENSE (CONTINUED)

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current income tax		
– PRC	**430**	2,353
– Kazakhstan	**–**	1,695
– Others	**–**	1,955
Deferred income tax	**(691)**	(41,451)
Income tax credit	**(261)**	(35,448)

22. DIVIDEND

The Board did not propose interim dividend for the six months ended 30 June 2016 (2015: nil).

23. LOSS PER SHARE

(a) Basic loss per share

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Loss attributable to equity owners of the Company	**(54,191)**	(199,057)
Weighted average number of ordinary shares in issue (thousands)	**1,534,790**	1,534,632
Basic losses per share (RMB per share)	**(0.0353)**	(0.1297)

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding by assuming conversion of all dilutive ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. Both of these two elements are anti-dilutive and accordingly the dilutive loss per share is same as basic loss per share.

24. COMMITMENT

(a) Capital commitments

Capital expenditures contracted for at the end of the period but not incurred is as below:

	30 June 2016 *RMB'000* **Unaudited**	31 December 2015 *RMB'000* Audited
Property, plant and equipment	**10,488**	5,596

(b) Operating lease commitments – where the Group is the lessee:

The Group leases various offices, warehouses and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2016 *RMB'000* **Unaudited**	31 December 2015 *RMB'000* Audited
No later than 1 year	**17,748**	2,918
Later than 1 year and no later than 5 years	**48,514**	1,648
Later than 5 years	**118,629**	5,757
	184,891	10,323

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

25. RELATED PARTY TRANSACTIONS

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

Key management compensation

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Salaries and other short-term benefits	**1,898**	4,012
Discretionary bonuses	**–**	409
Share-based payments	**494**	1,631
Retirement benefits and others	**112**	158
	2,504	6,210