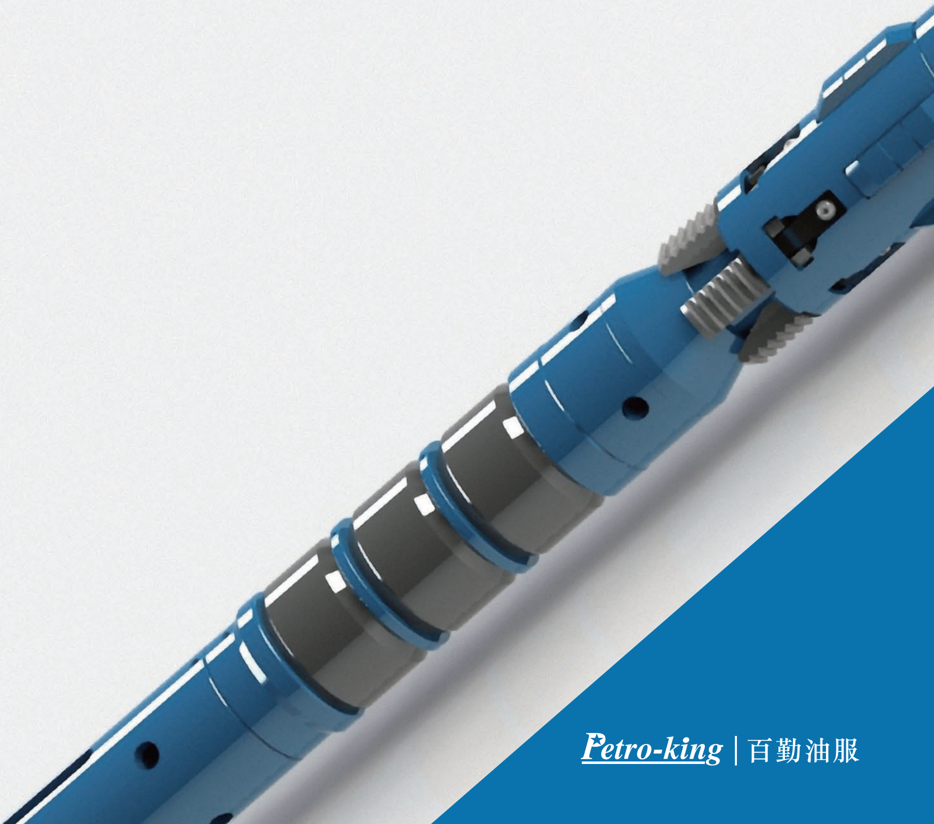
2016

Interim Report

PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178



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Mr. Lee Tommy (李銘浚)
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Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)

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Mr. Tong Hin Wor (湯顯和)
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Mr. Tong Hin Wor (湯顯和)
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MANAGEMENT DISCUSSION AND ANALYSIS

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 for the six months ended 30 June 2016 ("**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 cashflow make most oil and gas operators take 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 plans, to cope with the industry downturn, enhanced its 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 the marketing and sales team, oilfield service equipment and the 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 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 sizing 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 postponement in investments and delay in project execution by major customers in the Middle East and the substantial down sizing 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 sizing of business in Venezuela, where the Group suspended the business operation of its 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 postponement 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, to tackle 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 were 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 abovementioned wells, 32 wells were in the China market and 1 well was in the overseas market.

CUSTOMER ANALYSIS

Customer	1H2016 (HK$ million)	1H2015 (HK$ million)	Approximate percentage change (%)	Approximate percentage of total revenue in 1H2016 (%)	Approximate percentage of total revenue in 1H2015 (%)
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, such 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. Such 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. Such 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. Such 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 postponement 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 following:

- Developed a new 5 $^{1}/_{2}$" 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, leading 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 a substantial part of the Group's bank borrowings in order to minimise 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, in addition 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 seek collaborations and commercial alignments with oil and gas investors as well as other oilfield service providers.

In anticipation of 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.

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 represent approximately 49% of the revenue in 1H2016, which is substantially higher than that of 31% in 1H2015. Such change was partly due to the revision of revenue mix and partly due to 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 approximately 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 approximately HK$2,821.5 million proceeds from over-subscription of rights issue from the shareholders of the Company and the remaining balance approximately 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 bridging 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 interim 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 approximately HK$2,821.5 million). Total capital is calculated as "equity" as shown in the interim 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 a 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 (the "**Code Provisions**") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited. During the reporting period, the Company has complied with the Code Provisions save and except for the following deviation(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 CEO 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 requirement of separating the roles of chairman and CEO under the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the six months ended 30 June 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 have resolved not to declare an interim dividend for the six months ended 30 June 2016.

EVENT 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$2,945.0 million, out of which approximately HK$2,821.5 million was the over-subscription of the rights issue which was classified as restricted bank balance and refunded to the subscribers on 15 July 2016.

USE OF PROCEEDS

Use of proceeds from the rights issue

On 8 July 2016, the Group completed the rights issue of 398,463,388 ordinary shares of the Company at HK$0.31 per rights share and obtained net proceeds of approximately HK$120.0 million. The Group used the net proceeds from the rights issue as to approximately HK$90.0 million for repayment of bank and other borrowings, and as to the remaining (approximately HK$30.0 million) for general working capital purposes.

AUDIT COMMITTEE

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

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

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

Our Company

Name of Directors	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Wang Jinlong	Interest in a controlled corporation *(Note 2)*	488,920,138 (L)	28.32%
	Beneficial owner *(Note 4)*	102,173 (L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	526,180,335 (L)	30.47%
	Beneficial owner *(Note 4)*	102,173 (L)	0.01%
Mr. Ko Po Ming	Beneficial owner *(Notes 4 and 5)*	1,587,887 (L)	0.09%
Mr. Zhao Jindong	Beneficial owner *(Note 4 and 6)*	2,602,173 (L)	0.21%
Ms. Ma Hua	Beneficial owner *(Note 4)*	102,173 (L)	0.01%
Mr. He Shenghou	Beneficial owner *(Note 4)*	102,173 (L)	0.01%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	102,173 (L)	0.01%
Mr. Wong Lap Tat Arthur	Beneficial owner *(Note 4 and 7)*	492,173 (L)	0.03%

Notes:

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

2. Mr. Wang holds approximately 45.24% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 28.32% of the total number of issued shares of the Company. Therefore, Mr. Wang is taken to be interested in the number of shares held by King Shine pursuant to Part XV of the SFO. These shares include 376,092,414 shares beneficially owned by King Shine and 112,827,724 nil-paid rights shares for which King Shine has irrevocably and unconditionally undertaken to subscribe pursuant to its irrevocable undertaking dated 26 May 2016.

3. 63.99% of the total issued share capital of Termbray Industries International (Holdings) Limited ("**Termbray Industries**") is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, certain children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (B.V.I.) Limited ("**Termbray Electronics (BVI)**") which in turn holds 100% of the issued share capital of Termbray Natural Resources Company Limited ("**Termbray Natural Resources**"). Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited, Lee & Leung Family Investment Limited, Lee & Leung (B.V.I.) Limited, Termbray Industries and Termbray Electronics (BVI) are taken to be interested in the number of shares held by Termbray Natural Resources pursuant to Part XV of the SFO. These shares include 404,754,104 shares beneficially owned by Termbray Natural Resources and 121,426,231 nil-paid rights shares for which Termbray Natural Resources has irrevocably and unconditionally undertaken to subscribe pursuant to its irrevocable undertaking dated 26 May 2016.

4. 100,000 share options were granted to each of the Directors on 29 April 2014 pursuant to the Share Option Scheme and were adjusted to 102,173 share options after the completion of the rights issue of the Company on 4 February 2015. Therefore under Part XV of the SFO, the Directors are taken to be interested in the underlying shares that they are entitled to subscribe for subject to the exercise of the share options granted.

5. Apart from Note 4, these shares include 1,142,857 shares beneficially owned by Mr. Ko and 342,857 nil-paid rights shares for which he has irrevocably and unconditionally undertaken to subscribe pursuant to his irrevocable undertaking dated 20 May 2016.

6. 2,500,000 share options were conditionally granted to Mr. Zhao Jindong on 29 May 2015 and became unconditional on 7 September 2015. Therefore under Part XV of the SFO, Mr. Zhao Jindong are taken to be interested in the underlying shares that they are entitled to subscribe for subject to the exercise of the share options granted.

7. Apart from Note 4, these shares include 300,000 shares beneficially owned by Mr. Wong Lap Tat Arthur and 90,000 nil-paid rights shares for which Mr. Wong Lap Tat Arthur has irrevocably and unconditionally undertaken to subscribe pursuant to his irrevocable undertaking dated 20 May 2016.

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the following persons (other than a Director or chief executive of our Company) had an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	**Capacity/Nature of interest**	**Number of shares** *(Note 1)*	**Approximate percentage of interest in the Company**
Mr. Lee Lap	Settlor of a discretionary trust *(Note 2)*	526,180,335 (L)	30.47%
	Interest in a controlled corporation *(Note 3)*	23,000,000 (L)	1.33%
HSBC International Trustee Limited	Trustee *(Note 2)*	526,180,335 (L)	30.47%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Lee & Leung (B.V.I.) Limited	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Termbray Industries	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Termbray Electronics (BVI)	Interest in a controlled corporation *(Note 2)*	526,180,335 (L)	30.47%
Termbray Natural Resources	Beneficial owner *(Note 2)*	526,180,335 (L)	30.47%
TCL Corporation	Interest in a controlled corporation *(Note 4)*	136,303,475 (L)	7.89%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 4)*	136,303,475 (L)	7.89%

Name of shareholders	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Exceltop Holdings Limited	Interest in a controlled corporation *(Note 4)*	136,303,475 (L)	7.89%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 4)*	136,303,475 (L)	7.89%
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner *(Note 4)*	136,303,475 (L)	7.89%
Ms. Zhou Xiaojun	Interest of spouse *(Note 5)*	489,022,311 (L)	28.32%
King Shine	Beneficial owner *(Note 6)*	488,920,138 (L)	28.32%
UBS Group AG	Person having a security interest in shares *(Note 7)*	91,121,270 (L)	5.28%
UBS AG	Beneficial owner *(Note 8)*	670,857 (L) 670,857 (S)	0.05% 0.05%
	Person having a security interest in shares *(Note 8)*	70,093,285 (L)	5.68%
Greenwoods Asset Management Holdings Limited	Interest in a controlled corporation	62,824,713 (L)	5.08%
Greenwoods Asset Management Limited	Interest in a controlled corporation	62,824,713 (L)	5.08%
Mr. Jiang Jinzhi	Interest in a controlled corporation	62,824,713 (L)	5.08%
Unique Element Corp.	Interest in a controlled corporation	62,824,713 (L)	5.08%

Notes:

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

2. 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, certain children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (BVI) which in turn holds 100% of the issued share capital of Termbray Natural Resources. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited, Lee & Leung Family Investment Limited, Lee & Leung (B.V.I.) Limited, Termbray Industries and Termbray Electronics (BVI) are taken to be interested in the number of shares held by Termbray Natural Resources pursuant to Part XV of the SFO. These shares include 404,754,104 shares beneficially owned by Termbray Natural Resources and 121,426,231 nil-paid rights shares for which Termbray Natural Resources has irrevocably and unconditionally undertaken to subscribe pursuant to its irrevocable undertaking dated 26 May 2016.

3. Mr. Lee Lap directly holds 100% of the issued share capital of Great Wisdom Investment Limited. Therefore, Mr. Lee Lap is taken to be interested in the number of 23,000,000 rights shares underwritten by Great Wisdom Investment Limited pursuant to the underwriting agreement dated 26 May 2016.

4. TCL Corporation directly holds 100% of the issued share capital of TCL HK, which in turn holds 100% of the issued share capital of Exceltop Holdings Limited, which in turn holds 100% of the issued share capital of Jade Max Holdings Limited, which in turn holds 100% of the issued share capital of Jade Win. Therefore, TCL Corporation, TCL HK, Exceltop Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of shares held by Jade Win pursuant to Part XV of the SFO. These shares include 104,848,827 shares beneficially owned by Jade Win and 31,454,648 nil-paid rights shares for which Jade Win has irrevocably and unconditionally undertaken to subscribe pursuant to its irrevocable undertaking dated 26 May 2016.

5. Ms. Zhou holds approximately 17.91% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the shares in which Mr. Wang is interested for the purpose of the SFO.

6. These shares include 376,092,414 shares beneficially owned by King Shine and 112,827,724 nil-paid rights shares for which King Shine has irrevocably and unconditionally undertaken to subscribe pursuant to its irrevocable undertaking dated 26 May 2016.

7. According to the corporate substantial shareholder notice filed by UBS Group AG on 4 July 2016, the interests include 21,027,985 shares in long position held in physically settled derivatives listed or traded on a Stock Exchange or traded on a Futures Exchange.

8. According to the corporate substantial shareholder notice filed by UBS AG on 9 February 2015, interests include (i) 83,857 shares in long position and 83,857 shares in short position held in cash settled derivatives listed or traded on a Stock Exchange or traded on a Futures Exchange and (ii) 587,000 shares in short position held in cash settled unlisted derivatives.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012). There was no outstanding option under the Pre-IPO Share Option Scheme at the beginning of the reporting period and no option was granted during the period under review. Thus, there was no outstanding option under the Pre-IPO Share Option Scheme at the end of the reporting period.

Details of the Pre-IPO Share Option Scheme are stated in note 17 to the interim condensed consolidated financial information.

SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. For the period ended 30 June 2016, no share options have been granted under the Share Option Scheme. Set out below are details of the movements of share options during the six months ended 30 June 2016:

Grantees	Date of grant	Exercise price *(HK$)*	Closing price immediately before the date of grant	Options outstanding as at 1 January 2016	Options granted since 1 January 2016	Options exercised since 1 January 2016	Options lapsed/ cancelled since 1 January 2016	Options outstanding as at 30 June 2016
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
Zhao Jindong	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
	29 May 2015	1.3	1.28	2,500,000	–	*(Note 3)*	–	2,500,000
Ko Po Ming	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
Lee Tommy	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
Ma Hua	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
He Shenghou	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
Tong Hin Wor	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
Wong Lap Tat Arthur	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
Employees and senior managements	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	18,697,779	–	*(Note 2)*	306,521	18,391,258
	29 May 2015	1.3	1.28	56,600,000	–	*(Note 3)*	1,200,000	55,400,000
Others	29 April 2014	2.5506 *(adjusted) (Note 1)*	2.44	102,173	–	*(Note 2)*	–	102,173
	29 May 2015	1.3	1.28	100,000	–	*(Note 3)*	–	100,000
Total				78,817,336	–	–	1,506,521	77,310,815

Notes:

1. As a result of the completion of the rights issue of the Company on 4 February 2015, the exercise price was adjusted from HK$2.606 to HK$2.5506.

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

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

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

3. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 May 2016 to 28 May 2022, both dates inclusive.

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

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

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

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

ADJUSTMENT TO THE SHARE OPTIONS UNDER THE SHARE OPTION SCHEME

On 8 July 2016, the Group completed the Rights Issue of 398,463,388 ordinary shares of the Company at HK$0.31 per rights share and obtained net proceeds of approximately HK$120.0 million. As a result of the Rights Issue, pursuant to the terms of the Share Option Scheme, adjustments are required to be made to the exercise prices of and/or the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options.

The Company has calculated the necessary adjustments to the exercise prices of and the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options in accordance with the terms of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules. The adjustments to the exercise prices of and the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options are as follows and became effective from 8 July 2016 upon the allotment and issue of the Rights Shares pursuant to the Rights Issue:

	Immediately prior to the adjustments as a result of completion of the Rights Issue		**Immediately after the adjustments as a result of completion of the Rights Issue**	
	Number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options	*Exercise price per Share (HK$)*	*Adjusted number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options*	*Adjusted exercise price per Share (HK$)*
Share Options granted on 29 April 2014	19,310,815	2.5506	20,692,171	2.3803
Share Options granted on 29 May 2015	58,000,000	1.3000	62,148,899	1.2132

In accordance with the note to paragraph 17.03(13) of the Listing Rules, the Directors engaged PricewaterhouseCoopers, the auditor of the Company, to perform certain factual finding procedures on the compilation of the adjustments to the exercise prices of and the number of Shares falling to be issued upon exercise of the outstanding vested and unvested Share Options in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the auditor of the Company has reported its factual findings to the Directors.

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

Hong Kong, 25 August 2016

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

(Incorporated in the British Virgin Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 33 to 74, which comprises the interim condensed consolidated balance sheet of Petro-king Oilfield Services Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 August 2016

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	*8*	**709,938**	757,928
Intangible assets	*8*	**521,977**	520,485
Land use rights	*8*	**10,489**	25,442
Available-for-sale financial asset	*9*	**33,891**	32,486
Interest in a joint venture	*10*	**5,556**	–
Other receivables, deposits and prepayments	*11(b)*	**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	*11(a)*	**489,172**	467,088
Other receivables, deposits and prepayments	*11(b)*	**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	*14*	**93,095**	46,592
		3,840,551	1,002,814
Asset classified as held for sale	*8*	**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	*12*	**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

	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	*14*	**178,970**	174,746
Deferred tax liabilities		**10,522**	11,246
Total non-current liabilities		**189,492**	185,992
Current liabilities			
Trade payables	*13(a)*	**229,081**	310,967
Other payables and accruals	*13(b)*	**3,141,547**	212,943
Current income tax liabilities		**1,012**	1,826
Bank and other borrowings	*14*	**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

The notes on pages 41 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2016 HK$'000	 2015 HK$'000
Revenue	7	**266,057**	416,351
Other income		**1,126**	–
Operating costs			
Material costs		**(129,054)**	(129,269)
Depreciation of property, plant and equipment	8	**(49,263)**	(44,571)
Amortisation of other intangible assets and land use rights	8	**(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	15	**(36,017)**	(45,401)
Other (losses)/gains, net	16	**(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	18	**(12,981)**	(16,349)
Share of loss of a joint venture	10	**(284)**	–
(Loss)/profit before income tax		**(56,751)**	14,249
Income tax expense	19	**(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	9	**1,405**	–
Currency translation differences		**(675)**	3,185
Share of other comprehensive loss of a joint venture accounted for under equity method	10	**(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

	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	*20*		(As restated)
Basic (loss)/earnings per share (HK cents)		**(4)**	1
Diluted (loss)/earnings per share (HK cents)		**(4)**	1

The notes on pages 41 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016	1,879,966	36,268	(338,941)	1,577,293	2,011	1,579,304
Total comprehensive loss for the period ended 30 June 2016	–	656	(56,723)	(56,067)	(1,332)	(57,399)
Total transaction with owners, in their capacity as owners						
– Recognition of share-based payment	–	12,896	–	12,896	–	12,896
Total transaction with owners, recognised directly in equity	–	12,896	–	12,896	–	12,896
Balance at 30 June 2016	1,879,966	49,820	(395,664)	1,534,122	679	1,534,801

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2015	1,658,187	51,761	41,680	1,751,628	43,300	1,794,928
Total comprehensive income/(loss) for the period ended 30 June 2015	–	3,167	8,175	11,342	(570)	10,772
Total transactions with owners, recognised directly in equity						
– Issuance of ordinary shares from rights issue *(Note 12)*	147,930	–	–	147,930	–	147,930
– Issuance of convertible bonds *(Note 14(d))*	–	28,462	–	28,462	–	28,462
– Recognition of share-based payment	–	6,652	–	6,652	–	6,652
Total transactions with owners, recognised directly in equity	147,930	35,114	–	183,044	–	183,044
Balance at 30 June 2015	1,806,117	90,042	49,855	1,946,014	42,730	1,988,744

The notes on pages 41 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June 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	*14*	**130,617**	130,459
Repayments of bank and other borrowings	*14*	**(228,420)**	(457,061)
Net proceeds from issuance of convertible bonds	*14(d)*	**–**	153,860
Net receipt in advance for rights issue	*13(b)*	**123,524**	–
Net proceeds from rights issue	*12*	**–**	147,930
Repayment of loans to a related party		**–**	1,721
(Repayment of advance)/advance from related parties		**(9,269)**	819

	Note	Unaudited Six months ended 30 June 2016 HK$'000	2015 HK$'000
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

The notes on pages 41 to 74 form an integral part of this unaudited 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.

3 ACCOUNTING POLICIES (Continued)

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

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

3.2 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 ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015 except as described below.

Estimated impairment of non-financial assets

The Group follows the guidance of IAS 36 "Impairment of Assets" to determine when assets, for example goodwill, are impaired, which requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the recoverable amount of assets is less than their carrying balance, including factors such as the industry performance and changes in operational and financing cash flows. The Group tests annually or more frequently if events or changes in circumstances indicate a potential impairment in accordance with the accounting policy stated in the consolidated financial statements for the year ended 31 December 2015. The recoverable amounts of the cash-generating units ("**CGUs**") have been determined based on value-in-use calculations. These calculations require the use of estimates.

There will not be any impairment charges as at 30 June 2016 against goodwill in any of the CGUs if the pre-tax discount rate for the Group had been 1 percentage point higher than the management's estimates or the average annual growth rate of revenue for the Group had been 1 percentage point lower than management's estimates.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk

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

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

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

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

The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement. Considered certain customers of the Group faced deterioration in the credit ratings and worse off in the market parameter which indicates an increase in the credit default risk. In addition, the management has assessed the credit quality of customers on a case-by-case basis, taking into account the financial positions, historical record, amounts and timing of expected receipts and other factors. For those trade receivables where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amount of the trade receivables and the present value of estimated recoverable future cash flows discounted at the borrowing rate of the relevant debtors.

The Group's consolidated results would be heavily affected by the financial capability of its debtors to fulfill their obligations with the Group. The Group's credit risk monitoring activities relating to the debtors include review of the credit profile, business prospects, background and their financial capacities. As at 30 June 2016, management has determined to record a provision for doubtful receivables of HK$395,931,000 (31 December 2015: HK$412,262,000) which represents the impairment of total receivables due from the Group's certain debtors.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.3 Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and cash equivalents and access to debt or equity funding from major financial institutions or investors to meet its liquidity requirements in the short and long term.

5.4 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 30 June 2016 and 31 December 2015.

	Level 3 As at	
	30 June 2016 HK$'000	31 December 2015 HK$'000
Asset		
Available-for-sale financial asset – unlisted equity security	**33,891**	32,486

There were no transfers among levels 1, 2 and 3 during the period.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Since all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.4 Fair value estimation (Continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of the unlisted equity securities is valued by an independent professional valuer and determined based on cash flows discounted with the pre-tax discount rate (16%) (31 December 2015: 17%) which reflect specific risks related to the unlisted equity security. Management has taken into account the factor of minority interest in the fair value of the unlisted equity securities.

On 5 July 2016, the equity security listed in the PRC with no quoted price for the equity security as at the date of this report.

The following table presents the changes in level 3 instruments at fair value at 30 June 2016.

	Six months ended 30 June 2016 HK$'000
Opening amount	**32,486**
Revaluation gain transferred to other comprehensive income *(Note 9)*	**1,405**
Closing amount	**33,891**
Changes in fair value for the period included in profit or loss at the end of the period	**–**

6 SEASONAL NATURE OF THE BUSINESS

For most of the Group's businesses, and particularly the oilfield business, the first half of the financial period is marked by lower business volumes than in the second half of the year as most of the customers, particularly state-owned enterprises, set annual budgets and finalise work scope early in the year and request work to be done later in the year, particularly in the third and fourth quarters.

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

7 SEGMENT INFORMATION

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

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

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

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 periods 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

7 SEGMENT INFORMATION (Continued)

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

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total 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**
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)

7 SEGMENT INFORMATION (Continued)

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.

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

	Property, plant and equipment HK$'000	Other intangible assets HK$'000	Intangible assets – Goodwill *(Note c)* HK$'000	Land use rights HK$'000
Six months ended 30 June 2016				
Net book value				
Opening amount as at 1 January 2016	**757,928**	**3,585**	**516,900**	**25,442**
Additions	**16,967**	**–**	**–**	**–**
Depreciation and amortisation	**(49,263)**	**(736)**	**–**	**(239)**
Transferred to asset held for sale *(Note a)*	**–**	**–**	**–**	**(14,186)**
Disposals	**(1,959)**	**–**	**–**	**–**
Write off of property, plant and equipment	**(471)**	**–**	**–**	**–**
Provision for impairment of property, plant and equipment	**(1,237)**	**–**	**–**	**–**
Exchange differences	**(12,027)**	**(9)**	**2,237**	**(528)**
Closing amount as at 30 June 2016	**709,938**	**2,840**	**519,137**	**10,489**
Six months ended 30 June 2015				
Net book value				
Opening amount as at 1 January 2015	815,108	5,177	562,135	27,624
Additions	90,407	–	–	–
Depreciation and amortisation	(44,571)	(741)	–	(281)
Monetary correction for hyperinflation	5,787	–	–	–
Disposals	(3,622)	–	–	–
Transferred to assets held for sale *(Note b)*	(3,152)	–	(42,382)	–
Exchange differences	(1,246)	(1)	(521)	10
Closing amount as at 30 June 2015	858,711	4,435	519,232	27,353

8 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LAND USE RIGHTS (Continued)

Note a:

On 31 May 2016, the Group entered into an agreement to transfer the ownership of a land use rights of HK$14,186,000 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.

Note b:

On 9 June 2015, Shenzhen Fluid Science & Technology Co., Ltd, a 60% owned subsidiary of the Company ("**Target Company**"), the other remaining shareholders of the Target Company and the Group entered into memoranda of understanding with three purchasers, pursuant to which the Group intended to sell 40.1% equity interest in the Target Company to the purchasers with a consideration of RMB60,150,000 (equivalent to approximately HK$75,188,000). On 17 August 2015, the above disposal was completed.

Note c:

Management reviews the business performance on CGU basis. The goodwill is monitored by management at the CGU level. The following is a summary of goodwill allocation for each reportable segment:

	Opening HK$'000	**Exchange differences** HK$'000	**Transferred to assets held for sale** HK$'000	**Closing** HK$'000
Period ended 30 June 2016				
Oilfield project tools and services	**421,444**	**2,237**	**–**	**423,681**
Consultancy services	**95,456**	**–**	**–**	**95,456**
	516,900	**2,237**	**–**	**519,137**
Period ended 30 June 2015 (As restated)				
Oilfield project tools and services	466,679	(521)	(42,382)	423,776
Consultancy services	95,456	–	–	95,456
	562,135	(521)	(42,382)	519,232

8 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LAND USE RIGHTS (Continued)

The recoverable amount of these CGUs has been determined based on a value-in-use calculation. It is calculated using pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

For each of the CGUs with significant amount of goodwill, the key assumptions, average annual growth rate and pre-tax discount rate used in the value-in-use calculations in 30 June 2016 and 31 December 2015 are as follows:

Period ended 30 June 2016

	Oilfield project tools and services	**Consultancy services**
Average annual growth rate	**27%**	**16%**
Pre-tax discount rate	**19%**	**19%**
Long term growth rate	**3%**	**3%**

Year ended 31 December 2015 (As restated)

	Oilfield project tools and services	Consultancy services
Average annual growth rate	15%	15%
Pre-tax discount rate	19%	19%
Long term growth rate	3%	3%

These assumptions have been used for the analysis of each CGU within the operating segment. The average annual growth rate used is based on past performance and is consistent with the management's expectations of the market development. The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

9 AVAILABLE-FOR-SALE FINANCIAL ASSET

	As at	
	30 June 2016	31 December 2015
	HK$'000	HK$'000
Unlisted equity security in the PRC – non-current	**33,891**	32,486

Movement of the available-for-sale financial asset is as follows:

	Six months ended 30 June 2016 HK$'000
Opening amount	**32,486**
Change in fair value recognised in other comprehensive income	**1,405**
Closing amount	**33,891**

The fair value of the available-for-sale financial asset is valued by an independent professional valuer and determined based on cash flows discounted with the pre-tax discount rate (16%) (31 December 2015: 17%) which reflect specific risks related to the unlisted equity security. Management has taken into account the factor of minority interest in the fair value of the unlisted equity securities.

On 5 July 2016, the equity security was listed in the PRC with no quoted price for the equity security as at the date of this report. The fair value is within the level 3 of the fair value hierarchy (Note 5.4).

10 INTEREST IN A JOINT VENTURE

	Six months ended 30 June 2016 HK$'000
Opening amount	**–**
Addition	**5,905**
Share of loss of a joint venture	**(284)**
Currency translation differences	**(65)**
Closing amount	**5,556**

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) 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

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(a) Trade receivables (Continued)

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

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(b) Other receivables, deposits and prepayments

	As at	
	30 June 2016 HK$'000	31 December 2015 HK$'000
Deposits and other receivables-third parties	**18,730**	18,427
Receivables on land bidding in the PRC	**2,334**	2,384
Value-added tax recoverables	**80,415**	82,753
Rental deposits	**1,481**	1,592
Cash advances to staff	**12,223**	7,864
Loans to staff	**4,046**	3,723
Loans to a senior management	**1,068**	1,181
Prepayments for materials	**26,342**	23,191
Prepayments for rents and others	**6,358**	3,690
Prepayment for land use rights	**5,683**	5,804
Prepayment for property, plant and equipment *(Note)*	**63,838**	86,637
	222,518	237,246
Less:		
Non-current value-added tax recoverables	**(53,415)**	(54,084)
Non-current deposit – a third party	**(1,174)**	(1,199)
Non-current prepayment for land use rights	**(5,683)**	(5,804)
Non-current prepayment for property, plant and equipment	**(1,878)**	(86,637)
Non-current portion	**(62,150)**	(147,724)
Current portion	**160,368**	89,522

Note:

As at 30 June 2016, the prepayment for property, plant and equipment of HK$61,960,000 is under refund process and is repayable within one year (31 December 2015: Nil).

12 SHARE CAPITAL

	Number of shares '000	Total HK$'000
Issued and fully paid:		
At 1 January 2016 and 30 June 2016	**1,328,211**	**1,879,966**
At 1 January 2015	1,080,390	1,658,187
Rights issue of ordinary shares *(Note)*	154,341	147,930
At 30 June 2015	1,234,731	1,806,117

Note:

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

13 TRADE AND OTHER PAYABLES AND ACCRUALS

(a) 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 HK$'000	31 December 2015 HK$'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

13 TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

(b) Other payables and accruals

	As at 30 June 2016 HK$'000	As at 31 December 2015 HK$'000
Other payables		
– Third parties	**123,383**	135,938
– Related parties	**3,695**	13,076
Receipt in advance	**17,327**	17,207
Deposits received from sales of asset held for sale	**14,003**	–
Accrued payroll and welfare	**27,395**	35,697
Value-added tax payable	**2,298**	2,273
Other tax and surcharge payables	**8,453**	8,752
Fund received from rights issue *(Note)*	**2,944,993**	–
	3,141,547	212,943

Note:

On 29 June 2016, the Group received approximately HK$2,944,993,000 over which HK$2,821,469,000 was the over-subscription of the rights issue. The rights issue was completed on 8 July 2016 and the over-subscription fund was refunded to the subscribers on 15 July 2016. (Note 25).

14 BANK AND OTHER BORROWINGS

	As at 30 June 2016 HK$'000	As at 31 December 2015 HK$'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

14 BANK AND OTHER BORROWINGS (Continued)

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 interim 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

14 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings

The Group has the following undrawn banking facilities:

	As at	
	30 June 2016 HK$'000	31 December 2015 HK$'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, interest bearing at 12% per annum, and were fully repaid in July 2016.

14 BANK AND OTHER BORROWINGS (Continued)

(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.

14 BANK AND OTHER BORROWINGS (Continued)

(d) Convertible bonds (Continued)

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

15 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 *(Note 8)*	**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).

16 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

17 SHARE-BASED PAYMENTS

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

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

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was approved and adopted on 20 December 2010, pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group and any entity in which any member of the Group holds any equity interest.

The Pre-IPO Share Option Scheme was supplemented and amended by an addendum on 25 September 2012, where the Company shall issue the relevant number of ordinary shares instead of non-voting shares at the revised exercise price on or after the listing of the Company. Share options were granted to selected senior management and employees of the Company.

The Pre-IPO Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme. There is no vesting period for the Pre-IPO Share Option Scheme and it is exercisable within 5 years from the date of grant.

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

Possibility of forfeiture is taken into account by reference to the historical employee turnover for the estimation of the fair value of options granted. The expected post-vesting exit rate is zero.

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the rights issue in February 2015.

17 SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

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

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

Note 1:

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

Note 2:

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

During the period ended 30 June 2015, no share option was granted, forfeited or expired and no share-based payment expense for the Pre-IPO Share Option Scheme was recognised in the statement of comprehensive income.

All the outstanding share options were expired in December 2015.

Share Option Scheme

The Share Option Scheme was approved and adopted on 18 February 2013, pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group. Share options were granted to directors, selected employees and a consultant of the Company.

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

17 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

On 29 April 2014, the Group granted share options to directors, selected senior managements, employees and a consultant and the number of ordinary shares which will be issued upon exercise of all options granted are 800,000, 12,100,000 and 7,100,000 respectively. The exercise price is HK$2.6 per share option. Share options granted have a contractual option term of five years and will be expired on 28 April 2019. Vesting period of the share options ranges from one to three years. All the options are conditional in which only one third and two third are vested and exercisable after one and two years from the grant date respectively. The remaining options are vested and exercisable after three years from the grant date. The Group does not have a legal or constructive obligation to repurchase or settle the options in cash.

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

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

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

Note:

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

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

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the rights issue in February 2015.

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

17 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 30 June 2016 are as follow:

	Exercise price per share option		Number of share options		
	Before adjustment for rights issue	After adjustment for rights issue	As at 1 January 2016	Forfeited during the period	As at 30 June 2016
Grant date					
29 April 2014	2.61	2.55	19,617,336	(306,521)	19,310,815
29 May 2015	N/A	1.3	59,200,000	(1,200,000)	58,000,000
Total			78,817,336	(1,506,521)	77,310,815
Grant date					
29 April 2014			2.55	–	2.55
29 May 2015			1.3	–	1.3

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

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

During the period ended 30 June 2016, share-based payment expense of HK$12,896,000 for the Share Option Scheme was recognised in the interim condensed consolidated statement of comprehensive income (30 June 2015: HK$6,652,000).

18 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 *(Note 24(a))*	**(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)

19 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 periods 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.

19 INCOME TAX EXPENSE (Continued)

	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

20 (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**	1,211,374
Basic (loss)/earnings per share (HK cents)	**(4)**	1

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

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 (loss)/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.

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

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 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.

21 DIVIDEND

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

22 CONTINGENCIES

	As at	
	30 June 2016	31 December 2015
	HK$'000	HK$'000
Performance bonds *(Note (i))*	**–**	5,235
Litigation claim *(Note (ii))*	**28,197**	28,799

Note (i):

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

Note (ii):

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).

23 COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June 2016	31 December 2015
	HK$'000	HK$'000
Land use rights		
– Contracted but not provided for	**13,186**	13,551
Property, plant and equipment		
– Contracted but not provided for	**–**	2,743

(b) Operating lease commitments – Group as lessee

The Group leases various offices, residential properties and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 30 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

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

	As at	
	30 June 2016	31 December 2015
	HK$'000	HK$'000
No later than 1 year	**5,208**	7,915
Later than 1 year and no later than 5 years	**8,494**	8,940
Later than 5 years	**15,665**	16,445
	29,367	33,300

24 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the periods ended 30 June 2016 and 2015, and balances arising from related party transactions as at 30 June 2016 and 31 December 2015.

Name	**Relationships**
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Mr. Lee Lap	Substantial shareholder
Ms. Sun JinXia	Senior management
Mr. Pan YuXin	Senior management
Mr. Shu WaTung Laurence	Senior management
Mr. Lin JingYu	Senior management
Mr. Zhang TaiYuan	Senior management
Mr. Yuan FuCun	Senior management
Mr. Ren Wensheng	Senior management

(a) Interest expenses for loans from related parties

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Interest expenses for loans from related parties *(Note)*	**71**	44

Note:

The balance represents cash advanced from the Group's senior management which are unsecured, interest bearing at 12% per annum and approximate to their fair values as at 30 June 2016 (30 June 2015: 15%).

24 RELATED PARTY TRANSACTIONS (Continued)

(b) Key management compensation

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

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**3,552**	3,816
Share-based payments	**7,428**	4,081
	10,980	7,897

25 EVENT AFTER BALANCE SHEET DATE

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.