Petro-king
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PETRO-KING OILFIELD SERVICES LIMITED
百勤油田服務有限公司
(Incorporated in the British Virgin Islands with limited liability)
(Stock Code: 2178)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board (the "**Board**") of directors (the "**Directors**") of Petro-king Oilfield Services Limited (the "**Company**") hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**", "**we**" or "**our**") for the six months ended 30 June 2016 ("**1H2016**").

OVERVIEW

Amidst the general slow-down in exploration and production ("**E&P**") investments of most oil and gas operators that led to the low level of oilfield service activities, the Group's revenue in 1H2016 declined by approximately 36% to approximately HK$266.1 million, from approximately HK$416.4 million for the six months ended 30 June 2015 ("**1H2015**"). The Group's operating costs amounted to approximately HK$310.7 million in 1H2016, decreased by approximately 19% as compared to that of approximately HK$385.8 million in 1H2015. The Group recorded an operating loss of approximately HK$43.5 million in 1H2016 as compared to an operating profit of approximately HK$30.6 million in 1H2015. The Group's net finance costs decreased by approximately 20% to approximately HK$13.0 million in 1H2016, from that of approximately HK$16.3 million in 1H2015. During the period, the Group recorded a net loss attributable to owners of the Company of approximately HK$56.7 million, compared to that of a net profit of approximately HK$8.2 million in 1H2015.

The first half of 2016 remained challenging for the oilfield service industry. The E&P industry finds itself in a deep financial crisis. Low profitability and uncertainty in cash flow make most oil and gas operators taking cautious approaches in both capital and operating expenditure plans, such as postponing investments in exploration, curtailing development activity, and squeezing service industry prices. As a result, the oilfield service providers have suffered as much as the oil and gas operators. Most of the oilfield service providers were forced to offer discounts on their service pricing when negotiating contracts with the E&P operators in order to stay competitive. Our 1H2016 results showed that the Group had experienced another challenging half year marked by lower activity levels and continuing pricing pressure in both China and the overseas markets.

During the period, the Group continuously conducted special risk management plan to cope with the industry downturn, enhanced financial position and further reduced bank borrowings. At the same time, the Group is seeking advancement on organisation structure and management performance, focusing on intrinsic improvement on operational performance and overall long term competitiveness. The Group took the following measures in 1H2016:

- Reviewed the Group's organisation structure and streamlined the operational management mechanism and the cost structure of all service lines and supporting departments.

- Adjusted the market weight of various regions in the China market and the overseas market and reallocated the Group's resources, including marketing and sales team, oilfield service equipment and engineering team.

- Further reduced headcount by approximately 34% to 364 employees as at 30 June 2016, from 553 employees as at 31 December 2015.

- Further deleveraged to minimise the financial distress risk and took a conservative approach in working capital and cashflow management.

THE CHINA MARKET

The current downturn of the China oilfield service market has lasted for more than two years since its peak in early 2014 in the midst of shale gas booms. Although there was a significant reduction in oilfield service equipment investments in the sector as well as the massive redundancy plans from nearly all of the industry participants, the oilfield service providers were still under tremendous pressure in tackling the issues of profitability and operating cashflow in negotiating and executing contracts under the current sluggish market environment.

In 1H2016, the oilfield service activities in the China market remained at a relatively low level. The weak international oil price continued to impact the industry in both volume and price. Major national oil companies ("**NOCs**") as well as other domestic oil and gas operators (especially those new investors in unconventional upstream projects, such as shale gas and coal bed methane ("**CBM**") continue to take a "wait and see" approach. Delaying or halting investments were common in most of the oil and gas operators due to the uncertainty in profitability as well as tight cashflow.

Due to the weak market environment, delaying in project execution and trade receivables settlement are still common in the oilfield service sector in China. Taking a strategy of prudent working capital management during this long industry downturn cycle, the Group tightened its customer credit control policy and rejected certain business opportunities due to uncertainty in collection of trade receivables. Nevertheless, the Group's self-developed tools and technologies have received further recognition from the market. During the period, revenue growth from sales of completion tools to oilfield service providers or agents contributed the most significant part of the Group's revenue growth in the China market.

THE OVERSEAS MARKET

Similar to the China market, most of the international oil and gas companies were also delaying or halting their E&P investments due to the continuous weak oil price in 1H2016. There was a massive capacity reduction in the oilfield service industry globally. However, it is widely believed that the E&P investment will soon be accelerated. The decline in production of these oil and gas operators and the decline in volume of the oilfield service activities is likely to be a temporary issue.

As a result of the slow-down in E&P activities of the Group's major customers, and the down size of the Group's certain overseas operations, the Group experienced a decline in revenue from the overseas market in 1H2016.

During the period, the Group focused on the market reassessment and restructured the Group's marketing and sales team as well as the service capacity among the various regions in the overseas market, with Middle East expanded. At a relatively slow pace, the Group's business strategy and market development in the Middle East continued to progress well in 1H2016.

The low oil price and the industry downturn led most of the oil and gas companies becoming much more cost cautious than before. To make use of this industry downturn and leverage the Group's reputable team of professional engineers, especially the excellent track record in handling complicated oilfield service projects in the Middle East, we expanded the marketing and sales team in the Middle East and have been proactively seeking new business opportunities in certain Gulf Cooperation Council ("**GCC**") countries. We are expecting further market penetration in certain major oil and gas operators in the Middle East by offering competitive pricing technologies and services.

GEOGRAPHICAL MARKET ANALYSIS

	1H2016 **(*HK$ million*)**	1H2015 (*HK$ million*)	Approximate percentage change (*%*)	**Approximate percentage of total revenue in 1H2016** **(*%*)**	Approximate percentage of total revenue in 1H2015 (*%*)
China market	**187.1**	136.2	37%	**70%**	33%
Overseas market	**79.0**	280.2	-72%	**30%**	67%
Total	**266.1**	416.4	-36%	**100%**	100%

The Group's revenue from the China market increased by approximately HK$50.9 million or approximately 37% to approximately HK$187.1 million in 1H2016 from approximately HK$136.2 million in 1H2015. The increase in revenue from the China market was mainly driven by the growth in sales of the Group's self-developed tools.

The Group's revenue from the overseas market dropped by approximately HK$201.2 million or approximately 72% to approximately HK$79.0 million in 1H2016 from approximately HK$280.2 million in 1H2015. The decrease in revenue from the overseas market was mainly due to the postpone in investments and delay in project execution by major customers in the Middle East and the substantial down size of the business operations in Venezuela.

REVENUE FROM THE CHINA MARKET

	1H2016 **(*HK$ million*)**	1H2015 (*HK$ million*)	Approximate percentage change (*%*)	**Approximate percentage of total revenue from the China market in 1H2016** **(*%*)**	Approximate percentage of total revenue from the China market in 1H2015 (*%*)
Northern China	**17.4**	19.6	-11%	**9%**	14%
Southwestern China	**22.0**	23.7	-7%	**12%**	18%
Other regions in China	**147.7**	92.9	59%	**79%**	68%
Total	**187.1**	136.2	37%	**100%**	100%

In 1H2016, the Group's revenue from Northern China amounted to approximately HK$17.4 million, which has dropped by approximately HK$2.2 million or approximately 11% from approximately HK$19.6 million in 1H2015. The decrease in revenue was mainly due to the decline in business activities of production enhancement projects in Northern Shaanxi and the drilling projects in Northeast China.

The revenue from Southwestern China amounted to approximately HK$22.0 million in 1H2016, which has decreased by approximately HK$1.7 million or approximately 7% from approximately HK$23.7 million in 1H2015. The decrease of revenue was mainly due to the decline in business of turbine drilling projects, netted off by the increase in revenue from the production enhancement projects.

The revenue from other regions in China amounted to approximately HK$147.7 million in 1H2016, which has increased by approximately HK$54.8 million or approximately 59% from approximately HK$92.9 million in 1H2015. The increase in revenue in other regions in China was mainly due to the growth in sales of the Group's self-developed tools in Eastern China region.

REVENUE FROM THE OVERSEAS MARKET

	1H2016 *(HK$ million)*	1H2015 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the Overseas market in 1H2016** *(%)*	Approximate percentage of total revenue from the Overseas market in 1H2015 *(%)*
South America	**7.1**	27.0	-74%	**9%**	10%
Middle East	**69.7**	218.6	-68%	**88%**	78%
Others	**2.2**	34.6	-94%	**3%**	12%
Total	**79.0**	280.2	-72%	**100%**	100%

The Group's revenue from South America amounted to approximately HK$7.1 million, which has dropped by approximately HK$19.9 million or approximately 74% from approximately HK$27.0 million in 1H2015. This change was mainly due to the down size of business in Venezuela, where the Group suspended the business operation of the Venezuela subsidiary. The Group's revenue from South America in 1H2016 was mainly from an oilfield project in Argentina. The revenue from Middle East amounted to approximately HK$69.7 million in 1H2016, which has dropped by approximately HK$148.9 million or approximately 68% from approximately HK$218.6 million in 1H2015. The decrease was mainly caused by the postpone in investments by major customers in that region. The revenue from other overseas regions amounted to approximately HK$2.2 million in 1H2016, which has dropped by approximately HK$32.4 million or approximately 94% from approximately HK$34.6 million in 1H2015. This decline in revenue was mainly due to the drop in the production enhancement projects in Kyrgyzstan. Based on a risk management plan, the Group suspended the execution of a production enhancement project in this area, in tackling the issue of slow payment progress of the customer.

BUSINESS SEGMENT ANALYSIS

	1H2016 *(HK$ million)*	1H2015 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2016** *(%)*	Approximate percentage of total revenue in 1H2015 *(%)*
Oilfield project tools and services	**234.7**	396.0	-41%	**88%**	95%
Consultancy services	**31.4**	20.4	54%	**12%**	5%
Total	**266.1**	416.4	-36%	**100%**	100%

In 1H2016, the Group's revenue from oilfield project tools and services amounted to approximately HK$234.7 million, which has decreased by approximately HK$161.3 million or approximately 41% from approximately HK$396.0 million in 1H2015. This decrease was mainly due to the decline in business activities in both production enhancement projects and drilling projects in Middle East, South America and Kyrgyzstan.

The Group's revenue from consultancy services amounted to approximately HK$31.4 million in 1H2016, which has increased by approximately HK$11.0 million or approximately 54% from approximately HK$20.4 million in 1H2015. This increase of revenue was mainly due to the increase in revenue generated by Integrated Project Management ("**IPM**") services in provision of early-stage project management and planning services for a key customer in Middle East.

Oilfield Project Tools and Services

	1H2016 *(HK$ million)*	1H2015 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from oilfield project tools and services in 1H2016** *(%)*	Approximate percentage of total revenue from oilfield project tools and services in 1H2015 *(%)*
Drilling	**13.2**	127.7	-90%	**6%**	32%
Well completion	**187.1**	194.1	-4%	**80%**	49%
Production enhancement	**34.4**	74.2	-54%	**14%**	19%
Total	**234.7**	396.0	-41%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to approximately HK$13.2 million in 1H2016, which has dropped by approximately HK$114.5 million or approximately 90% from approximately HK$127.7 million in 1H2015. This decrease was mainly caused by the decline of drilling services in Middle East and in Southwestern China.

In 1H2016, the Group provided drilling services for 3 wells, all of which were completed before 30 June 2016. The 3 wells were all from the China market.

Well Completion

In 1H2016, the Group's revenue from well completion amounted to approximately HK$187.1 million, which has decreased by approximately HK$7.0 million or approximately 4% from approximately HK$194.1 million in 1H2015. The decrease was mainly due to the drop of business from sales of well completion tools and provision of well completion services in Middle East, netted off by the growth in revenue from sales of completion tools in the China market.

In 1H2016, the Group provided well completion services for 9 wells, of which 8 wells were completed before 30 June 2016 and the remaining 1 well was still work-in-progress as at 30 June 2016. 3 wells were in the China market and 6 wells in the overseas market. In addition, the well completion business unit has earned a few sales contracts for the sale of the Group's self-developed tools in China in 1H2016.

Production Enhancement

In 1H2016, the Group's revenue from production enhancement amounted to HK$34.4 million, which has decreased by approximately HK$39.8 million or approximately 54% from approximately HK$74.2 million in 1H2015. This decrease was mainly due to the drop in business of production enhancement projects in Kyrgyzstan and Venezuela resulting from tightened customer credit control policy.

In 1H2016, the Group provided production enhancement services for 33 wells, of which 22 wells were completed before 30 June 2016 and the remaining 11 wells were still work-in-progress as at 30 June 2016. Among the above mentioned wells, 32 wells were in the China market and 1 well in the overseas market.

CUSTOMER ANALYSIS

Customer	**1H2016**	1H2015	Approximate percentage change	**Approximate percentage of total revenue in 1H2016**	Approximate percentage of total revenue in 1H2015
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
Customer 1	**71.4**	–	nil	**27%**	0%
Customer 2	**50.9**	42.4	20%	**19%**	10%
Customer 3	**38.9**	50.3	-23%	**15%**	12%
Customer 4	**21.2**	23.6	-10%	**8%**	6%
Customer 5	**5.6**	140.4	-96%	**2%**	34%
Customer 6	**–**	27.0	-100%	**0%**	6%
Other customers	**78.1**	132.7	-41%	**29%**	32%
Total	**266.1**	416.4	-36%	**100%**	100%

The revenue from Customer 1 amounted to approximately HK$71.4 million, this revenue from a new customer was mainly due to the great efforts by the Group to develop new customer in China. The revenue from Customer 2 increased by approximately HK$8.5 million or approximately 20%, from approximately HK$42.4 million in 1H2015 to approximately HK$50.9 million in 1H2016. This increase was mainly attributable to the growth of revenue from an oilfield service tools trader in Hong Kong, by providing high-end well completion tools to the customer. The revenue from Customer 3 amounted to approximately HK$38.9 million, which has dropped by approximately HK$11.4 million or approximately 23% from approximately HK$50.3 million in 1H2015. This drop was mainly affected by the reduction in sales of well completion tools in Middle East. The revenue from Customer 4 amounted to approximately HK$21.2 million, which has decreased by approximately HK$2.4 million or approximately 10% from approximately HK$23.6 million in 1H2015. This decrease was mainly due to the decline in business of production enhancement projects in the China market. The revenue from Customer 5 amounted to approximately HK$5.6 million, which has decreased by approximately HK$134.8 million or approximately 96% from approximately HK$140.4 million in 1H2015. The substantial decrease was mainly due to the postpone in investments and delay in project execution by a major customer in Southern Iraq. Customer 6 is located in Venezuela, where the Group downsized operations in Venezuela and suspended all services activities in the country in 1H2016. The revenue from other customers amounted to approximately HK$78.1 million, which has dropped by approximately HK$54.6 million or approximately 41% from approximately HK$132.7 million in 1H2015.

HUMAN RESOURCES

The Group always believes that its employees are its most valuable assets and the development of each employee has always been the Group's first priority in human resources management. The Group is eager to improve its employees' professional knowledge and enhance their professional standard through its modern training system. However, as the employee benefit expenses form a major part of its operating cost, the Group pays special attention, from time to time, to monitor the adequacy level of its workforce.

In order to cope with the industry downturn and to safeguard its core expertise, the Group continued cost-saving measures and optimised the human resources with the best employees in 1H2016. As at 30 June 2016, the Group had 364 employees, representing a decrease of approximately 34% from 553 employees as at 31 December 2015.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself in introducing innovative products and services in various oilfield services, such as turbine-drilling, directional drilling, multistage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 1H2016, the Group continued to seek advancement in technology and introduced new products to the market, including the followings:

- Developed a new 5 ½” tubing retrievable safety value with 10,000 Psi working pressure together with a wireline safety valve and lock out tool;

- Upgraded the American Petroleum Institute (“**API**”) license of the packer group in API 11D1 from Grade V3 to Grade V0;

- Upgraded the API license of the flow control group in API 14L from Grade V2 to Grade V1;

- Developed a new 9 5/8” packer which is with dual piston and dual bore to run with electric submersible pump. This new packer can be set with lower pressure and provide easier field operation and cost effectiveness.

The Group will continue to focus on developing down-hole tools and technology, as well as certain specific high-end drilling tools and technology, in order to maintain its leading position in the high-end oilfield service sector.

OUTLOOK

While the global oil production continues to fall as a result of the E&P investments cut by major oil and gas operators in the current period, low oil prices continue to drive demand growth, making the oil and gas market on a pace to healthy recovery in past few months. The Brent crude oil price has rebounded significantly to about US$51 a barrel, from its lowest of about US$28 in January 2016. It is widely believed that the upward movement in the oil price will continue in the second half of 2016 and 2017. According to the market consensus from Bloomberg, Brent crude oil price is estimated to see US$57 a barrel in the second quarter of 2017 and to reach US$61 a barrel in the fourth quarter of 2017. As such, we believe that 2016 might be the bottom of the downturn, and the oilfield service industry is likely to rebound from this cyclical bottom in 2017.

In the past 18 months, the Group took a conservative approach in coping with the industry downturn, such as downsized certain service lines; downsized the operations to a minimal level in Venezuela; reduced headcount and implemented certain cost control measures; tightened up customer credit policy; raised capital in order to enhance the Group's financial position; and repaid substantial part of the Group's bank borrowings in order to minimize the risk of financial distress. After taking all above measures, we safeguarded our core expertise and competency for being a high-end oilfield technology and service provider, while keeping the operating costs at a relatively low level.

In addition, we identified and capitalised certain improvement opportunities by being willing to challenge our existing ways of management decision process and risk management mechanism and by actively seeking insight and learning good experience from those best companies in the oilfield service industry and other technology and service industries.

In light of the recent transform of the China oil and gas industry, we believe that there will be more and more industry consolidation and collaboration among service providers and the operators in the foreseeable future, further to the successful completion of some M&A transactions in the China oilfield service sector recently. In order to take advantages of the industry transform, it is the Group's intention to actively seeking collaborations and commercial alignments with oil and gas investors as well as other oilfield service providers.

In anticipating a market recovery of the oilfield service sector in 2017, the Group started to expand its marketing and sales team in certain regions in the overseas market earlier this year, and started to reallocate the Group's resources and service capacity to those markets that we believe will offer the Group more opportunities in forthcoming industry recovery.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2016** *HK$'000*	Audited As at 31 December 2015 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**709,938**	757,928
Intangible assets		**521,977**	520,485
Land use rights		**10,489**	25,442
Available-for-sale financial asset		**33,891**	32,486
Interest in a joint venture		**5,556**	–
Other receivables, deposits and prepayments		**62,150**	147,724
Deferred tax assets		**12,938**	13,640
Total non-current assets		**1,356,939**	1,497,705
Current assets			
Inventories		**168,103**	242,719
Trade receivables	*5*	**489,172**	467,088
Other receivables, deposits and prepayments		**160,368**	89,522
Current income tax recoverable		**2,219**	3,249
Pledged bank deposits		**100,290**	147,685
Restricted bank balance		**2,827,304**	5,959
Cash and cash equivalents	*7*	**93,095**	46,592
		3,840,551	1,002,814
Asset classified as held for sale		**14,186**	–
Total current assets		**3,854,737**	1,002,814
Total assets		**5,211,676**	2,500,519
EQUITY			
Equity attributable to owners of the Company			
Share capital		**1,879,966**	1,879,966
Other reserves		**49,820**	36,268
Accumulated losses		**(395,664)**	(338,941)
		1,534,122	1,577,293
Non-controlling interests		**679**	2,011
Total equity		**1,534,801**	1,579,304

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**Unaudited As at 30 June 2016** ***HK$'000***	Audited As at 31 December 2015 *HK$'000*
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*7*	**178,970**	174,746
Deferred tax liabilities		**10,522**	11,246
Total non-current liabilities		**189,492**	185,992
Current liabilities			
Trade payables	*6*	**229,081**	310,967
Other payables and accruals		**3,141,547**	212,943
Current income tax liabilities		**1,012**	1,826
Bank and other borrowings	*7*	**115,743**	209,487
Total current liabilities		**3,487,383**	735,223
Total liabilities		**3,676,875**	921,215
Total equity and liabilities		**5,211,676**	2,500,519

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June **2016** *HK$'000*	2015 *HK$'000*
Revenue	*4*	**266,057**	416,351
Other income		**1,126**	–
Operating costs			
Material costs		**(129,054)**	(129,269)
Depreciation of property, plant and equipment		**(49,263)**	(44,571)
Amortisation of other intangible assets and land use rights		**(975)**	(1,022)
Operating lease rental		**(4,934)**	(9,713)
Employee benefit expenses		**(63,703)**	(87,901)
Distribution expenses		**(3,660)**	(5,085)
Technical service fees		**(6,734)**	(48,918)
Research and development expenses		**(2,325)**	(5,513)
Entertainment and marketing expenses		**(3,046)**	(6,751)
Provision for impairment of trade receivables, net		**(498)**	(2,830)
Other expenses	*8*	**(36,017)**	(45,401)
Other (losses)/gains, net	*9*	**(10,460)**	1,221
Operating (loss)/profit		**(43,486)**	30,598
Finance income		**588**	12,031
Finance costs		**(13,569)**	(28,380)
Finance costs, net	*10*	**(12,981)**	(16,349)
Share of loss of a joint venture		**(284)**	–
(Loss)/profit before income tax		**(56,751)**	14,249
Income tax expense	*11*	**(1,313)**	(6,662)
(Loss)/profit for the period		**(58,064)**	7,587
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Revaluation gain on available-for-sale financial asset		**1,405**	–
Currency translation differences		**(675)**	3,185
Share of other comprehensive loss of a joint venture accounted for under equity method		**(65)**	–
Other comprehensive income for the period, net of tax		**665**	3,185
Total comprehensive (loss)/income for the period		**(57,399)**	10,772

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	**Unaudited Six months ended 30 June 2016** *HK$'000*	2015 *HK$'000*
(Loss)/profit for the period attributable to:			
Owners of the Company		**(56,723)**	8,175
Non-controlling interests		**(1,341)**	(588)
		(58,064)	7,587
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		**(56,067)**	11,342
Non-controlling interests		**(1,332)**	(570)
		(57,399)	10,772
(Loss)/earnings per share attributable to owners of the Company during the period	*12*		(As restated)
Basic (loss)/earnings per share (HK cents)		**(4)**	1
Diluted (loss)/earnings per share(HK cents)		**(4)**	1

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June 2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations		**(26,068)**	20,583
Interest paid		**(6,230)**	(13,899)
Income tax paid		**(666)**	(807)
Net cash (used in)/generated from operating activities		**(32,964)**	5,877
Cash flows from investing activities			
Purchases of property, plant and equipment		**(17,507)**	(36,077)
Deposit received for disposal of equity interest in a subsidiary		**–**	44,257
Deposit received from sales of asset held for sale		**14,003**	–
Refund of prepayment for property, plant and equipment		**23,032**	–
Proceeds from disposal of property, plant and equipment		**1,067**	3,145
Interest received		**588**	2,031
Investment in a joint venture		**(5,905)**	–
Decrease in pledged bank deposits		**50,047**	53,978
Net cash generated from investing activities		**65,325**	67,334
Cash flows from financing activities			
Proceeds from bank and other borrowings	*7*	**130,617**	130,459
Repayments of bank and other borrowings	*7*	**(228,420)**	(457,061)
Net proceeds from issuance of convertible bonds	*7*	**–**	153,860
Net receipt in advance for rights issue		**123,524**	–
Net proceeds from rights issue		**–**	147,930
Repayment of loans to a related party		**–**	1,721
(Repayment of advance)/advance from related parties		**(9,269)**	819
Net cash generated from/(used in) financing activities		**16,452**	(22,272)
Net increase in cash and cash equivalents		**48,813**	50,939
Cash and cash equivalents at beginning of period, net of bank overdrafts		**43,924**	55,339
Exchange (losses)/gains on cash and cash equivalents		**(3,419)**	70
Cash and cash equivalents transferred to assets held for sale		**–**	(13,067)
Cash and cash equivalents at end of period, net of bank overdrafts		**89,318**	93,281

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The Company has its primary listing on Main Board of The Stock Exchange of Hong Kong Limited on 6 March 2013. This interim condensed consolidated financial information is presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with the International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements of the Group for the year ended 31 December 2015, as described in 2015 annual financial statements.

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

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

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

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

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

3.2 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

The following new standards, amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2017. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

		Effective for annual periods beginning on or after
IAS 12 Amendment	Income taxes	1 January 2017
IAS 7 Amendment	Statement of cash flows	1 January 2017
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 Amendment	Sale or contribution of assets between an investor and its associate or joint venture	A date to be determined by IASB

4 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on these reports.

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

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

During the period ended 30 June 2016, the CODM assessed the performance of Group by reviewing the results of two reportable segments: oilfield project tools and services and consultancy services, which is different from the segment categorisation in prior years in order to align the segment review with the restructured internal management and reporting structure. The segment information of comparative period has been restated to conform to the current period categorisation.

Revenue recognised during the six months ended 30 June 2016 and 2015 are as follows:

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
		(As restated)
Oilfield project tools and services		
– Drilling work	**13,186**	127,740
– Well completion work	**187,112**	194,010
– Production enhancement work	**34,405**	74,238
Total oilfield project tools and services	**234,703**	395,988
Consultancy services	**31,354**	20,363
Total revenue	**266,057**	416,351

The segment information for the six months ended 30 June 2016 and 2015 are as follows:

	Oilfield project tools and services	**Consultancy services**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Six months ended 30 June 2016			
Total segment revenue	**234,703**	**31,354**	**266,057**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**234,703**	**31,354**	**266,057**
Segment results	**28,999**	**29,296**	**58,295**
Net unallocated expenses			**(115,046)**
Loss before income tax			**(56,751)**
Other information:			
Amortisation of other intangible assets and land use rights	**(825)**	**–**	**(825)**
Depreciation	**(42,636)**	**–**	**(42,636)**
Provision for impairment of trade receivables, net	**(498)**	**–**	**(498)**
Income tax credits	**525**	**–**	**525**

	Oilfield project tools and services *HK$'000*	Consultancy services *HK$'000*	Total *HK$'000*
Six months ended 30 June 2015 (As restated)			
Total segment revenue	395,988	20,363	416,351
Inter-segment revenue	–	–	–
Revenue from external customers	395,988	20,363	416,351
Segment results	104,667	6,338	111,005
Net unallocated expenses			(96,756)
Profit before income tax			14,249
Other information:			
Amortisation of other intangible assets and land use rights	(840)	–	(840)
Depreciation	(39,635)	–	(39,635)
Provision for impairment of trade receivables, net	(7,203)	1,895	(5,308)
Income tax expenses	(4,432)	–	(4,432)

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

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
		(As restated)
Segment results	**58,295**	111,005
Other income	**1,126**	–
Depreciation of property, plant and equipment	**(6,627)**	(4,936)
Amortisation of other intangible assets	**(150)**	(182)
Operating lease rental	**(3,190)**	(5,575)
Employee benefit expenses	**(53,504)**	(51,418)
Entertainment and marketing expenses	**(2,974)**	(4,292)
Other expenses	**(26,917)**	(19,475)
Other (losses)/gains, net	**(10,460)**	1,221
Finance income	**588**	12,031
Finance costs	**(12,654)**	(24,130)
Share of loss of a joint venture	**(284)**	–
(Loss)/profit before income tax	**(56,751)**	14,249

The segment results included the material costs, technical service fees, depreciation of property, plant and equipment, amortisation of other intangible assets and land use rights, distribution expenses, operating lease rental, employee benefit expenses, research and development expenses, entertainment and marketing expenses, provision for impairment of trade receivables, other expenses, and finance costs allocated to each operating segment.

5 TRADE RECEIVABLES

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Trade receivables	**885,103**	879,350
Less: provision for impairment of trade receivables	**(395,931)**	(412,262)
Trade receivables – net	**489,172**	467,088

As at 30 June 2016 and 31 December 2015, ageing analysis of gross trade receivables by services completion and delivery date are as follows:

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Up to 3 months	**215,881**	102,419
3 to 6 months	**37,043**	121,797
6 to 12 months	**191,382**	197,443
Over 12 months	**440,797**	457,691
Trade receivables	**885,103**	879,350
Less: provision for impairment of trade receivables	**(395,931)**	(412,262)
Trade receivables - net	**489,172**	467,088

Before accepting any new customers, the Group entities apply an internal credit assessment policy to assess the potential customer's credit quality. Management closely monitors the credit quality of trade receivables and considers that the trade receivables to be of good credit quality since most counterparties are leaders in the oilfield industry with strong financial position and no history of defaults. The Group generally allows a credit period of 90 days after invoice date to its customers.

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

Certain customers of the Group experienced significant and rapid deterioration in the credit ratings as well as other market parameters which indicated an increase in the credit default risk. Based on the above at period end, management has determined to record a provision for doubtful receivables as at 30 June 2016 amounted to approximately HK$395,931,000 (31 December 2015: HK$412,262,000).

Movement on the Group's allowance for impairment of trade receivables are as follows:

	Six months ended 30 June	
	2016	**2015**
	HK$'000	*HK$'000*
Opening amount	**412,262**	297,600
Provision for receivables impairment	**9,114**	20,859
Reversal of provision for receivables impairment	**(8,616)**	(15,551)
Write off of provision for receivables impairment	**(12,272)**	–
Exchange differences	**(4,557)**	–
Closing amount	**395,931**	302,908

6 TRADE PAYABLES

As at 30 June 2016 and 31 December 2015, the ageing analysis of the trade payables based on invoice date are as follows:

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Up to 3 months	**18,337**	87,945
3 to 6 months	**24,593**	40,272
6 to 12 months	**45,608**	72,580
Over 12 months	**140,543**	110,170
	229,081	310,967

7 BANK AND OTHER BORROWINGS

	As at	
	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
Non-current		
Bank borrowings *(Note a)*	**41,382**	39,083
Finance lease liabilities *(Note c)*	**5,788**	8,777
Convertible bonds – liability component *(Note d)*	**131,800**	126,886
	178,970	174,746
Current		
Bank borrowings (including bank overdrafts) *(Note a)*	**32,933**	196,765
Other borrowings *(Note b)*	**70,000**	–
Finance lease liabilities *(Note c)*	**5,451**	5,363
Convertible bonds – liability component *(Note d)*	**7,359**	7,359
	115,743	209,487
	294,713	384,233

Movements in bank and other borrowings are analysed as follows:

	HK$'000
Six months ended 30 June 2016	
Opening amount	384,233
Proceeds from bank and other borrowings	130,617
Repayments of bank and other borrowings	(225,769)
Convertible bonds-liability component *(Note d)*	4,914
Finance lease liabilities	(2,651)
Exchange differences	3,369
Closing amount	294,713
Six months ended 30 June 2015	
Opening amount	749,483
Proceeds from bank and other borrowings	130,459
Repayments of bank and other borrowings	(457,061)
Transferred to liabilities held for sale	(35,507)
Convertible bonds-liability component	129,666
Finance lease liabilities	17,753
Exchange differences	(950)
Closing amount	533,843

Cash and cash equivalents and bank overdrafts include the following for the purposes of the condensed consolidated statement of cash flows:

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Cash and cash equivalents	**93,095**	46,592
Bank overdrafts	**(3,777)**	(2,668)
	89,318	43,924

(a) Bank borrowings

The Group has the following undrawn banking facilities:

	As at	
	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
Floating rate and expiring within one year	**–**	298,239

As at 30 June 2016, banking facilities of approximately HK$74 million (31 December 2015: HK$534 million) were granted by banks to the Group, of which all have been utilised by the Group (31 December 2015: HK$236 million). The facilities are secured by:

(i) certain pledged bank deposits;

(ii) corporate guarantees given by certain Group companies; and

(iii) a building of the Group.

As at 31 December 2015, the facilities were also secured by floating charge on all trade receivables of certain subsidiaries of the Company of approximately HK$379 million.

(b) Other borrowings

As at 30 June 2016, other borrowings of HK$70 million (31 December 2015: Nil) were secured by a director of the Company and pledged bank deposits of the Group. The other borrowings are interest bearing of 12% per annum and have been fully repaid in July 2016.

(c) Finance lease liabilities

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

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	**5,979**	6,180
Later than 1 year and no later than 5 years	**5,979**	9,269
	11,958	15,449
Future finance charges on finance leases	**(719)**	(1,309)
Present value of finance lease liabilities	**11,239**	14,140
The present value of finance lease liabilities is as follows:		
No later than 1 year	**5,451**	5,363
Later than 1 year and no later than 5 years	**5,788**	8,777
	11,239	14,140

As at 30 June 2016, finance lease liabilities were secured by certain machineries of the Group amounting to HK$23,473,000 (31 December 2015: HK$22,590,000).

(d) Convertible bonds

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Convertible bonds	**139,159**	134,245

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

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

The convertible bonds recognised on 30 March 2015 is calculated as follows:

	HK$'000
Net proceeds of convertible bonds issued on 30 March 2015	153,860
Equity component	(28,462)
Liability component at initial recognition	125,398

Movements in convertible bonds are analysed as follows:

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Opening amount	**134,245**	125,398
Interest expenses	**8,850**	4,268
Interest paid	**(3,936)**	–
Closing amount	**139,159**	129,666
Less: Non-current convertible bonds – liability component	**(131,800)**	(122,299)
Current portion	**7,359**	7,367

8 OTHER EXPENSES

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Auditor's remuneration		
– Audit services	**873**	587
– Audit-related services	**650**	–
Communications	**721**	837
Professional service fee	**3,061**	2,717
Motor vehicle expenses	**1,515**	2,672
Travelling	**7,120**	11,916
Insurance	**536**	1,275
Office utilities	**6,136**	7,255
Other tax-related expenses and custom duties *(Note(i))*	**5,596**	4,604
Bank charges	**631**	1,678
Provision for inventories obsolescence *(Note (ii))*	**3,378**	5,553
Provision for impairment of property, plant and equipment	**1,237**	–
Provision for impairment of other receivables	**781**	–
Others	**3,782**	6,307
	36,017	45,401

Note (i):

Other tax-related expenses comprise mainly stamp duty and sales tax.

Note (ii):

As at 30 June 2016, assembling materials with cost of HK$3,378,000 were considered as obsolete (30 June 2015: HK$5,553,000).

9 OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Foreign exchange (losses)/gains	**(10,660)**	1,037
Losses on disposals of property, plant and equipment	**(892)**	(477)
Write off of property, plant and equipment	**(471)**	–
Government grant	**132**	132
Others	**1,431**	529
	(10,460)	1,221

10 FINANCE COSTS, NET

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Interest expenses:		
– Bank and other borrowings	**(3,871)**	(22,119)
– Finance lease liabilities	**(401)**	–
– Loans from related parties	**(71)**	(44)
– Net foreign exchange (losses)/gains on financing activities	**(376)**	529
– Interest cost for convertible bonds	**(8,850)**	(4,268)
– Provision for impairment of trade receivables	**–**	(2,478)
Finance costs	**(13,569)**	(28,380)
Finance income:		
– Interest income from bank deposits	**588**	2,031
– Gain on the net monetary position	**–**	10,000
Finance income	**588**	12,031
Finance costs, net	**(12,981)**	(16,349)

11 INCOME TAX EXPENSE

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

For the Company's subsidiaries, income tax is provided on the basis of their profits for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purpose. The applicable enterprise income tax rate for PRC subsidiaries of the Group was 25% for the six months ended 30 June 2016 (2015: 25%), based on the relevant PRC tax laws and regulations, except those subsidiaries that were approved by relevant local tax bureau authorities as the High-technological Enterprise, and were entitled to a preferential Enterprise income tax rate of 15% (2015: 15%) during the period. Subsidiaries established in Hong Kong are subject to 16.5% (2015: 16.5%). Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (2015: 17%) during the period.

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Current tax		
– PRC enterprise income tax	**1,152**	161
– Singapore corporate tax	**–**	4,271
– Venezuela corporate tax	**–**	507
	1,152	4,939
Over provision in prior years		
– Hong Kong profits tax	**–**	(922)
– PRC enterprise income tax	**(316)**	–
Deferred tax	**477**	2,645
Income tax expense	**1,313**	6,662

12 (LOSS)/EARNINGS PER SHARE FOR THE (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic

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

	Six months ended 30 June	
	2016	2015
		(As restated)
(Loss)/profit attributable to owners of the Company *(HK$'000)*	**(56,723)**	8,175
Weighted average number of ordinary shares in issue *(Number of shares in thousand)*	**1,344,702**	1,226,229
Basic (loss)/earnings per share *(HK cents)*	**(4)**	1

Diluted

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

	Six months ended 30 June	
	2016	2015
		(As restated)
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company *(HK$'000)*	**(56,723)**	8,175
Weighted average number of ordinary shares in issue		
(Number of shares in thousand)	**1,344,702**	1,226,229
Adjustments for:		
Share options *(number of shares in thousand)*	**–**	781
Weighted average number of ordinary shares for diluted (loss)/ earnings per share *(number of shares in thousand)*	**1,344,702**	1,227,010
Diluted (loss)/earnings per share *(HK cents)*	**(4)**	1

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

For the period ended 30 June 2016, diluted loss per share was the same as basic loss per share since all potential ordinary shares are anti-dilutive as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic loss per share.

On 8 July 2016, the Group completed rights issue of 398,463,388 rights shares at HK$0.31 per rights share on the basis of three rights shares for every ten existing shares held on 29 June 2016. The basic and diluted earnings per share for the period ended 30 June 2015 have been restated to take into account the rights issue in which the right shares are issued at a discount on market price subsequent to the period ended 30 June 2015. The weighted average number of shares outstanding was retrospectively increased to reflect the discount in the rights issue. For the period ended 30 June 2015, the weighted average of number of ordinary shares in issue and the incremental shares from assumed exercise of share options granted which have dilutive effect to the basic earnings per share were 1,211,192,000 and 771,000 respectively before restatement.

13 DIVIDEND

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (30 June 2015: Nil).

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately HK$266.1 million in 1H2016, which has decreased by approximately HK$150.3 million or 36% as compared to that of approximately HK$416.4 million in the same period of 2015. The decrease in revenue was mainly due to the decline of business activities as a result of postponing investments, delaying in project execution by major E&P operators in Middle East and the substantial downsizing of the business operations in Venezuela.

Material Costs

In 1H2016, the Group's material costs were approximately HK$129.1 million, which has decreased by approximately HK$0.2 million as compared to that of approximately HK$129.3 million in 1H2015. Material costs representing approximately 49% of the revenue in 1H2016, which is substantially higher than that of 31% in 1H2015. Such change was partly due to the revise of revenue mix and partly the general decline in service pricing.

Depreciation of Property, Plant and Equipment

In 1H2016, the depreciation of property, plant and equipment amounted to approximately HK$49.3 million, which has increased by approximately HK$4.7 million or 11% as compared to that of approximately HK$44.6 million in 1H2015, primarily resulted from the addition of service equipment in the second half of 2015.

Employee Benefit Expenses

In 1H2016, the Group's employee benefit expenses were approximately HK$63.7 million, which has dropped by approximately HK$24.2 million or 28% as compared to that of approximately HK$87.9 million in 1H2015. The decrease in employee benefit expenses was mainly resulted from full period impact on implementation of staff structure optimising plan in 2015.

Distribution Expenses

In 1H2016, the Group's distribution expenses amounted to approximately HK$3.7 million, which has decreased by approximately HK$1.4 million or approximately 27% from approximately HK$5.1 million in 1H2015. The decrease in distribution expenses was mainly due to the declined business activities in 1H2016.

Technical Service Fees

In 1H2016, the Group's technical service fees amounted to approximately HK$6.7 million, which has decreased by approximately HK$42.2 million or approximately 86% from approximately HK$48.9 million in 1H2015, and such decrease was mainly due to the reason that the Group's oilfield project tools and services are mainly related to well completion projects, which requires less external technical support.

Other Expenses

In 1H2016, the Group's other expenses were approximately HK$36.0 million, which has decreased by approximately HK$9.4 million or approximately 21% from approximately HK$45.4 million in 1H2015, mainly attributable to the decrease of agency fee, travelling and motor vehicle expenses resulting from the implementation of certain cost control measures in the second half year of 2015.

Net Finance Costs

In 1H2016, the Group's net finance costs amounted to approximately HK$13.0 million, which has decreased by approximately HK$3.3 million as compared to that of approximately HK$16.3 million in 1H2015. This change was mainly attributable to the repayment of bank borrowings.

Income Tax Expense

In 1H2016, the Group's income tax expense amounted to approximately HK$1.3 million, representing an decrease of approximately HK$5.4 million or approximately 80% as compared to approximately HK$6.7 million for the same period in 2015, mainly due to the general decline of profitability in certain subsidiaries.

Loss for the Period

As a result of the foregoing, the Group recorded a loss of approximately HK$58.1 million in 1H2016 as compared to the profit of approximately HK$7.6 million in the same period of 2015.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company amounted to approximately HK$56.7 million in 1H2016 as compared to the profit of approximately HK$8.2 million in the same period of 2015.

Property, Plant and Equipment

Property, plant and equipment normally include items such as service equipment, buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. As at 30 June 2016, the Group's property, plant and equipment amounted to approximately HK$709.9 million, which has decreased by approximately HK$48.0 million or approximately 6% from approximately HK$757.9 million as at 31 December 2015. The decrease was primarily due to the depreciation of the property, plant and equipment.

Intangible Assets

As at 30 June 2016, the Group's intangible assets, including goodwill, amounted to approximately HK$522.0 million, representing an increase of approximately HK$1.5 million as compared to that as at 31 December 2015, mainly due to the exchange difference from currency appreciation.

Inventories

As at 30 June 2016, the Group's inventories amounted to approximately HK$168.1 million, representing a drop of approximately HK$74.6 million or approximately 31% as compared to that of approximately HK$242.7 million as at 31 December 2015. The average turnover days of inventories decreased from 485 days in 1H2015 to 290 days in 1H2016. The decrease of inventories was mainly due to utilisation of aged tools and equipment by the Group.

Trade Receivables

As at 30 June 2016, the Group's trade receivables amounted to approximately HK$489.2 million, representing an increase of approximately HK$22.1 million or approximately 5% as compared to that of approximately HK$467.1 million as at 31 December 2015. The average turnover days of trade receivables were 327 days in 1H2016, representing a decrease of 19 days as compared to 346 days in 1H2015. The decrease of turnover days of trade receivables was mainly due to enhanced settlement of trade receivables under the Group's intensive efforts.

Trade Payables

As at 30 June 2016, the Group's trade payables were approximately HK$229.1 million, which has decreased by approximately HK$81.9 million or 26% as compared to that of approximately HK$311.0 million as at 31 December 2015. The average turnover days of trade payables has increased from 323 days in 1H2015 to 362 days in 1H2016, representing an increase of 39 days.

Liquidity and Capital Resources

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

As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately HK$93.1 million, representing an increase of HK$46.5 million as compared to approximately HK$46.6 million as at 31 December 2015. The cash and cash equivalents were mainly held in HK$, RMB and US$.

Restricted bank balances of approximately HK$2,827.3 million as at 30 June 2016 mainly represents HK$2,821.5 million proceeds from over-subscription of rights issue from the shareholders of the Company and the remaining balance of HK$5.8 million represents the restricted deposits held at bank as reserve under litigation claim.

Pledged bank deposits of approximately HK$100.3 million was pledged against the Group's borrowings (including bank borrowings and bridge loan) and bidding activities.

As at 30 June 2016, the Group's bank facilities amounted to approximately HK$74.0 million (31 December 2015: HK$534.0 million) were granted by banks to the Group, of which all have been utilised by the Group (31 December 2015: HK$236.0 million) .

Gearing ratio

As at 30 June 2016, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 6% (31 December 2015: 10%). Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the condensed consolidated balance sheet) less cash and cash equivalents, pledged bank deposits and restricted bank balance (excluding proceeds from over-subscription of rights issue amounting to HK$2,821.5 million). Total capital is calculated as "equity" as shown in the condensed consolidated balance sheet plus net debt.

Foreign Exchange Risk

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

Contractual Obligations

The Group's contractual obligations include capital commitments and payment obligations under operating lease arrangements. The capital commitments mainly represent an acquisition contract on land use rights which amounted to approximately HK$13.2 million as at 30 June 2016. The Group leases various offices, warehouses and land in Singapore under non-cancellable operating lease agreement. The Group's commitment under operating leases amounted to approximately HK$29.4 million as at 30 June 2016.

Contingent Liabilities

During 2014, a contracting party initiated legal proceedings against the Group alleging a failure to provide stipulated amount of drilling works under the contracts entered in 2012 and 2013 and claimed for a total amount of RMB25,000,000. The case was concluded on 1 June 2015 in which the judgement of the court has been in favour of the Group and has dismissed the claim of the contracting party. The contracting party is in the process of appeal. As at 30 June 2016, restricted deposits of HK$5,835,000 are held at bank as reserve under litigation claim (31 December 2015: HK$5,959,000).

Non-current assets held for sale

On 31 May 2016, the Group entered into an agreement to transfer the ownership of a land use rights to independent third parties at consideration of RMB17,933,000 (equivalent to approximately HK$20,926,000). As at 30 June 2016, the Group has received deposits of approximately HK$14,003,000. The transfer will be completed within one year.

Off-balance Sheet Arrangements

As at 30 June 2016, the Group did not have any off-balance sheet arrangements (31 December 2015: Nil).

CORPORATE GOVERNANCE

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

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

Code A.2.1

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

Mr. Wang Jinlong ("**Mr. Wang**") was performing both the roles of chairman and chief executive officer ("**CEO**") of the Group during the reporting period until 25 April 2016. Taking into account Mr. Wang's strong expertise in the oil and gas industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. However, in order to maintain good corporate governance and fully comply with the Code Provisions, Mr. Wang has resigned as the CEO and Mr. Zhao Jindong ("**Mr. Zhao**") has been re-designated from a vice president to CEO on 25 April 2016. The change of CEO appointment enabled the Company to comply with the code provision requirement of separating the roles of chairman and chief executive officer under the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

EVENTS AFTER REPORTING PERIOD

Rights issue

On 8 July 2016, the Group completed rights issue of 398,463,388 rights shares at HK$0.31 per rights share on the basis of three rights shares for every ten existing shares held on 29 June 2016. The Group received funds from rights issue of approximately HK$2,944,993,000 out of which HK$2,821,469,000 was the over-subscription of the rights issue which was classified as restricted bank balance and refunded to the subscribers on 15 July 2016.

REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

The unaudited interim condensed consolidated financial information has been reviewed by the Company's independent auditor, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. The auditor's independent review report is included in the Interim Report of the Group.

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

Hong Kong, 25 August 2016

As at the date of this announcement, the executive Directors are Mr. Wang Jinlong and Mr. Zhao Jindong; the non-executive Directors are Mr. Ko Po Ming, Mr. Lee Tommy and Ms. Ma Hua; and the independent non-executive Directors are Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur.