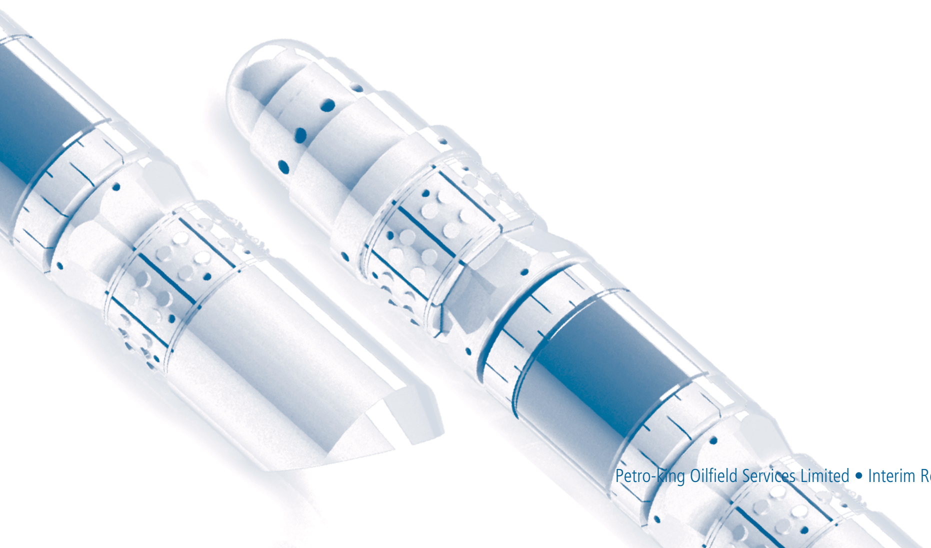
Interim Report 2017

PETRO-KING OILFIELD SERVICES LIMITED
(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178

CONTENTS



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Lin Cheong (梁年昌)
(appointed on 2 June 2017)
Mr. Tong Hin Wor (湯顯和)
Mr. Xin Junhe (辛俊和)
(appointed on 27 March 2017)
Mr. He Shenghou (何生厚)
(resigned on 27 March 2017)
Mr. Wong Lap Tat Arthur (黃立達)
(retired on 2 June 2017)

AUDIT COMMITTEE

Mr. Leung Lin Cheong (梁年昌) *(Chairman)*
(appointed on 2 June 2017)
Mr. Tong Hin Wor (湯顯和)
Mr. Xin Junhe (辛俊和)
(appointed on 27 March 2017)
Mr. He Shenghou (何生厚)
(resigned on 27 March 2017)
Mr. Wong Lap Tat Arthur (黃立達)
(retired on 2 June 2017)

REMUNERATION COMMITTEE

Mr. Xin Junhe (辛俊和) *(Chairman)*
(appointed on 27 March 2017)
Mr. Wang Jinlong (王金龍)
Mr. Lee Tommy (李銘浚)
Mr. Leung Lin Cheong (梁年昌)
(appointed on 2 June 2017)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)
(resigned on 27 March 2017)
Mr. Wong Lap Tat Arthur (黃立達)
(retired on 2 June 2017)

NOMINATION COMMITTEE

Mr. Wang Jinlong (王金龍) *(Chairman)*
Mr. Lee Tommy (李銘浚)
Mr. Leung Lin Cheong (梁年昌)
(appointed on 2 June 2017)
Mr. Tong Hin Wor (湯顯和)
Mr. Xin Junhe (辛俊和)
(appointed on 27 March 2017)
Mr. He Shenghou (何生厚)
(resigned on 27 March 2017)
Mr. Wong Lap Tat Arthur (黃立達)
(retired on 2 June 2017)

SANCTION OVERSIGHT COMMITTEE

Mr. Leung Lin Cheong (梁年昌) *(Chairman)*
(appointed on 2 June 2017)
Mr. Wang Jinlong (王金龍)
Mr. Xin Junhe (辛俊和)
(appointed on 27 March 2017)
Mr. He Shenghou (何生厚)
(resigned on 27 March 2017)
Mr. Wong Lap Tat Arthur (黃立達)
(retired on 2 June 2017)

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗)

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE IN THE BRITISH VIRGIN ISLANDS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 17, Tower 2, Silvercord
30 Canton Road
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 705-710, 7/F, Tower A
Tiley Central Plaza
No. 3 Haide Road
Nanshan District
Shenzhen
Guangdong
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

Conyers Trust Company (BVI) Limited
Commerce House, Wickhams Cay 1
P.O. Box 3140
Road Town, Tortola
British Virgin Islands VG1110

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road
Central
Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central
Hong Kong

China Merchants Bank
China Merchants Building, Shekou
Shenzhen 518067
China

Bank of China, Shekou sub-branch
18 Taizi Road, Shekou
Shenzhen
China

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS (HONG KONG LAW)

Tung & Co.

COMPANY'S WEBSITE

www.petro-king.cn

STOCK CODE

2178

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The persistently weak sentiment among most of the Group's customers about investment in exploration and production ("**E&P**") led to a low level of oilfield service activities in the six months ended 30 June 2017 ("**1H2017**") in mainland China and the overseas markets, the Group's revenue in 1H2017 declined by approximately 50% to approximately HK$132.4 million, from approximately HK$266.1 million for the six months ended 30 June 2016 ("**1H2016**"). The Group's operating costs decreased by approximately 43% to approximately HK$177.6 million in 1H2017 from approximately HK$310.7 million in 1H2016. The Group recorded an operating loss of approximately HK$44.3 million in 1H2017 compared with an operating loss of approximately HK$43.5 million in 1H2016. The Group's net finance costs decreased by approximately 18% to approximately HK$10.7 million in 1H2017, from that of approximately HK$13.0 million in 1H2016. During the period, the Group recorded a net loss attributable to owners of the Company of approximately HK$57.5 million, compared with the net loss of approximately HK$56.7 million in 1H2016.

The first half of 2017 remained challenging for the oilfield service industry. Low profitability and uncertainty in project cash flow led to our cautious approach in seeking and agreeing to undertake new projects. As a result, our 1H2017 results showed that the Group had experienced another challenging half year marked by lower activity levels and continuing pressure on pricing in mainland China and the overseas markets.

During the period, the Group focused on improving its management performance, organisational structure, operational performance and overall competitiveness for its long-term development. The Group took the following measures in 1H2017:

- Adjusted the Group's organisational structure and further streamlined the operational management mechanism and the cost structure of all service lines.

- Transformed the Group's human resources management policy for the long-term development of the talent of the Group's engineering team, and adopted a new performance-based remuneration system fostering the staff's team spirit and their sense of being a stakeholder in the Group.

- Further expanded its marketing and sales team in the Middle East and proactively promoted the Group's core oilfield services which were combined with our own technologies and tools.

THE CHINA MARKET

Although major national oil companies ("**NOCs**") announced that they would increase their capital expenditures in 2017 and the China market showed some signs of partial recovery in certain areas, especially those areas with gasfield operations, substantial and full recovery of the oilfield services activities has yet to come. Most of the oilfield service providers were still under tremendous pressure in tackling the issues of profitability and operating cash flow in the process of negotiating and executing contracts under the current sluggish market environment.

Notwithstanding the gloomy market in 1H2017, the Group had gained some new customers and won certain bids for tenders in the China market. During the period, we won contracts to provide services for coal bed methane ("**CBM**") projects in Shanxi and continued to provide production enhancement services in Sichuan and Northern China. The gas projects in Sichuan showed signs of substantial recovery and we expect more to come in the second half of the year and coming years.

During the period, the Group has introduced to the market its newly developed dissolvable alloy bridge plug, a technology which could substantially shorten the time and save cost of multistage perforation fracturing operations. The recent marketing and promotion of the dissolvable alloy bridge plug has received encouraging feedback from our customers in the China market. In addition, the participation in the successful exploration work of an offshore methane hydrate project indicates that we are at the forefront of the advanced technology for supporting China's development of such new and green energy. We believe that some of these business opportunities that we grasped will start to contribute to the Group's revenue in the second half of 2017.

Due to the weak market environment, delay in both project execution and trade receivables settlement is still common in the oilfield service sector in China. Taking a prudent approach on working capital management during this long downturn in the industry cycle, the Group continues to tighten its customer credit control and reject certain business opportunities due to uncertainty about the collection of trade receivables.

THE OVERSEAS MARKETS

Despite a strong recovery in drilling activities of shale oil and gas projects in North America in the first half of 2017, the global market for the oilfield services in general was still associated with a gloomy market environment in 2017 as a result of low budgets for capital expenditures and operating cost control measures implemented by most of the international oil and gas companies.

In 1H2017, the Group's major customers in the overseas markets were still delaying and halting their E&P investments due to the weakening trend of the oil price rebound in the first half of 2017. Although the Group gained significant progress in gaining new customers and in winning service contracts over projects in the Middle East and Central Asia, we expect these projects could only begin to contribute to the Group's revenue from the second half of 2017.

During the period, the Group continued to restructure its marketing and sales team and its service capacity in various regions in the overseas markets. In particular, it expanded its service capacity in the Middle East. The Group had built its reputation as a high-end oilfield services provider with cost competitive solutions in the market of its existing customers and the Group's marketing and operation team continued its marketing effort, so much as that its self-developed completion tools has gained further market recognition in Central Asia, the Middle East, Indonesia and Australia; and its turbine drilling services and production enhancement services have received encouraging feedback from prospective customers in the Middle East. We are expecting more business with certain major oil and gas operators in the Middle East by offering our technologies and services at competitive prices.

GEOGRAPHICAL MARKET ANALYSIS

	1H2017 ***(HK$ million)***	1H2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2017** ***(%)***	Approximate percentage of total revenue in 1H2016 *(%)*
China market	**68.3**	187.1	-63%	**52%**	70%
Overseas markets	**64.1**	79.0	-19%	**48%**	30%
Total	**132.4**	266.1	-50%	**100%**	100%

The Group's revenue from the China market dropped by approximately HK$118.8 million or approximately 63% to approximately HK$68.3 million in 1H2017 from approximately HK$187.1 million in 1H2016. The decrease in revenue from the China market was mainly due to the low level of E&P investments and operating cost control by most of the NOCs as well as the other upstream investors in China during the long downturn in the industry cycle since 2014.

The Group's revenue from the overseas markets declined by approximately HK$14.9 million or approximately 19% to approximately HK$64.1 million in 1H2017 from approximately HK$79.0 million in 1H2016. The revenue from the overseas markets decreased mainly because certain customers in South America and the Middle East ceased their operations and stopped using oil field services in view of the low oil price or low economical value of their E&P projects.

REVENUE FROM THE CHINA MARKET

	1H2017 ***(HK$ million)***	1H2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the China market in 1H2017** ***(%)***	Approximate percentage of total revenue from the China market in 1H2016 *(%)*
Northern China	**4.8**	17.4	-72%	**7%**	9%
Southwestern China	**2.6**	22.0	-88%	**4%**	12%
Other regions in China	**60.9**	147.7	-59%	**89%**	79%
Total	**68.3**	187.1	-63%	**100%**	100%

In 1H2017, the Group's revenue from Northern China amounted to approximately HK$4.8 million, which dropped by approximately HK$12.6 million or approximately 72% from approximately HK$17.4 million in 1H2016. The decrease in revenue was mainly due to the decline in production enhancement services in the Ordos base.

The revenue from Southwestern China amounted to approximately HK$2.6 million in 1H2017, which decreased by approximately HK$19.4 million or approximately 88% from approximately HK$22.0 million in 1H2016. The decrease in revenue was mainly due to the decline in the provision of production enhancement services (mainly multistage fracturing services) for unconventional oil and gas projects as a result of the reduction of capital investment in prior years by the Group's major customers in the region.

The revenue from other regions in China amounted to approximately HK$60.9 million in 1H2017, which decreased by approximately HK$86.8 million or approximately 59% from approximately HK$147.7 million in 1H2016. The decrease in revenue was mainly due to the decrease in sales of well completion tools in other regions in China.

REVENUE FROM THE OVERSEAS MARKETS

	1H2017 ***(HK$ million)***	1H2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the overseas markets in 1H2017** ***(%)***	Approximate percentage of total revenue from the overseas markets in 1H2016 *(%)*
Middle East	**58.7**	69.7	-16%	**92%**	88%
Others	**5.4**	9.3	-42%	**8%**	12%
Total	**64.1**	79.0	-19%	**100%**	100%

The revenue from the Group's business operations in the Middle East amounted to approximately HK$58.7 million in 1H2017, which dropped by approximately HK$11.0 million or approximately 16% from approximately HK$69.7 million in 1H2016. The decrease was mainly caused by the slow-down in sales of well completion tools in the Middle East and the decline in business of consultancy services, net of the increase in revenue from its services for some oil production projects. The revenue from other overseas regions amounted to approximately HK$5.4 million in 1H2017, which decreased by approximately HK$3.9 million or approximately 42% from approximately HK$9.3 million in 1H2016. This decrease in revenue was mainly due to the shrinkage of the Group's business in South America.

BUSINESS SEGMENT ANALYSIS

	1H2017 ***(HK$ million)***	1H2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2017** ***(%)***	Approximate percentage of total revenue in 1H2016 *(%)*
Oilfield project tools and services	**115.3**	234.7	-51%	**87%**	88%
Consultancy services	**17.1**	31.4	-46%	**13%**	12%
Total	**132.4**	266.1	-50%	**100%**	100%

In 1H2017, the Group's revenue from the provision of oilfield project tools and services amounted to approximately HK$115.3 million, which decreased by approximately HK$119.4 million or approximately 51% from approximately HK$234.7 million in 1H2016. The decrease was mainly due to the decline in sales of well completion tools in the China market.

The Group's revenue from consultancy services amounted to approximately HK$17.1 million in 1H2017, which decreased by approximately HK$14.3 million or approximately 46% from approximately HK$31.4 million in 1H2016. The revenue decreased mainly because the Group's integrated project management services stopped the provision of early-stage project management and planning services for a key customer in the Middle East in the second half of 2016.

Oilfield Project Tools and Services

	1H2017 (HK$ million)	1H2016 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue from oilfield project tools and services in 1H2017 (%)**	Approximate percentage of total revenue from oilfield project tools and services in 1H2016 (%)
Drilling	**9.9**	13.2	-25%	**9%**	6%
Well completion	**79.9**	187.1	-57%	**69%**	80%
Production enhancement	**25.5**	34.4	-26%	**22%**	14%
Total	**115.3**	234.7	-51%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to approximately HK$9.9 million in 1H2017, which dropped by approximately HK$3.3 million or approximately 25% from approximately HK$13.2 million in 1H2016. The decrease was mainly due to the decline in provision of turbine drilling services in Northwestern China.

In 1H2017, the Group provided drilling services for 5 wells that are located in China, all of which were completed before 30 June 2017.

Well Completion

In 1H2017, the Group's revenue from well completion amounted to approximately HK$79.9 million, which decreased by approximately HK$107.2 million or approximately 57% from approximately HK$187.1 million in 1H2016. The decrease was mainly due to the drop in sales of well completion tools in the China market.

In 1H2017, the Group provided well completion services for 104 wells, of which 103 wells were completed before 30 June 2017 and the remaining one well was still a work in progress as at 30 June 2017. All the 104 wells are in the overseas markets. In addition, the well completion services were mainly provided in the Middle East, Australia, Indonesia and other regions. In the first half of 2017, we completed the services of the well completion of 7 wells, the wire operation of 3 wells and the maintenance of 93 wellheads.

Production Enhancement

In 1H2017, the Group's revenue from production enhancement amounted to HK$25.5 million, which decreased by approximately HK$8.9 million or approximately 26% from approximately HK$34.4 million in 1H2016. The decrease was mainly due to the drop in number of production enhancement projects in the China market, net of the growth in revenue from the Middle East.

In 1H2017, the Group provided production enhancement services for 53 wells, of which 44 wells were completed before 30 June 2017 and the remaining 9 wells were still works in progress as at 30 June 2017. Among the above mentioned wells, 43 wells are in the China market and 10 wells are in the overseas markets.

CUSTOMER ANALYSIS

Customer	**1H2017 *(HK$ million)***	1H2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2017 *(%)***	Approximate percentage of total revenue in 1H2016 *(%)*
Customer 1	**40.2**	–	nil	**30%**	0%
Customer 2	**39.4**	14.8	166%	**30%**	6%
Customer 3	**11.6**	8.7	33%	**9%**	3%
Customer 4	**8.9**	7.0	27%	**7%**	3%
Customer 5	**6.5**	1.9	242%	**5%**	0%
Customer 6	**5.1**	1.7	200%	**4%**	0%
Customer 7	**–**	71.4	-100%	**nil**	27%
Customer 8	**–**	50.9	-100%	**nil**	19%
Customer 9	**–**	38.9	-100%	**nil**	15%
Customer 10	**5.1**	21.2	-76%	**4%**	8%
Customer 11	**3.8**	5.6	-32%	**3%**	2%
Other customers	**11.8**	44.0	-73%	**8%**	17%
Total	**132.4**	266.1	-50%	**100%**	100%

The revenue from Customer 1 amounted to approximately HK$40.2 million. This revenue was generated from business with a customer who started business relationship with the Group in the second half of 2016, and was contributed by the great efforts of the Group to provide safety-valve well completion tools for the customer. The revenue from Customer 2 increased by approximately HK$24.6 million or approximately 166%, from approximately HK$14.8 million in 1H2016 to approximately HK$39.4 million in 1H2017. This increase was mainly attributable to the growth of revenue from a trade in well completion tools and provision of coiled tubing package services in the Middle East. The revenue from Customer 3 amounted to approximately HK$11.6 million, which increased by approximately HK$2.9 million or approximately 33% from approximately HK$8.7 million in 1H2016. This increase was mainly attributable to the provision of consultancy services and production enhancement services in the Middle East. The revenue from Customer 4 amounted to approximately HK$8.9 million, which increased by approximately HK$1.9 million or approximately 27% from approximately HK$7.0 million in 1H2016. This increase was mainly attributable to the business of logging while drilling technical service projects in the China market. The revenue from Customer 5 amounted to approximately HK$6.5 million, which increased by approximately HK$4.6 million or approximately 242% from approximately HK$1.9 million in 1H2016. This increase was mainly attributable to the provision of professional supervision services in Iraq. The revenue from Customer 6 amounted to approximately HK$5.1 million, which increased by approximately HK$3.4 million or approximately 200% from approximately HK$1.7 million in 1H2016. This increase was mainly attributable to the growth of revenue from submarine petroleum pipeline and seabed exploration projects in Hong Kong. As for Customer 7, 8 and 9, they incurred approximately HK$71.4 million, HK$50.9 million and HK$38.9 million respectively in 1H2016. It was because the business contracts expired at the end of 2016, no further revenue was generated from these three customers in 1H2017. The revenue from Customer 10 amounted to approximately HK$5.1 million in 1H2017, which decreased by approximately HK$16.1 million or approximately 76% from approximately HK$21.2 million in 1H2016. The decrease was mainly due to the persistent shrinkage of the China market. The revenue from Customer 11 amounted to approximately HK$3.8 million in 1H2017, which decreased by approximately HK$1.8 million or approximately 32% from approximately HK$5.6 million in 1H2016. The decline was caused by the decrease in service income derived from the Middle East. The revenue from other customers amounted to approximately HK$11.8 million in 1H2017, which decreased by approximately HK$32.2 million or approximately 73% from approximately HK$44.0 million in 1H2016.

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our long-term business development. We have implemented human resources policies and procedures that detail the requirements for compensation, dismissal, recruitment, promotion, working hours, equal opportunity and other benefits and welfare. We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right skill set and knowledge, we arrange for a series of training courses that cover the latest drilling and completion technologies, blast management, control at wells and environment management. We also work with external organisations such as unions and consultants to provide training for the staff to meet the specific needs of the operations. In 1H2017, the Group arranged 36 trainings, and 146 employees attended these training programs. In addition, the Group implemented a staff development and appraisal system, aiming to reserve the Group's talents pool for its management team for future operations while meeting the talent's goals in their long-term career development.

To cope with the development trend of the industry, the Group streamlined the organisational structure and the cost structure of all service lines as well as that of the supporting departments. The Company paid close attention to the recruitment of talents and has recruited certain marketing and sales experts in the Middle East to promote the Group's technologies, tools and services in the region. The total headcount was 338 employees as at 30 June 2017, compared with the 349 employees as at 31 December 2016.

In order to keep the Group's human resources policies and procedures abreast with the industry development, the Group reviewed its human resources management system and made certain changes to it so as to foster the long-term development of the Group's engineering talents in 1H2017. It also implemented a new performance-based remuneration system to foster the staff's team spirit and their sense of being a stakeholder in the Group.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself on introducing innovative products and services in various oilfield service lines, such as turbine-drilling, directional drilling, multistage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 1H2017, the Group continued to seek advancement in technology and introduced new products to the market, including the followings:

- Developed a new 5 ½" dissolvable bridge plug, which has successfully passed a trial run. This kind of tool can substantially shorten the operation time and in turn save operation cost for multistage perforation fracturing operations.

- Designed a new 4 ½" tubing retrievable safety valve which can withstand working pressure of 15,000 Psi and thus can be used in wells with extra-high pressure and high temperatures. Most of the safety valve suppliers in the market can only provide safety valve that can withstand working pressure of up to 10,000 Psi.

- Focused on the development of 7" Psi retrievable packer which can withstand working pressure of 10,000 Psi and is tubing-retrievable without additional pulling tool in order to save time and operation cost during workover.

In 1H2017, the Group had been granted 4 utility model patents and 3 innovation patents. In addition, the Group was applying for 5 innovation patents and 17 utility model patents as at 30 June 2017.

The Group will continue to focus on developing down-hole completion tools and technologies, as well as certain specific high-end drilling tools and technologies. In order to maintain its leading position in the high-end oilfield service sector, the Group has set up a new research and development center to further develop its tools and technologies. It has been developing tools and technologies through in-house research and development and through cooperation with oilfield service technology companies.

OUTLOOK

The Brent crude oil price rebounded significantly in 2016, from its lowest of about US$28 in January 2016 to about US$57 at the end of December 2016. However, the upward momentum stalled in the first half of 2017 due to general market concern about the anticipated increase in production of shale oil that could result from recently increased drilling activities in North America. The Brent crude oil price fluctuated in the first half of 2017 and then went down to about US$47 at the end of June 2017. Nevertheless, it is widely believed that the recent adjustment in oil price would not alter the medium-term uptrend of the crude oil price in the coming years. According to the market consensus from Bloomberg, Brent crude oil price is estimated to reach US$54.8 a barrel in the fourth quarter of 2017 and to reach US$57.5 a barrel in the fourth quarter of 2018.

In 1H2017, the oilfield service industry started to show a strong rebound in drilling activities in North America, but substantial recovery in other regions of the overseas markets has yet to be reflected. In the China market, the signs of market recovery are mixed. The recent investment in E&P focused mainly on natural gas projects, and the demand for directional drilling and production enhancement services at unconventional gas projects (including shale gas and CBM) were picking up gradually in the past few months. We believe that the increase in demand for the production enhancement and fracturing services from the E&P investments in unconventional gas projects could largely increase the utilisation of the Group's production enhancement capacity in the second half year of 2017.

It is the Group's strategy to expand its business operations in the Middle East. During the period, we further expanded the marketing and sales team of our business operations in the Middle East and relocated a substantial part of the Group's resources (including assets and service capacity) from other regions to the Middle East. Our recent activities to market and promote the Group's technologies, tools and services in the region have yielded encouraging results. Our self-developed technologies and tools (such as turbine drilling tools and completion tools) have been granted pre-qualification approvals by various NOCs in the region and we have been invited to bid for various contracts to provide oilfield services (including turbine drilling, well completion, production enhancement and surface engineering services).

Looking ahead to the second half of 2017, we will continue to put effort into the marketing and promotion of the Group's oilfield services, tools and technologies in the Middle East so as to increase our market penetration in the region, especially the business with the NOCs there. In addition, the Group will continue to focus on the advancement of its oilfield service technologies and tools in order to further enhance our capability to provide high-end oilfield services in mainland China and the overseas markets.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to HK$132.4 million in 1H2017, which has decreased by HK$133.7 million or 50% as compared to that of HK$266.1 million in the same period of 2016. The decrease in revenue was mainly due to the decline of oilfield project tools and services in the China and the Middle East markets.

Material Costs

In 1H2017, the Group's material costs were approximately HK$58.0 million, which has decreased by HK$71.1 million as compared to that of HK$129.1 million in 1H2016. Such change was in line with the decline of revenue. Material costs representing 44% of the revenue in 1H2017, which is lower than that of 49% in 1H2016.

Depreciation of Property, Plant and Equipment

In 1H2017, the depreciation of property, plant and equipment amounted to HK$41.3 million, which has decreased by HK$8.0 million or 16% as compared to that of HK$49.3 million in 1H2016, primarily resulted from the disposal of service equipment in the second half of 2016 and the first half of 2017.

Employee Benefit Expenses

In 1H2017, the Group's employee benefit expenses were HK$52.1 million, which has dropped by HK$11.6 million or 18% as compared to that of HK$63.7 million in 1H2016. The decrease in employee benefit expenses was mainly resulted from the Group staying in a concise staff structure since adopting the optimising plan in 2015.

Distribution Expenses

In 1H2017, the Group's distribution expenses amounted to HK$2.0 million, which has decreased by HK$1.7 million or 46% from HK$3.7 million in 1H2016. The decrease in distribution expenses was mainly due to the declined business activities in 1H2017.

Technical Service Fees

In 1H2017, the Group's technical service fees amounted to HK$9.3 million, which has increased by HK$2.6 million or 39% from HK$6.7 million in 1H2016, and such increase was mainly due to the Group's purchase of high-quality technical support to improve service quality in the Middle East and China area.

Other Expenses

In 1H2017, the Group's other expenses were HK$15.4 million, which has decreased by HK$20.6 million or 57% from HK$36.0 million in 1H2016, 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 of 2016.

Net Finance Costs

In 1H2017, the Group's net finance costs amounted to HK$10.7 million, which has decreased by HK$2.3 million as compared to that of HK$13.0 million in 1H2016. This change was mainly attributable to the repayment of bank and other borrowings.

Income Tax Expense

In 1H2017, the Group's income tax expense amounted to HK$2.9 million, representing an increase of HK$1.6 million or 123% as compared to HK$1.3 million for the same period in 2016, mainly due to the profit in certain subsidiaries.

Loss for the Period

As a result of the foregoing, the Group recorded a loss of HK$57.9 million in 1H2017 as compared to the loss of HK$58.1 million in the same period of 2016.

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 HK$57.5 million in 1H2017 as compared to the loss of approximately HK$56.7 million in the same period of 2016.

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 2017, the Group's property, plant and equipment amounted to HK$548.4 million, which has decreased by HK$57.2 million or 9% from HK$605.6 million as at 31 December 2016. The decrease was primarily due to the disposal of certain service equipments to an independent third party earlier this year.

Intangible Assets

As at 30 June 2017, the Group's intangible assets, including goodwill, amounted to HK$306.0 million, representing an increase of HK$1.6 million or 1% from HK$304.4 million as at 31 December 2016, mainly due to the exchange difference from currency appreciation.

Inventories

As at 30 June 2017, the Group's inventories amounted to HK$154.6 million, representing a drop of HK$16.2 million or 9% as compared to that of HK$170.8 million as at 31 December 2016. The average turnover days of inventories increased from 290 days in 1H2016 to 508 days in 1H2017. The increase of inventories turnover days was mainly due to the decline of revenue and material costs in 1H2017.

Trade Receivables

As at 30 June 2017, the Group's trade receivables amounted to HK$396.2 million, representing an decrease of HK$5.6 million or 1% as compared to that of HK$401.8 million as at 31 December 2016. The average turnover days of trade receivables were 546 days in 1H2017, representing a increase of 219 days as compared to 327 days in 1H2016. The increase of turnover days of trade receivables was mainly due to the decline of revenue in 1H2017.

Trade Payables

As at 30 June 2017, the Group's trade payables were HK$142.6 million, which has decreased by HK$31.6 million or 18% as compared to that of HK$174.2 million as at 31 December 2016. The average turnover days of trade payables has increased from 362 days in 1H2016 to 426 days in 1H2017, representing an increase of 64 days. The increase of trade payables days was mainly due to the declined volume of business.

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 2017, the Group's cash and cash equivalents amounted to HK$10.8 million, representing a decrease of HK$34.1 million as compared to HK$44.9 million as at 31 December 2016. The cash and cash equivalents were mainly held in HK$, RMB and US$.

As at 30 June 2017, HK$5.8 million cash was restricted deposits held at bank as reserve under litigation claim (31 December 2016: HK$5.6 million).

As at 30 June 2017, the Group's bank facilities amounted to HK$42.4 million (31 December 2016: HK$41.4 million) were granted by banks to the Group, of which all have been utilised by the Group.

Gearing ratio

As at 30 June 2017, the Group's gearing ratio (calculated as net debt divided by total capital) was 13% (31 December 2016: 10%). Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the condensed consolidated balance sheet) less cash and cash equivalents, pledged bank deposits and restricted bank balance. Total capital is calculated as "equity" as shown in the condensed consolidated balance sheet plus net debt.

Foreign Exchange Risk

The Group operates in various countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR, US$ 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 leases various offices, warehouses and land in Singapore under non-cancellable operating lease agreement. The lease terms are between 1 and 29 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group's commitment under operating leases amounted to HK$21.7 million as at 30 June 2017.

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 RMB25.0 million. 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. Based on the final judgement from Henan High People's Court (河南省高級人民法院) on 16 August 2017, the appeal made by the contracting party was dismissed and original judgement as concluded on 1 June 2015 remained no change. As at 30 June 2017, restricted deposits of RMB5.0 million (equivalent to HK$5.8 million) are held at bank as reserve under litigation claim (31 December 2016: equivalent to HK$5.6 million).

Non-current assets held-for-sale

On 22 January 2017, the Group entered into an agreement to transfer the ownership of certain services equipments to independent third parties at a consideration of USD1.5 million (equivalent to approximately HK$11.7 million). The transfer will be completed within one year.

Off-balance Sheet Arrangements

As at 30 June 2017, the Group did not have any off-balance sheet arrangements (31 December 2016: nil).

CORPORATE GOVERNANCE

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

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

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 Company's directors. After specific enquiry with all members of the Board, the Company confirms that all Directors have fully complied with the relevant standards stipulated in the Model Code during the reporting period.

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

For the six months ended 30 June 2017, 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 2017 (Six months ended 30 June 2016: nil).

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. Leung Lin Cheong (Chairman of the Audit Committee), Mr. Xin Junhe 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 2017, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

Our Company

Name of Director/ chief executive	**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)*	109,481 (L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	526,180,335 (L)	30.47%
	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Ko Po Ming	Beneficial owner *(Notes 4 and 5)*	1,595,195 (L)	0.09%
Mr. Zhao Jindong	Beneficial owner *(Notes 4 and 6)*	8,788,314 (L)	0.51%
Ms. Ma Hua	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Zeng Weizhong	Beneficial owner *(Note 7)*	23,006,000 (L)	1.33%

Notes:

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

2. Mr. Wang Jinlong 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 Jinlong is taken to be interested in the number of shares of the Company held by King Shine pursuant to Part XV of the SFO.

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

4. 100,000 share options were granted to each of the Directors on 29 April 2014 pursuant to the Share Option Scheme and were adjusted to 102,173 share options after the completion of the rights issue of the Company on 4 February 2015 and were further adjusted to 109,481 share options after the completion of the rights issue of the Company on 8 July 2016. Therefore under Part XV of the SFO, the Directors are taken to be interested in the underlying shares of the Company that they are entitled to subscribe for subject to the exercise of the share options granted.

5. Apart from Note 4, these shares include 1,485,714 shares of the Company beneficially owned by Mr. Ko Po Ming.

6. 2,500,000 share options were conditionally granted to Mr. Zhao Jindong on 29 May 2015 and became unconditional on 7 September 2015 and were adjusted to 2,678,833 share options after the completion of the rights issue of the Company on 8 July 2016. 6,000,000 share options were unconditionally granted to Mr. Zhao Jindong on 26 October 2016. Therefore under Part XV of the SFO, Mr. Zhao Jindong is taken to be interested in the underlying shares of the Company that he is entitled to subscribe for subject to the exercise of the share options granted.

7. 17,000,000 share options were unconditionally granted to Mr. Zeng Weizhong on 1 December 2016. Therefore under Part XV of the SFO, Mr. Zeng Weizhong is taken to be interested in the underlying shares of the Company that he is entitled to subscribe for subject to the exercise of the share options granted. Apart from the share options, these shares include 6,006,000 shares of the Company beneficially owned by Mr. Zeng Weizhong.

Save as disclosed above, as at 30 June 2017, 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 2017, 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%
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	526,180,335 (L)	30.47%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	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 3)*	136,303,475 (L)	7.89%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner	136,303,475 (L)	7.89%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	489,029,619 (L)	28.32%
King Shine	Beneficial owner	488,920,138 (L)	28.32%
UBS Group AG	Person having a security interest in shares *(Note 5)*	91,121,270 (L)	5.28%
UBS AG	Beneficial owner *(Note 6)*	670,857 (L) 670,857 (S)	0.05% 0.05%
	Person having a security interest in shares *(Note 6)*	70,093,285 (L)	5.68%
Greenwoods Asset Management Holdings Limited	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%
Greenwoods Asset Management Limited	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%

Name of shareholders	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Jiang Jinzhi	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%
Unique Element Corp.	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%

Notes:

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

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

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

4. 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 of the Company in which Mr. Wang is interested for the purpose of the SFO.

5. Information is extracted from the corporate substantial shareholder notice filed by UBS Group AG on 30 June 2017, the interests include 91,121,270 shares of the Company in long position.

6. Information is extracted from the corporate substantial shareholder notice filed by UBS AG on 9 February 2015.

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

Save as disclosed above, as at 30 June 2017, the Directors are not aware that there is any party (not being a Director or chief executive of the Company) who had any interest or 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 who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such shares.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012). 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.

SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. For the period ended 30 June 2017, 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 2017:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2017	Options granted since 1 January 2017	Options exercised since 1 January 2017	Options lapsed/ cancelled since 1 January 2017	Options outstanding as at 30 June 2017
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
Zhao Jindong	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
	29 May 2015	1.2132 *(adjusted)*	1.28	2,678,833	–	*(Note 2)*	–	2,678,833
	26 October 2016	0.529	0.520	6,000,000	–	*(Note 3)*	–	6,000,000
Ko Po Ming	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
Lee Tommy	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
Ma Hua	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
He Shenghou	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	109,481 *(Note 5)*	0
Tong Hin Wor	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
Wong Lap Tat Arthur	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
Zeng Weizhong	1 December 2016	0.530	0.530	17,000,000	–	*(Note 4)*	–	17,000,000
Employees and senior managements	29 April 2014	2.3803 *(adjusted)*	2.44	19,706,842	–	*(Note 1)*	3,831,886	15,874,956
	29 May 2015	1.2132 *(adjusted)*	1.28	56,534,067	–	*(Note 2)*	7,114,979	49,419,088
	26 October 2016	0.529	0.520	62,000,000	–	*(Note 3)*	8,300,000	53,700,000
Others	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	*(Note 1)*	–	109,481
	29 May 2015	1.2132 *(adjusted)*	1.28	107,153	–	*(Note 2)*	–	107,153
Total				165,012,224	–	–	19,356,346	145,655,878

Notes:

1. 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 have been vested on the date falling on the third anniversary of the date of grant and exercisable from 29 April 2017 to 28 April 2019, both dates inclusive.

2. 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 have been 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.

3. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 26 October 2017 to 25 October 2023, 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 26 October 2018 to 25 October 2023, 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 26 October 2019 to 25 October 2023, 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 26 October 2020 to 25 October 2023, 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 26 October 2021 to 25 October 2023, both dates inclusive.

4. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 1 December 2017 to 30 November 2023, 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 1 December 2018 to 30 November 2023, 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 1 December 2019 to 30 November 2023, 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 1 December 2020 to 30 November 2023, 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 1 December 2021 to 30 November 2023, both dates inclusive.

5. Mr. He Shenghou has resigned as an independent non-executive director of the Company with effect from 27 March 2017. Thus, as at 27 June 2017, all his 109,481 share options have been lapsed in accordance with the terms of the scheme.

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

Hong Kong, 29 August 2017

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**548,369**	605,608
Intangible assets	*8*	**306,037**	304,435
Land use right	*8*	**10,132**	9,926
Available-for-sale financial asset	*9*	**7,421**	7,421
Other receivables, deposits and prepayments	*10(b)*	**45,512**	44,975
Deferred tax assets		**4,709**	7,634
		922,180	979,999
Current assets			
Inventories		**154,615**	170,816
Trade receivables	*10(a)*	**396,228**	401,750
Other receivables, deposits and prepayments	*10(b)*	**127,325**	83,533
Current income tax recoverable		**3,319**	3,268
Pledged bank deposits		**4,966**	4,234
Restricted bank balance		**5,760**	5,581
Cash and cash equivalents		**10,840**	44,927
		703,053	714,109
Assets classified as held-for-sale		**11,583**	29,400
		714,636	743,509
Total assets		**1,636,816**	1,723,508

	Note	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*11*	**2,001,073**	2,001,073
Other reserves		**40,612**	15,061
Accumulated losses		**(839,806)**	(782,294)
		1,201,879	1,233,840
Non-controlling interests		**2,417**	2,840
Total equity		**1,204,296**	1,236,680
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*13*	**38,730**	178,030
Deferred tax liabilities		**6,545**	6,360
		45,275	184,390
Current liabilities			
Trade payables	*12(a)*	**142,574**	174,210
Other payables and accruals	*12(b)*	**82,934**	109,378
Current income tax liabilities		**1,129**	2,217
Bank and other borrowings	*13*	**160,608**	16,633
		387,245	302,438
Total liabilities		**432,520**	486,828
Total equity and liabilities		**1,636,816**	1,723,508

The notes on pages 39 to 68 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 **2017** **HK$'000**	 2016 HK$'000
Revenue	*7*	**132,382**	266,057
Other income		**937**	1,126
Operating costs			
Material costs		**(57,982)**	(129,054)
Depreciation of property, plant and equipment	*8*	**(41,280)**	(49,263)
Amortisation of other intangible assets and land use right	*8*	**(823)**	(975)
Operating lease rental		**(3,153)**	(4,934)
Employee benefit expenses		**(52,131)**	(63,703)
Distribution expenses		**(1,972)**	(3,660)
Technical service fees		**(9,307)**	(6,734)
Research and development expenses		**(2,806)**	(2,325)
Entertainment and marketing expenses		**(3,527)**	(3,046)
Provision for impairment of trade receivables, net		**(3,706)**	(498)
Other expenses	*14*	**(15,356)**	(36,017)
Other gains/(losses), net	*15*	**14,434**	(10,460)
Operating loss		**(44,290)**	(43,486)
Finance income		**2**	588
Finance costs		**(10,722)**	(13,569)
Finance costs, net	*17*	**(10,720)**	(12,981)
Share of loss of a joint venture		**–**	(284)
Loss before income tax		**(55,010)**	(56,751)
Income tax expense	*18*	**(2,925)**	(1,313)
Loss for the period		**(57,935)**	(58,064)
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		**19,029**	(675)
Share of other comprehensive loss of a joint venture accounted for under equity method		**–**	(65)
Other comprehensive income for the period, net of tax		**19,029**	665
Total comprehensive loss for the period		**(38,906)**	(57,399)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June **2017** **HK$'000**	 2016 HK$'000
Loss for the period attributable to:			
Owners of the Company		**(57,512)**	(56,723)
Non-controlling interests		**(423)**	(1,341)
		(57,935)	(58,064)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(38,483)**	(56,067)
Non-controlling interests		**(423)**	(1,332)
		(38,906)	(57,399)
Loss per share attributable to owners of the Company during the period	*19*		
Basic loss per share (HK cents)		**(3)**	(4)
Diluted loss per share (HK cents)		**(3)**	(4)

The notes on pages 39 to 68 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 2017	2,001,073	15,061	(782,294)	1,233,840	2,840	1,236,680
Total comprehensive loss for the period ended 30 June 2017	–	19,029	(57,512)	(38,483)	(423)	(38,906)
Total transaction with owners in their capacity as owners						
– Recognition of share-based payment	–	6,522	–	6,522	–	6,522
Total transaction with owners, recognised directly in equity	–	6,522	–	6,522	–	6,522
Balance at 30 June 2017	2,001,073	40,612	(839,806)	1,201,879	2,417	1,204,296

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

The notes on pages 39 to 68 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 2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Cash used in operations		**(25,761)**	(26,068)
Interest paid		**(629)**	(1,893)
Income tax paid		**(1,134)**	(666)
Net cash used in operating activities		**(27,524)**	(28,627)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(8,196)**	(17,507)
Proceeds from sales of asset held-for-sale		**4,608**	–
Deposit received from sales of asset held-for-sale		**–**	14,003
Refund of prepayment for land use right		**5,610**	–
Refund of prepayment for property, plant and equipment		**–**	23,032
Proceeds from disposal of property, plant and equipment		**–**	1,067
Interest received		**2**	588
Investment in a joint venture		**–**	(5,905)
(Increase)/decrease in pledged bank deposits		**(729)**	50,047
Net cash generated from investing activities		**1,295**	65,325

		Unaudited Six months ended 30 June	
	Note	**2017**	2016
		HK$'000	HK$'000
Cash flows from financing activities			
Proceeds from bank and other borrowings	*13*	**3,619**	130,617
Repayments of bank and other borrowings		**(11,698)**	(232,757)
Net receipt in advance for rights issue		**–**	123,524
Repayment of advance from related parties		**(392)**	(9,269)
Net cash (used in)/generated from financing activities		**(8,471)**	12,115
Net (decrease)/increase in cash and cash equivalents		**(34,700)**	48,813
Cash and cash equivalents at beginning of period		**44,927**	43,924
Exchange gains/(losses) on cash and cash equivalents		**613**	(3,419)
Cash and cash equivalents at end of period		**10,840**	89,318

The notes on pages 39 to 68 form an integral part of this unaudited interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The Company has its primary listing on the 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 2017 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 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

During the period ended 30 June 2017, the Group reported a net loss attributable to owners of approximately HK$57,512,000 and a net operating cash outflow of approximately HK$27,524,000.

As at 30 June 2017, the Group had net current asset of HK$327,391,000 and the Group's cash and cash equivalents was approximately HK$10,840,000. The Group's total borrowings was HK$199,338,000 at 30 June 2017, of which HK$160,608,000 will be due in the coming twelve months.

During the period ended 30 June 2017, the Group completed a number of transactions to reduce its gearing and strengthen the Group's working capital, including, (i) completion of disposal of certain machineries for approximately HK$36,659,000 where HK$19,517,000 has been received at the date of this report; (ii) recovery of prepayment for purchase of a land use right in the People's Republic of China ("**PRC**") of HK$5,610,000 and (iii) completion of disposal of a land use right in the PRC where approximately HK$4,608,000 was received during the period ended 30 June 2017. Furthermore, the Group has implemented measures to contain operating and capital expenditures.

2 BASIS OF PREPARATION (Continued)

The directors of the Company have reviewed the Group's cash flow projections prepared by management, which cover a period of twelve months from 30 June 2017. A number of measures have been put in place by the directors of the Company to further improve the financial position and alleviate the liquidity pressure, as set out below:

(i) The Group continues its efforts to strengthen its working capital position by expediting collection of outstanding trade receivables, diversify its revenue source to new markets, including in the Middle East, to generate cash from new sales or service contracts, and implement measures to further control capital and operating expenditures.

(ii) The Group aims to maintain its gearing at a low level to save borrowing costs and utilise future operating cash flows for repayment of its obligations as and when they fall due.

(iii) The Group has agreed to dispose certain machineries for approximately HK$11,583,000.

(iv) The Group has started to negotiate with various financial institutions or potential inventors and identify options for refinancing the convertible bonds or raising additional finance.

Based on the cash flow projections and taking into account the anticipated cash flows to be generated from the Group's operations as well as the possible changes in its operating performance, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2017. Accordingly, the directors consider that it is appropriate to prepare the interim condensed consolidated financial information on a going concern basis.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements of the Group for the year ended 31 December 2016, as described in 2016 annual report.

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

3 ACCOUNTING POLICIES (Continued)

3.1 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 2018.

		Effective for accounting periods beginning on or after
IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4 (Amendment)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 15 (Amendment)	Clarifications to IFRS 15	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

3.2 Impact of standards issued but not yet applied by the Group

(a) IFRS 9, "Financial instruments"

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("**FVTPL**").

3 ACCOUNTING POLICIES (Continued)

3.2 Impact of standards issued but not yet applied by the Group (Continued)

(a) *IFRS 9, "Financial instruments" (Continued)*

IFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL, replacing the incurred loss model in IAS 39, and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to the change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

The standard is effective for annual periods beginning on or after 1 January 2018 and early adoption is permitted.

The Group does not plan to early adopt IFRS 9. Management is in the process of assessing the impact of the adoption of IFRS 9. Based on management's initial assessment, the adoption of IFRS 9 is not expected to have a material impact to the Group's interim financial information.

(b) *IFRS 15, "Revenue from contracts with customers"*

IFRS 15 replaces the current revenue standards: IFRS 18 "Revenue" and IAS 11 "Construction Contracts", and the related interpretations on revenue recognition. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much to recognise through a 5-step approach: (1) identify the contract(s) with customer(s); (2) identify separate performance obligations in a contract; (3) determine the transaction price; (4) allocate the transaction price to performance obligations; and (5) recognise revenue when the performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It replaces the current revenue recognition model based on an earnings processes with a new framework based on an asset-liability approach and transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract costs and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

3 ACCOUNTING POLICIES (Continued)

3.2 Impact of standards issued but not yet applied by the Group (Continued)

(b) IFRS 15, "Revenue from contracts with customers" (Continued)

The standard is effective for annual periods beginning on or after 1 January 2018 and early adoption is permitted.

The Group does not plan to early adopt IFRS 15. Management is in the process of assessing the impact of the adoption of IFRS 15 by analysing the Group's key revenue streams against the requirements under the new standard. Based on management's initial assessment, the adoption of IFRS 15 is not expected to have a material impact on the Group's interim financial information other than presenting additional disclosures.

(c) IFRS 16, "Leases"

IFRS 16 replaces the current standards related to leases: IAS 17 "Leases" and related interpretations. Under IAS 17, lessees were required to make a distinction between a finance lease (on the combined statements of financial position) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The new standard will impact both the combined statements of financial position and related ratios (capital adequacy ratio and leverage ratio).

The standard is effective for annual periods beginning on or after 1 January 2019 and early adoption is permitted.

The Group does not plan to early adopt IFRS 16. The directors of the Group do not expect the adoption of IFRS 16 would result in a significant impact on the Group's results, but it is expected that a significant portion of the lease commitment will be recognised in the combined statements of financial position as right-of-use assets and lease liabilities.

Apart from the aforementioned IFRS 9, IFRS 15 and IFRS 16, the Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards upon initial application but is not yet in a position to state whether these new standards, amendments and interpretations to existing standards would have any significant impact on its results of operations and financial position.

4 ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

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 2016.

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

5.2 Credit risk

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

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

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

The Group 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 2017, management has determined to record a provision for doubtful receivables of HK$408,912,000 (31 December 2016: HK$409,214,000) which represents the impairment of total receivables due from the Group's certain debtors.

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 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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 2017 and 31 December 2016.

	Level 3	
	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Asset		
Available-for-sale financial asset		
– listed equity security	**7,421**	7,421

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.

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.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.4 Fair value estimation (Continued)

As at 30 June 2017 and 31 December 2016, no observable market price is available for the fair value of listed equity securities as there is no trading record in the market during the period/year. The fair value of the listed equity securities is determined based on cash flows discounted with the pre-tax discount rate 19% (31 December 2016: 19%) which reflect specific risks related to the listed equity security. The key assumptions also include average annual growth rate and the long term growth rate of 14% and 3%, respectively (31 December 2016: 14% and 3%, respectively). Management has taken into account the factor of minority interest in the fair value of the listed 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 2017 and 2016.

	Six months ended 30 June	
	2017 **HK$'000**	2016 HK$'000
Opening amount	**7,421**	32,486
Revaluation gain transferred to other comprehensive income *(Note 9)*	**–**	1,405
Closing amount	**7,421**	33,891
Total losses 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.

Revenue recognised during the six months ended 30 June 2017 and 2016 are as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Oilfield project tools and services		
– Drilling work	**9,848**	13,186
– Well completion work	**79,934**	187,112
– Production enhancement work	**25,479**	34,405
Total oilfield project tools and services	**115,261**	234,703
Consultancy services	**17,121**	31,354
Total revenue	**132,382**	266,057

7 SEGMENT INFORMATION (Continued)

The segment information for the six months ended 30 June 2017 and 2016 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Six months ended 30 June 2017			
Total segment revenue	**115,261**	**17,121**	**132,382**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**115,261**	**17,121**	**132,382**
Segment results	**(5,191)**	**15,654**	**10,463**
Net unallocated expenses			**(65,473)**
Loss before income tax			**(55,010)**
Other information:			
Amortisation of other intangible assets and land use right	**(679)**	**–**	**(679)**
Depreciation	**(36,412)**	**–**	**(36,412)**
Provision for impairment of trade receivables, net	**(3,706)**	**–**	**(3,706)**
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 right	(825)	–	(825)
Depreciation	(42,636)	–	(42,636)
Provision for impairment of trade receivables, net	(498)	–	(498)

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

7 SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Segment results	**10,463**	58,295
Other income	**937**	1,126
Depreciation of property, plant and equipment	**(4,868)**	(6,627)
Amortisation of other intangible assets	**(144)**	(150)
Operating lease rental	**(1,950)**	(3,190)
Employee benefit expenses	**(43,868)**	(53,504)
Entertainment and marketing expenses	**(2,967)**	(2,974)
Other expenses	**(9,466)**	(26,917)
Other gains/(losses), net	**6,981**	(10,460)
Finance income	**2**	588
Finance costs	**(10,130)**	(12,654)
Share of loss of a joint venture	**–**	(284)
Loss before income tax	**(55,010)**	(56,751)

The segment results included the material costs, technical service fees, depreciation of property, plant and equipment, amortisation of other intangible assets and land use right, 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 RIGHT

	Property, plant and equipment HK$'000	Intangible assets – computer software HK$'000	Intangible assets – Goodwill HK$'000	Land use right HK$'000
Six months ended 30 June 2017				
Net book value	**605,608**	**2,089**	**302,346**	**9,926**
Opening amount as at 1 January 2017				
Additions	**1,396**	**–**	**–**	**–**
Depreciation and amortisation	**(41,280)**	**(713)**	**–**	**(110)**
Transferred to asset held-for-sale *(Note (i))*	**(11,583)**	**–**	**–**	**–**
Disposals	**(23,317)**	**–**	**–**	**–**
Exchange differences	**17,545**	**21**	**2,294**	**316**
Closing amount as at 30 June 2017	**548,369**	**1,397**	**304,640**	**10,132**
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	–	–	–	(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

Note (i):

On 22 January 2017, the Group entered into an agreement to transfer the ownership of a machinery totaling HK$11,583,000 to an independent third party at a consideration of HK$11,668,000. The transfer will be completed within one year.

9 AVAILABLE-FOR-SALE FINANCIAL ASSET

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Listed equity security in the PRC – non-current	**7,421**	7,421

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

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Opening amount	**7,421**	32,486
Change in fair value recognised in other comprehensive income	**–**	1,405
Closing amount	**7,421**	33,891

The fair value of the available-for-sale financial asset is determined based on cash flows discounted with the pre-tax discount rate 19% (31 December 2016: 19%) which reflect specific risks related to the listed equity security. The key assumptions also include average annual growth rate and the long term growth rate of 14% and 3%, respectively (31 December 2016: 14% and 3%, respectively). Management has taken into account the factor of minority interest in the fair value of the listed 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 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Trade receivables	**805,140**	810,964
Less: provision for impairment of trade receivables	**(408,912)**	(409,214)
Trade receivables – net	**396,228**	401,750

As at 30 June 2017 and 31 December 2016, ageing analysis of gross trade receivables by services completion and delivery date are as follows:

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Up to 3 months	**109,061**	114,372
3 to 6 months	**14,661**	10,691
6 to 12 months	**98,224**	141,507
Over 12 months	**583,194**	544,394
Trade receivables	**805,140**	810,964
Less: provision for impairment of trade receivables	**(408,912)**	(409,214)
Trade receivables – net	**396,228**	401,750

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.

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

(a) Trade receivables (Continued)

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 2017 amounted to approximately HK$408,912,000 (31 December 2016: HK$409,214,000).

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

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Opening amount	**409,214**	412,262
Provision for receivables impairment	**6,828**	9,114
Reversal of provision for receivables impairment	**(3,122)**	(8,616)
Write off of provision for receivables impairment	**(8,802)**	(12,272)
Exchange differences	**4,794**	(4,557)
Closing amount	**408,912**	395,931

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

(b) Other receivables, deposits and prepayments

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Deposits and other receivables – third parties	**68,722**	20,815
Receivables on land bidding in the PRC	**2,304**	2,232
Value-added tax recoverables	**74,511**	74,007
Rental deposits	**1,978**	902
Cash advances to staff	**5,782**	2,827
Advances to a senior management	**110**	470
Prepayments for materials	**17,707**	18,132
Prepayments for rents and others	**1,723**	3,687
Prepayment for land use right	**–**	5,436
	172,837	128,508
Less:		
Non-current value-added tax recoverables	**(45,512)**	(38,416)
Non-current deposit – a third party	**–**	(1,123)
Non-current prepayment for land use right	**–**	(5,436)
Non-current portion	**(45,512)**	(44,975)
Current portion	**127,325**	83,533

11 SHARE CAPITAL

	Number of shares	Total
	'000	HK$'000
Issued and fully paid:		
At 1 January 2017 and 30 June 2017	**1,726,674**	**2,001,073**
At 1 January 2016 and 30 June 2016	1,328,211	1,879,966

12 TRADE AND OTHER PAYABLES AND ACCRUALS

(a) Trade payables

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables based on invoice date are as follows:

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Up to 3 months	**11,851**	25,901
3 to 6 months	**8,002**	8,999
6 to 12 months	**30,826**	3,186
Over 12 months	**91,895**	136,124
	142,574	174,210

(b) Other payables and accruals

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Other payables		
– Third parties	**56,735**	68,586
– Related parties	**1,126**	1,878
Receipt in advance	**1,941**	1,003
Deposits received from sales of asset held-for-sale	**–**	13,394
Accrued payroll and welfare	**15,230**	15,887
Other tax and surcharge payables	**7,902**	8,630
	82,934	109,378

13 BANK AND OTHER BORROWINGS

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Non-current		
Bank borrowings *(Note (i))*	**38,730**	37,479
Finance lease liabilities *(Note (ii))*	**–**	2,810
Convertible bonds – liability component *(Note (iii))*	**–**	137,741
	38,730	178,030
Current		
Bank borrowings (including bank overdrafts) *(Note (i))*	**3,633**	3,901
Finance lease liabilities *(Note (ii))*	**5,714**	5,373
Convertible bonds – liability component *(Note (iii))*	**151,261**	7,359
	160,608	16,633
	199,338	194,663

13 BANK AND OTHER BORROWINGS (Continued)

Movements in bank and other borrowings are analysed as follows:

	HK$'000
Six months ended 30 June 2017	
Opening amount	**194,663**
Proceeds from bank and other borrowings	**3,619**
Repayments of bank and other borrowings	**(5,073)**
Convertible bonds-liability component *(Note (iii))*	**6,161**
Finance lease liabilities	**(2,909)**
Exchange differences	**2,877**
Closing amount	**199,338**
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 (iii))*	4,914
Finance lease liabilities	(3,052)
Exchange differences	3,770
Closing amount	294,713

(i) Bank borrowings

As at 30 June 2017, banking facilities of approximately HK$42,363,000 (31 December 2016: HK$41,380,000) were granted by a bank to the Group, of which all have been utilised by the Group (31 December 2016: all). The Group does not have undrawn banking facilities (31 December 2016: nil). The facilities are secured by:

(i) corporate guarantee given by the Company; and

(ii) a building of the Group.

13 BANK AND OTHER BORROWINGS (Continued)

(ii) 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 2017	31 December 2016
	HK$'000	HK$'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**5,902**	5,719
Later than 1 year and no later than 5 years	**–**	2,860
	5,902	8,579
Future finance charges on finance leases	**(188)**	(396)
Present value of finance lease liabilities	**5,714**	8,183
The present value of finance lease liabilities is as follows:		
No later than 1 year	**5,714**	5,373
Later than 1 year and no later than 5 years	**–**	2,810
	5,714	8,183

As at 30 June 2017, finance lease liabilities were secured by certain machineries of the Group amounting to HK$19,603,000 (31 December 2016: HK$18,940,000).

(iii) Convertible bonds

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Convertible bonds	**151,261**	145,100

13 BANK AND OTHER BORROWINGS (Continued)

(iii) Convertible bonds (Continued)

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

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

Adjustment was made to the conversion price from HK$1.39 per conversion share to HK$1.26 per conversion share after the completion of the rights issue on 8 July 2016.

Movements in convertible bonds are analysed as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Opening amount	**145,100**	134,245
Interest expenses	**9,877**	8,850
Interest paid	**(3,716)**	(3,936)
Closing amount	**151,261**	139,159
Less: Non-current convertible bonds – liability component	**–**	(131,800)
Current portion	**151,261**	7,359

14 OTHER EXPENSES

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Auditor's remuneration		
– Audit services	**–**	873
– Non-audit services	**–**	650
Communications	**514**	721
Professional service fee	**1,769**	3,061
Motor vehicle expenses	**737**	1,515
Travelling	**3,694**	7,120
Office utilities	**3,989**	6,136
Other tax-related expenses and custom duties *(Note (i))*	**550**	5,596
Provision for impairment of inventories	**–**	3,378
Provision for impairment of property, plant and equipment *(Note 8)*	**–**	1,237
Provision for impairment of other receivables	**–**	781
Others	**4,103**	4,949
	15,356	36,017

Note (i):

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

15 OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Foreign exchange gains/(losses)	**7,656**	(10,660)
Losses on disposals of property, plant and equipment	**(613)**	(892)
Gains on disposals of assets held-for-sale	**8,066**	–
Write off of property, plant and equipment	**–**	(471)
Others	**(675)**	1,563
	14,434	(10,460)

16 SHARE-BASED PAYMENTS

The Company adopted a share option scheme (the "**Scheme**" or "**Share Option Scheme**") to attract, retain and motivate the grantees to strive for future developments and expansion of the Group. 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. Details of share options granted under the share options scheme are as follows:

	Share options by grant date			
	29 April 2014	**29 May 2015**	**26 October 2016**	**1 December 2016**
Number of ordinary shares issued upon exercise:				
– Directors	800,000	2,500,000	6,000,000	–
– Senior management	12,100,000	26,000,000	20,000,000	17,000,000
– Employees	7,100,000	31,200,000	42,000,000	–
Exercise price	HK$2.60	HK$1.30	HK$0.53	HK$0.53
Contractual option term	Five years	Seven years	Seven years	Seven years
Expiry date	28 April 2019	28 May 2022	25 October 2023	30 November 2023

For the share options granted on 29 April 2014, the 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.

For the other share options granted, the 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 respective share options.

The Group does not have a legal or constructive obligation to repurchase or settle the options in cash.

16 SHARE-BASED PAYMENTS (Continued)

The fair values of services received in return for share options granted are measured by reference to the fair value of share options granted. The range of fair value of options granted determined by using the Binomial model and significant inputs into the model were as follows:

	Share options by grant date			
	29 April 2014	29 May 2015	26 October 2016	1 December 2016
Range of fair value of options granted (HK$)	0.87 – 0.88	0.62 – 0.66	0.19 – 0.25	0.23 – 0.26
Weighted average share price at the grant date (HK$)	2.44	1.28	0.52	0.53
Expected volatility *(Note)*	49.72%	56.49%	47.97%	47.75%
Expected option lifes	5 years	7 years	7 years	7 years
Dividend yield	1.15%	Nil	Nil	Nil
Annual risk-free interest rate	1.42%	1.37%	0.75%	1.18%
Expected post-vesting exit rate	10.82% – 13.23%	6.49% – 17.32%	7.94% – 18.19%	7.94%

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 dated 29 April 2014 and 29 May 2015 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.

16 SHARE-BASED PAYMENTS (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 30 June 2017 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 2017	Forfeited during the period	As at 30 June 2017
Grant date					
29 April 2014	**2.61**	**2.55**	**20,692,171**	**(3,831,886)**	**16,860,285**
29 May 2015	**N/A**	**1.3**	**59,320,053**	**(6,472,057)**	**52,847,996**
26 October 2016	**N/A**	**0.53**	**68,000,000**	**(8,300,000)**	**59,700,000**
1 December 2016	**N/A**	**0.53**	**17,000,000**	**–**	**17,000,000**
Total			**165,012,224**	**(18,603,943)**	**146,408,281**
Weighted average exercise price (HK$)					
Grant date					
29 April 2014			**2.38**	**–**	**2.38**
29 May 2015			**1.21**	**–**	**1.21**
26 October 2016			**0.53**	**–**	**0.53**
1 December 2016			**0.53**	**–**	**0.53**

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
Weighted average exercise price (HK$)					
Grant date					
29 April 2014			2.55	–	2.55
29 May 2015			1.3	–	1.3

During the period ended 30 June 2017, share-based payment expense of HK$6,522,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (30 June 2016: HK$12,896,000).

17 FINANCE COSTS, NET

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Interest expenses:		
– Bank and other borrowings	**(628)**	(3,871)
– Finance lease liabilities	**(217)**	(401)
– Loans from related parties	**–**	(71)
– Net foreign exchange losses on financing activities	**–**	(376)
– Interest cost for convertible bonds	**(9,877)**	(8,850)
Finance costs	**(10,722)**	(13,569)
Finance income:		
– Interest income from bank deposits	**2**	588
Finance income	**2**	588
Finance costs, net	**(10,720)**	(12,981)

18 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 the PRC subsidiaries of the Group was 25% for the six months ended 30 June 2017 (2016: 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% (2016: 15%) during the period. Subsidiaries established in Hong Kong are subject to 16.5% (2016: 16.5%). Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (2016: 17%) during the period.

18 INCOME TAX EXPENSE (Continued)

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Current tax		
– PRC enterprise income tax	**–**	1,152
Over provision in prior years		
– PRC enterprise income tax	**–**	(316)
Deferred tax	**2,925**	477
Income tax expense	**2,925**	1,313

19 LOSS PER SHARE FOR THE LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Six months ended 30 June	
	2017	2016
Loss attributable to owners of the Company (HK$'000)	**(57,512)**	(56,723)
Weighted average number of ordinary shares in issue (Number of shares in thousand)	**1,726,674**	1,360,052
Basic and diluted loss per share (HK cents)	**(3)**	(4)

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

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

For the period ended 30 June 2017 and 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.

21 CONTINGENCIES

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Performance bonds *(Note (i))*	**1,699**	1,616
Litigation claim *(Note (ii))*	**27,835**	26,972

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 was in favour of the Group and dismissed the claim of the contracting party. The contracting party is in the process of appeal. As at 30 June 2017, restricted deposits of HK$5,760,000 are held at bank as reserve under litigation claim (31 December 2016: HK$5,581,000).

22 COMMITMENTS

(a) 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 29 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 2017	31 December 2016
	HK$'000	HK$'000
No later than 1 year	**4,527**	5,384
Later than 1 year and no later than 5 years	**5,736**	7,176
Later than 5 years	**11,471**	11,131
	21,734	23,691

23 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2017 and 2016, and balances arising from related party transactions as at 30 June 2017 and 31 December 2016.

Name	**Relationships**
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Ms. Sun JinXia	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) 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	
	2017	2016
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**4,490**	3,552
Share-based payments	**3,308**	7,428
	7,798	10,980