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Petro-king
百勤油服

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors ("**Directors**") of Petro-king Oilfield Services Limited (the "**Company**") hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**", "**we**" or "**our**") for the six months ended 30 June 2014 ("**1H2014**").

OVERVIEW

In 1H2014, the Group recorded a revenue of HK$353.3 million, representing a decrease of HK$142.4 million or 28.7% from that of HK$495.7 million for the six months ended 30 June 2013 ("**1H2013**"). The decrease in revenue was partly due to the general slowdown in business activities of the Group's major customers in China and partly due to the risk control measures taken by the Group in order to tackle the issue of slow settlement of the Group's accounts receivable from a major customer in South America. The Group's operating costs for 1H2014 amounted to HK$326.7 million, representing a decrease of HK$63.9 million or 16.4% from that of HK$390.6 million in 1H2013. The Group's operating profit in 1H2014 dropped by HK$80.3 million or approximately 74.9% to HK$26.9 million from that of HK$107.2 million in 1H2013. The operating profit margin decreased by 14 percentage points to 7.6% in 1H2014, from 21.6% in 1H2013. The decrease in operating profit margin was mainly due to the decrease in revenue and the increase in operating costs (excluding tools and materials) as the Group has invested in oilfield service equipment and expanded its service engineering team to enhance its service capability and capacity in 2013 and 1H2014, substantial part of such investment and capacity enhancement have yet to contribute to the Group's revenue and operating profits. The net profit attributable to the owners of the Group in 1H2014 dropped by 80.3% to HK$13.5 million from HK$68.6 million in 1H2013.

BUSINESS REVIEW

The China Market

Despite the winning of biddings and the gaining of market share from our customers in the Ordos Basin, the Tarim Basin and the Songliao Plain in China, the Group's business was affected by the fact that China oilfield services industry had experienced a general slowdown in 1H2014 compared to that of 1H2013. The general decline in volume of the multistage fracturing activities for tight gas/oil wells in the Ordos Basin was the major cause of the Group's revenue decline in 1H2014. Nevertheless, the second quarter of 2014 started to show recoveries in the volume of fracturing activities from a major customer in the Ordos Basin and other oilfields, after suspension of certain well drilling activities for a few months. We believe that the general slowdown in 1H2014 is temporary and the industry will recover in the near future at a much more healthy way and with more open market biddings.

With the cost advantage of having self-developed and self-manufactured down-hole fracturing tools, the Group has been keeping on winning biddings and contracts of fracturing tools and services from our major customers in the Ordos Basin. During the period, the Group won a bidding from Sinopec Northern China Company, a subsidiary of China Petrochemical Corporation ("**Sinopec**"), for the provision of multistage fracturing services in a block of horizontal wells of tight oil and tight gas in the Ordos Basin. Contracts for a total of 60 oil/gas wells had been subsequently granted. In addition, the Group had been invited to submit tenders for the provision of the horizontal well multistage fracturing tools and services in Changqing oilfield of China National Petroleum Corporation ("**CNPC**") in 1H2014 and was subsequently awarded as the "first-place winner" among eight bidding parties of the tendering.

After developing our own turbine drilling tools and adding certain key tools and equipment for directional drilling, the Group expanded its scope of drilling services in 1H2014 and became an all-rounded high-end drilling service provider. We won an Integrated Project Management ("**IPM**") drilling service contract from a major customer for an extended reach shallow well in northern Shaanxi Province.

During the period, the Group successfully completed a complicated fishbone horizontal well in the Liaohe Oilfield. In this project, the Group helped reviving a depleted well by applying advanced drilling techniques customized for the well with complex down-hole structure. The success of these operations has once again enhanced the Group's leading position as a high-end oilfield service provider in the industry.

The high-pressure pumping fracturing equipment with 37,500 hydraulic horsepower ("**HHP**") that the Group ordered in December 2013, was delivered to our Jiaoshiba Base in the second quarter of 2014, and has started to work on two shale gas wells for a major customer in the Sichuan Basin. Although the Group performed fracturing services for two shale gas wells in the Sichuan Basin, progress in shale gas fracking business in the Sichuan Basin was slower than what we expected. Apart from the provision of fracturing services for shale gas projects for customers in the Sichuan Basin, the Group has been proactively promoting its IPM services to certain shale gas investors of the first round and second round bidding winners of the shale gas blocks from the Ministry of Land and Resources of China. During the period, the Group had been providing IPM services for shale gas projects at Yukuang located in Henan, Xiushan and Chengkou located in Chongqing, and Tongren located in Guizhou.

The Overseas Market

Expanding our customer base and diversifying our markets for the overseas operations has been major strategies for the Group's overseas market development since 2013. During the period, the Group was proactively promoting its high-end oilfield services and well completion tools in Iraq, Kuwait, and Abu Dhabi. In the second quarter of 2014, the Group established a wholly owned subsidiary in Dubai, the United Arab Emirates ("**UAE**") as the Group's regional headquarters responsible for the business development in the Middle East.

In 1H2014, we have progressed well in the market diversification strategy and had gained certain achievements in the Middle East. Further to the provision of tools and services to certain Chinese National Oil Companies ("**NOCs**") owned oilfields in Iraq, the Group had started winning biddings and gaining service contracts for the provision of high-end oilfield services (such as directional drilling, well completion and production enhancement services) for the oilfield projects owned by International Oil Companies ("**IOCs**") in Iraq. During the period, the Group started to provide technical support and consultant services in certain projects in Iraq and has been preparing tools and equipment for the projects. We expect substantial parts of the services to the IOCs' projects will be provided in the second half of 2014. The recent political unrest in northern Iraq did not affect our customers' operations as their oilfields are located in the southern part of the country.

South America is another major overseas market of the Group. In 1H2014, the Group did not proactively expand its operations in Venezuela due to the unstable political situation earlier this year. Certain shipments of goods and provision of services for a major customer in Venezuela were postponed in 1H2014. As the political situation in Venezuela seemed to be much more stable than it was a few months ago and the collection of the outstanding accounts receivable from the customer in Venezuela has improved significantly in the second quarter, the Group speeded up its multistage fracturing services in the second quarter of 2014 in Venezuela and has completed four wells in 1H2014. The Group collected approximately HK$44.6 million in 1H2014 and HK$46.7 million in July 2014 from the customer in Venezuela and is expecting more settlements in the second half of 2014.

New Service/Product Development

As a high-end integrated oilfield services provider, the Group places great importance on technology and prides itself in introducing innovative products and services in its oilfield services in a number of areas. In 1H2014, the Group continued to seek advancement in technology and enhancement in service capability and capacity.

In 1H2014, the Group has further developed and expanded the product variety of its down-hole completion and fracturing tools, designed and developed new series of safety valves and packers, including KingFrac™ tools, a new down-hole fracturing tools for shale gas wells. The Group started trial production of KingFrac™ tools in 1H2014. We expect that these new tools can be launched to the market in the second half of 2014.

The Group purchased a set of high-pressure pumping fracturing equipment, with 37,500 HHP in December 2013 and the equipment has been delivered to our Jiaoshiba Base in April 2014. The high-pressure pumping fracturing equipment has started to provide fracturing services for our customer in the Sichuan Basin and has finished the fracturing of two wells in the second quarter of 2014. In addition, three sets of coiled tubing equipment, two units of measurement-while-drilling and two units of logging-while-drilling that the Group placed order to purchase in the second half of 2013 have all been delivered to our service bases and put into operation in the oilfield service projects of the Group.

In 1H2014, the Group improved the recipe of slick water for fracturing of shale gas wells. Our slick water technology has such characteristics as low resistance, leaving minimal residue, and being highly recyclable and environmental friendly. We successfully applied the slick water to our shale gas project in Guizhou.

Geographical Market Analysis

	1H2014	1H2013	Approximate percentage change	**Approximate percentage of total revenue in 1H2014**	Approximate percentage of total revenue in 1H2013
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
China market	**179.8**	241.7	-25.6%	**50.9%**	48.8%
Overseas market	**173.5**	254.0	-31.7%	**49.1%**	51.2%
Total	**353.3**	495.7	-28.7%	**100%**	100%

In 1H2014, the Group's revenue from the China market amounted to HK$179.8 million, decreased by HK$61.9 million or approximately 25.6% as compared to HK$241.7 million in the same period last year. Decrease in revenue was recorded in various regions in China. The region with the most significant drop in revenue was the Ordos Basin of Northern China region as discussed in previous paragraphs.

In 1H2014, the Group continued to achieve a balanced development in both China and overseas markets. The revenue from overseas markets amounted to HK$173.5 million in 1H2014, accounting for approximately 49.1% of the Group's total revenue, decreased by HK$80.5 million, representing a decrease of approximately 31.7% as compared to the revenue of HK$254.0 million in the same period last year. The drop in revenue in the overseas market was mainly caused by the risk control measures taken by the Group in order to tackle the issue of slow settlement of the Group's accounts receivable from a major customer in South America.

Revenue from China Market

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	Approximate percentage of total in 1H2014 (%)	Approximate percentage of total in 1H2013 (%)
Northern China	**70.3**	122.2	-42.5%	**39.1%**	50.6%
Northwestern China	**7.7**	12.5	-38.4%	**4.3%**	5.2%
Southwestern China	**19.5**	26.4	-26.1%	**10.8%**	10.9%
Other regions in China	**82.3**	80.6	2.1%	**45.8%**	33.3%
Total	**179.8**	241.7	-25.6%	**100%**	100%

In 1H2014, the Group's revenue from Northern China amounted to HK$70.3 million, decreased by HK$51.9 million or approximately 42.5% as compared to the revenue of HK$122.2 million in the same period last year, the decrease was mainly due to the general slowdown in business volume of tight gas/oil wells in the Ordos Basin for multistage fracturing services and the drop in per well average-price as compared to the same period last year. The decrease in the per-well average-price was mainly due to the cost saving from the replacement of self-made tools and the benefit of the cost saving passed by us to the customers.

The revenue from Southwestern China amounted to HK$19.5 million in 1H2014, decreased by HK$6.9 million or approximately 26.1% as compared to the revenue of HK$26.4 million in the same period last year. The decrease in the revenue from Southwestern China was caused by the decrease in the demand of turbine drilling services in the region. However, due to the success of the application of our newly developed turbine drilling tools, we promoted and started to provide our turbine drilling services to other regions in China in 1H2014.

In 1H2014, the Group's revenue from Northwestern China amounted to HK$7.7 million, decreased by HK$4.8 million or approximately 38.4% as compared to the revenue of HK$12.5 million in the same period last year. Although there was a drop in revenue in the area, our oil-based mud business had achieved a major market break-through in the region. The Group is expecting a continuous growth in the oil-based mud services due to successful applications to certain projects in the region.

__Revenue from Overseas Market__

	1H2014 *__(HK$ million)__*	1H2013 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total in 1H2014** *__(%)__*	Approximate percentage of total in 1H2013 *(%)*
South America	**67.2**	240.5	-72.1%	**38.8%**	94.7%
Middle East	**105.9**	12.6	740.5%	**61.0%**	5.0%
Other overseas regions	**0.4**	0.9	-55.6%	**0.2%**	0.3%
Total	**173.5**	254.0	-31.7%	**100%**	100%

During the reporting period, the Group recorded a significant decrease in revenue from South America and a significant growth in revenue from the Middle East.

In South America, the revenue dropped from HK$240.5 million in 1H2013 to HK$67.2 million in 1H2014, representing a decrease of approximately 72.1%. The decrease in revenue from South America was mainly due to the risk control measures taken by the Group as discussed in the previous paragraphs. The Group collected approximately HK$44.6 million in 1H2014 and HK$46.7 million in July 2014. The Group will continue to put extra efforts to monitor the settlement progress of our accounts receivable and carefully control the risk exposure in the country.

In the Middle East, the revenue grew by approximately 740.5% year-on-year, from HK$12.6 million in 1H2013 to HK$105.9 million in 1H2014. As discussed earlier, in addition to the Chinese NOCs in Iraq, the Group made a major market break-through in provision of high-end oilfield services on the oilfield projects owned by IOCs in the Middle East market. In 1H2014, the Group won various biddings for the provision of drilling, well completion and production enhancement services for projects owned by IOCs in Iraq.

Business Segment Analysis

	1H2014 (HK$ million)	1H2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 1H2014 (%)**	Approximate percentage of total revenue in 1H2013 (%)
Oilfield project services	**213.5**	401.8	-46.9%	**60.4%**	81.0%
Consultancy services	**64.4**	18.7	244.4%	**18.2%**	3.8%
Manufacturing and sales of tools and equipment	**75.4**	75.2	0.2%	**21.4%**	15.2%
Total	**353.3**	495.7	-28.7%	**100%**	100%

In 1H2014, the Group's revenue from oilfield project services amounted to HK$213.5 million, accounting for approximately 60.4% of the Group's total revenue, decreased by HK$188.3 million or approximately 46.9% from HK$401.8 million in 1H2013. The decrease in revenue of oilfield project services was mainly caused by the decline of revenue from the production enhancement services in the Ordos Basin as discussed in the previous paragraphs.

The Group's revenue from consultancy services amounted to HK$64.4 million in 1H2014, increased by HK$45.7 million or approximately 244.4% from HK$18.7 million in 1H2013. The growth of the revenue from consultancy services mainly came from the projects in the Middle East.

In 1H2014, the Group's revenue from manufacturing and sales of tools and equipment was increased by HK$0.2 million or approximately 0.2% to HK$75.4 million, from HK$75.2 million in 1H2013. The Group aims to maintain a stable growth in this business segment.

Oilfield Project Services

	1H2014 **(HK$ million)**	1H2013 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total in 1H2014** ***(%)***	Approximate percentage of total in 1H2013 *(%)*
Drilling	**65.9**	29.0	127.2%	**30.9%**	7.2%
Well completion	**29.5**	214.0	-86.2%	**13.8%**	53.3%
Production enhancement	**118.1**	158.8	-25.6%	**55.3%**	39.5%
Total	**213.5**	401.8	-46.9%	**100%**	100%

Drilling Services

In 1H2014, the Group's revenue from drilling services increased by HK$36.9 million or approximately 127.2% as compared to that of HK$29.0 million in 1H2013. Although the Group recorded a decrease in revenue in the Southwestern region, other regions in China and overseas market both recorded a significant growth. During the first half of 2014, the Group completed drilling services in a couple of complicated wells, including an extended reach shallow well (淺層大位移井) in northern Shaanxi Province and a fish bone horizontal well in the Songliao Plain. The successful completion of these technically difficult wells has once again enhanced the Group's leading position as a high-end oilfield service provider in the industry.

In 1H2014, the Group provided directional drilling or turbine drilling services for 17 wells, of which 10 wells were completed before 30 June 2014 and seven wells were still in progress as at 30 June 2014.

Well Completion Services

In 1H2014, the Group's revenue from well completion services amounted to HK$29.5 million, dropped by HK$184.5 million or approximately 86.2% from HK$214.0 million in 1H2013. In 1H2014, the Group provided well completion services for a total of six wells. The decrease in revenue from well completion services was mainly due to the risk control measures taken by the Group on a major customer in South America as discussed in the previous paragraphs. Accordingly, the Group did not record any revenue from well completion for the period from South America versus a revenue of HK$202.6 million in the first half of 2013.

Production Enhancement Services

In 1H2014, the Group's revenue from production enhancement services amounted to HK$118.1 million, dropped by HK$40.7 million or approximately 25.6% from HK$158.8 million in 1H2013, which was mainly due to the decline of the business in the Ordos Basin as discussed in previous paragraphs.

In 1H2014, the Group provided production enhancement services for a total of 45 wells in 1H2014, of which 31 wells were fully completed and 14 wells were still in progress.

Customer Analysis

	1H2014 **(*HK$ million*)**	1H2013 (*HK$ million*)	Approximate percentage change (*%*)	**Approximate percentage of total revenue in 1H2014** **(*%*)**	Approximate percentage of total revenue in 1H2013 (*%*)
Customer 1	**67.2**	240.5	-72.1%	**19.0%**	48.5%
Customer 2	**43.3**	168.1	-74.2%	**12.3%**	33.9%
Customer 3	**78.5**	–	N/A	**22.2%**	0.0%
Others *(Note)*	**164.3**	87.1	88.6%	**46.5%**	17.6%
Total	**353.3**	495.7	-28.7%	**100%**	100%

Note: Others include two major NOCs in China and a few IOCs.

In 1H2014, revenue from Customer 1 amounted to HK$67.2 million, representing a decrease of HK$173.3 million or approximately 72.1%, as compared to HK$240.5 million in 1H2013. The decrease was mainly due to the risk control measures taken by the Group on the customer in order to encourage faster settlement of the Group's accounts receivable. The revenue from Customer 2 declined by HK$124.8 million or approximately 74.2%, from HK$168.1 million in 1H2103 to HK$43.3 million in 1H2014. The decrease in revenue was mainly due to the decline in revenue from production enhancement services in the Ordos Basin. Customer 3 is a new customer to the Group, the revenue from Customer 3 amounted to HK$78.5 million in 1H2014. The revenue from other customers, including two major NOCs in China and a few IOCs, surged by approximately 88.6% from HK$87.1 million in 1H2013 to HK$164.3 million in 1H2014.

Huizhou Base

The Group's Huizhou Base including mainly two factory buildings with offices and a staff quarters has been substantially completed in 1H2014. First batch of employees has moved into the base in July 2014. We expect the base to be ready for commercialised operations in the third quarter of 2014.

The Huizhou Base was designed to enhance the production capacity of the Group's self-developed tools and equipment for better supporting the Group's oilfield services business, lower the reliance on major suppliers, optimize the cost structure of principal operations and enhance the product and service qualities. The Huizhou Base will provide a solid foundation for the Group's business development in the next few years and maintain its market position as a leading China-based service provider of high-end oilfield services.

Human Resources

The Group believes that employees are the most valuable asset. The development of employees has always been the Group's top priority in human resources management. The human resources development system of the Group aims at training up our employees' knowledge to reach professional standard.

The Group has recruited a number of experienced technical personnel as well as talents from university fresh graduates. As at 30 June 2014, the Group had 931 employees, which represented an increase of approximately 7.9% as compared to 863 employees in February 2014. The Group planned to continue recruiting young talents from universities well-known for studies of the petroleum industry.

Research and Development

As a high-end oilfield services provider, the Group places great emphasis on to the research and development of products and services in various areas, such as turbine drilling, multistage fracturing, surface facilities of safety and surface flow control system, safety valve, packer, drilling fluid and fracturing fluid. In 1H2014, the Group spent HK$8.2 million on research and development, representing an increase of approximately 7.9% year-on-year as compared to HK$7.6 million in 1H2013.

In 1H2014, the Group has successfully developed the KingFrac™ tool and new recipe of the slick water for fracturing shale gas wells.

In the pipeline of research and development projects, there are various types of safety valves, packers, coiled tubing and different types of well completion tools. Some of the models of the tools are at the stage of applying for API license. Furthermore, our research and development team will also put efforts to improve the design and functionality of existing tools and products.

The Group has been developing the non-fresh water fracturing fluid system and recyclable fracturing system. These systems are designed to save a large amount of fresh water in fracturing and help to protect the environment. It will also bring a cost saving in fracturing projects in areas where water is scarce.

Litigation

As disclosed in the announcement of the Company dated 29 July 2014, a contracting party of the Group ("**Contracting Party**") initiated legal proceedings as plaintiff in 鄭州市中級人民法院 (Zhengzhou Intermediate People's Court, Henan, the People's Republic of China (the "**PRC**")*) against Petro-king Oilfield Technology Limited ("**Petro-king Shenzhen**"), an indirect wholly-owned subsidiary of the Company, as defendant. The Contracting Party alleged a failure by Petro-king Shenzhen to provide the stipulated amount of drilling works to it under certain drilling engineering operation and service contracts entered into in 2012 and 2013 and therefore claimed for a total amount of RMB16,412,367 as damages. After consulting the Group's PRC lawyer, the Directors are of the view that the Litigation is not expected to have material effect on the financial or business position of the Group as a whole. The first hearing of the Litigation is scheduled to be held on 10 September 2014.

Outlook

In the China market, we believe that the state-owned enterprise reform and deregulation in oil and gas industry will, in the long-run, give rise to more market-based operations such as public tendering in most of the major oilfields in China. High-end oilfield service providers with their proprietary technology and self-made tools will be benefited from such developments, as evidenced by our recent success in winning of a bidding in the provision of horizontal well multistage fracturing tools and services in Changqing oilfield of CNPC.

The Chinese Government has been consistently and continuously showing its determination in increasing the utilisation of clean energy, such as fossil gas, in order to solve air pollution problem in China. We strongly believe that the deregulation in oil and gas industry will encourage more and more private sector investments, led by investments in unconventional upstream resources, such as shale gas. Production enhancement services for unconventional gas projects (including those for shale gas and tight gas wells) will continue to be the Group's major business focus in China. Further to the addition of high-pressure pumping fracturing equipment and the success in new product development of down-hole fracturing tools, the Group will continue its efforts in technology innovation so as to provide our customers with much more cost-effective and environmental friendly solutions in the provision of our production enhancement services for their unconventional gas projects.

In addition, in order to apply the Group's self-developed drilling tools and technology more widely in improving the drilling penetration rate of oilfield service projects, we have expanded our drilling service engineer team and have become an all-rounded high-end drilling service provider. We believe such move will enhance the Group's capability to serve China's major markets with our high-end drilling services. We target to provide more high-end drilling services for oilfields in the Tarim Basin, the Sichuan Basin and the Songliao Plain.

For the overseas market, our business development in the Middle East was progressing well in 1H2014. Following the establishment of its regional headquarters in the UAE, the Group will continue to explore the business opportunities to provide high-end oilfield services for Chinese national oil companies and international oil companies in the Middle East. Anticipating more turnkey projects in Iraq, the Group placed an order to purchase two sets of drilling rigs in June 2014. The oilfield service projects that the Group is aiming to win are all located in the southern part of the country, which is a safer area.

The recent political situation in Venezuela seemed to be much more stable than it was a few months ago. The collection of our accounts receivable from a major customer in Venezuela, showed a significant improvement in the first half of 2014. Since the beginning of the year and up to the end of July 2014, we had received total payments of about HK$91.3 million from the customers. The Group will maintain its business relationship with the customer by provision of production enhancement services in various oil and gas fields in Venezuela and continue to put extra efforts to chase the remaining balance of our accounts receivable from the customer.

Looking ahead to the second half of 2014, we will continue our marketing efforts in both China and the overseas market and will continue to maintain balanced proportion of our domestic and overseas business in terms of business activities and revenue. The Group will also speed up the execution of its existing service contracts and enhance the utilization of its service equipment in both China and overseas. Barring unforeseeable adverse circumstances (if any) from the aforementioned political situations, we are confident that the Group's overall business operations will be able to grow and expand further in the second half of 2014 and thereafter.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2014** *HK$*	Audited As at 31 December 2013 *HK$*
ASSETS			
Non-current assets			
Property, plant and equipment		**686,615,393**	293,367,628
Intangible assets		**570,631,649**	570,086,032
Land use right		**11,811,543**	12,042,244
Other receivables, deposits and prepayments		**122,002,025**	15,483,332
Deferred tax assets		**6,961,986**	2,938,116
		1,398,022,596	893,917,352
Current assets			
Inventories		**324,045,126**	298,595,476
Trade receivables	*5*	**1,092,808,118**	1,004,403,841
Other receivables, deposits and prepayments		**226,785,123**	146,103,272
Pledged bank deposits		**200,790,838**	160,699,613
Cash and cash equivalents		**168,355,809**	345,446,842
		2,012,785,014	1,955,249,044
Total assets		**3,410,807,610**	2,849,166,396
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**1,658,187,323**	1,634,591,001
Other reserves		**39,232,339**	36,174,501
Retained earnings			
– Proposed dividends	*12*	**–**	53,405,022
– Others		**480,351,898**	466,872,665
		2,177,771,560	2,191,043,189
Non-controlling interests		**35,467,535**	34,523,674
Total equity		**2,213,239,095**	2,225,566,863

	Note	Unaudited As at 30 June 2014 *HK$*	Audited As at 31 December 2013 *HK$*
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**14,731,471**	14,589,423
		14,731,471	14,589,423
Current liabilities			
Trade payables	*6*	**259,597,654**	243,373,379
Other payables and accruals		**192,622,072**	109,464,337
Current income tax liabilities		**14,661,212**	22,749,194
Loan from a related party		**100,784,000**	–
Bank borrowings		**615,172,106**	233,423,200
		1,182,837,044	609,010,110
Total liabilities		**1,197,568,515**	623,599,533
Total equity and liabilities		**3,410,807,610**	2,849,166,396
Net current assets		**829,947,970**	1,346,238,934
Total assets less current liabilities		**2,227,970,566**	2,240,156,286

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Unaudited Six months ended 30 June 2014** *HK$*	2013 *HK$*
Revenue	*4*	**353,281,044**	495,688,297
Other income		**353,145**	2,048,380
Operating costs			
Material costs		**(94,886,376)**	(191,885,093)
Depreciation of property, plant and equipment		**(19,334,564)**	(5,319,478)
Amortisation of intangible assets		**(782,902)**	(4,474,147)
Operating lease rental		**(8,234,832)**	(6,421,818)
Employee benefit expenses		**(93,063,412)**	(68,404,171)
Distribution expenses		**(7,843,420)**	(11,017,989)
Technical service fees		**(35,976,198)**	(48,011,213)
Research and development expenses		**(8,201,274)**	(7,594,504)
Listing costs		**–**	(5,432,892)
Entertainment and marketing expenses		**(10,073,176)**	(11,638,975)
Other expenses	*7*	**(42,980,898)**	(29,137,863)
Other losses, net	*8*	**(5,341,101)**	(1,230,069)
Operating profit		**26,916,036**	107,168,465
Finance income	*9*	**3,647,418**	1,388,237
Finance costs	*9*	**(11,317,974)**	(4,875,004)
Finance costs, net		**(7,670,556)**	(3,486,767)
Profit before income tax		**19,245,480**	103,681,698
Income tax expense	*10*	**(4,648,126)**	(26,337,986)
Profit for the period		**14,597,354**	77,343,712
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**12,758,738**	11,309,780
Total comprehensive income for the period		**27,356,092**	88,653,492

	Note	Unaudited Six months ended 30 June **2014** ***HK$***	 2013 *HK$*
Profit for the period attributable to:			
Owners of the Company		**13,479,233**	68,616,107
Non-controlling interests		**1,118,121**	8,727,605
		14,597,354	77,343,712
Total comprehensive income for the period attributable to:			
Owners of the Company		**26,412,231**	79,194,979
Non-controlling interests		**943,861**	9,458,513
		27,356,092	88,653,492
Earnings per share attributable to owners of the Company during the period	*11*		
Basic earnings per share (HK cents)		**1**	7
Diluted earnings per share (HK cents)		**1**	7
		HK$	*HK$*
Dividends	*12*	**–**	–

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The Company has its primary listing on Main Board of The Stock Exchange of Hong Kong Limited on 6 March 2013.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2014 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 2013, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

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

The following new amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2014. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

		Effective for annual periods beginning on or after
IAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 (Amendment)	Impairment of Assets	1 January 2014
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRS 10, IFRS 12 and IAS 27	Exemption from Consolidation for Investment Entities	1 January 2014
IFRIC – Int 21	Levies	1 January 2014

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The Group has not applied any new standards and interpretations that are not yet effective for current accounting period.

4 SEGMENT INFORMATION

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

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

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

The CODM assesses performance of three reporting segments: oilfield project services, consultancy services and manufacturing and sales of tools and equipment. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

(a) Revenue

Revenue recognised during the six months ended 30 June 2014 and 2013 is as follows:

	Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Oilfield project services		
– Drilling	**65,945,991**	28,994,038
– Well completion	**29,489,331**	213,957,736
– Production enhancement	**118,082,372**	158,861,872
Total oilfield project services	**213,517,694**	401,813,646
Consultancy services	**64,393,182**	18,711,077
Manufacturing and sales of tools and equipment	**75,370,168**	75,163,574
Total revenue	**353,281,044**	495,688,297

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

(b) Segment information

The segment information for the six months ended 30 June 2014 and 2013 is as follows:

	Oilfield project services *HK$*	**Consultancy services** *HK$*	**Manufacturing and sales of tools and equipment** *HK$*	**Total** *HK$*
Six months ended 30 June 2014				
Total segment revenue	**249,864,137**	**64,393,182**	**93,698,957**	**407,956,276**
Inter-segment revenue	**(36,346,443)**	**–**	**(18,328,789)**	**(54,675,232)**
Revenue from external customers	**213,517,694**	**64,393,182**	**75,370,168**	**353,281,044**
Segment results	**85,289,346**	**42,843,066**	**5,293,834**	**133,426,246**
Net unallocated expenses				**(114,180,766)**
Profit before income tax				**19,245,480**
Other information:				
Amortisation	**(611,960)**	**–**	**–**	**(611,960)**
Depreciation	**(14,025,127)**	**–**	**(3,309,581)**	**(17,334,708)**
Income tax credit	**–**	**–**	**404,275**	**404,275**
Six months ended 30 June 2013				
Total segment revenue	401,813,646	18,711,077	117,980,037	538,504,760
Inter-segment revenue	–	–	(42,816,463)	(42,816,463)
Revenue from external customers	401,813,646	18,711,077	75,163,574	495,688,297
Segment results	190,880,232	8,678,769	12,360,479	211,919,480
Net unallocated expenses				(108,237,782)
Profit before income tax				103,681,698
Other information:				
Amortisation	(186,247)	–	(4,263,099)	(4,449,346)
Depreciation	(1,998,060)	–	(2,036,608)	(4,034,668)
Income tax expenses	–	–	(5,156,081)	(5,156,081)

The segment assets as at 30 June 2014 and 31 December 2013 are as follows:

	Oilfield project services *HK$*	Consultancy services *HK$*	Manufacturing and sales of tools and equipment *HK$*	Total *HK$*
As at 30 June 2014				
Segment assets	**2,257,243,089**	**196,918,563**	**579,660,109**	**3,033,821,761**
Unallocated assets				**376,985,849**
Total assets				**3,410,807,610**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**465,017,760**	**–**	**37,324,486**	**502,342,246**
As at 31 December 2013				
Segment assets	1,683,416,788	128,902,041	546,250,952	2,358,569,781
Unallocated assets				490,596,615
Total assets				2,849,166,396
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	58,256,479	–	106,057,339	164,313,818

The segment results included the material costs, technical service fee, depreciation, amortisation, distribution expenses, fair value change on forward share exchange contract and direct labour costs allocated to each operating segment.

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the assets.

Segment assets included property, plant and equipment, land use right, intangible assets, deferred tax assets, inventories, trade and other receivables and prepayments, pledged bank deposits and cash and cash equivalents.

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

	As at **30 June 2014** *HK$*	As at 31 December 2013 *HK$*
Segment assets for reportable segments	**3,033,821,761**	2,358,569,781
Unallocated assets		
– Unallocated property, plant and equipment	**16,037,149**	16,173,637
– Unallocated intangible assets	**1,474,897**	1,266,060
– Unallocated other receivables, deposits and prepayments	**48,108,139**	27,631,986
– Unallocated pledged bank deposits	**188,584,486**	146,974,437
– Unallocated cash and cash equivalents	**122,781,178**	298,550,495
	376,985,849	490,596,615
Total assets per consolidated balance sheet	**3,410,807,610**	2,849,166,396

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

	Six months ended 30 June **2014** *HK$*	Six months ended 30 June 2013 *HK$*
Segment results	**133,426,246**	211,919,480
Other income	**353,145**	2,048,380
Material costs	**(3,855,669)**	(3,886,428)
Depreciation of property, plant and equipment	**(1,999,856)**	(1,284,810)
Amortisation of intangible assets	**(170,942)**	(24,801)
Operating lease rental	**(5,107,972)**	(4,714,694)
Employee benefit expenses	**(47,932,261)**	(41,127,258)
Distribution expenses	**(7,182,747)**	(10,277,927)
Research and development expenses	**(7,654,517)**	(7,562,343)
Listing costs	**–**	(5,432,892)
Entertainment and marketing expenses	**(8,182,906)**	(10,519,203)
Other expenses	**(23,786,854)**	(21,214,550)
Other losses, net	**(5,341,101)**	(1,297,343)
Finance income	**3,647,418**	817,563
Finance costs	**(6,966,504)**	(3,761,476)
Profit before income tax	**19,245,480**	103,681,698

(c) Geographical information

The following table shows revenue generated from segments of oilfield project services and consultancy services by geographical area according to location of the customers' oilfields and revenue generated from segment of manufacturing and sales of tools and equipment by geographical area according to location of the customers:

	Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Mainland China	**179,808,454**	241,692,612
South America	**67,245,513**	240,497,863
Middle East	**105,858,780**	12,557,198
Others	**368,297**	940,624
	353,281,044	495,688,297

During the six months ended 30 June 2014, revenue from three customers (2013: two) of the oilfield project services segment amounted to ten percent or more of the Group's total consolidated revenue for the period. The revenues of these customers of the oilfield project services segment during the relevant periods are summarised below:

	Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Customer 1	**43,315,308**	168,109,885
Customer 2	**67,245,513**	240,497,863
Customer 3	**78,472,628**	–
	189,033,449	408,607,748

5 TRADE RECEIVABLES

	As at	
	30 June	31 December
	2014	2013
	HK$	*HK$*
Trade receivables	**1,101,009,240**	1,011,528,818
Less: Provision for impairment of trade receivables	**(8,201,122)**	(7,124,977)
Trade receivables, net	**1,092,808,118**	1,004,403,841

As at 30 June 2014 and 31 December 2013, ageing analysis of net trade receivables by services completion and delivery date are as follows:

	As at	
	30 June	31 December
	2014	2013
	HK$	*HK$*
Up to 3 months	**320,132,786**	464,795,740
3 to 6 months	**89,643,435**	50,871,773
6 to 12 months	**265,884,924**	297,194,761
Over 12 months	**417,146,973**	191,541,567
	1,092,808,118	1,004,403,841

Before accepting any new customers, the Group applies an internal credit assessment policy to assess the potential customer's credit quality. Management closely monitors the credit quality of trade receivables and considers that the trade receivables to be of good credit quality since most counterparties are leaders in the oilfield industry with strong financial position. The Group generally allows a credit period ranged from 30 to 270 days after invoice date to its customers.

Based on the Group's review of the credit risk exposure and expected pattern of settlement at period end, management has determined to record a provision for doubtful receivable amounted to HK$8,201,122 (31 Dec 2013: HK$7,124,977) which represents the discounting effect of total receivable due from the Group's largest debtor.

6 TRADE PAYABLES

As at 30 June 2014 and 31 December 2013, the ageing analysis of the trade payables based on invoice date was as follows:

	As at	
	30 June	31 December
	2014	2013
	HK$	*HK$*
Up to 1 month	**92,705,137**	86,151,776
1 to 2 months	**31,293,197**	59,739,419
2 to 3 months	**18,649,514**	3,508,166
Over 3 months	**116,949,806**	93,974,018
	259,597,654	243,373,379

7 OTHER EXPENSES

	Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Auditor's remuneration	**571,119**	524,739
Communications	**945,356**	838,092
Professional service fees	**3,668,057**	1,713,981
Motor vehicle expenses	**2,500,259**	2,216,548
Travelling	**14,124,566**	11,402,176
Insurance	**1,234,433**	296,069
Office utilities	**9,315,746**	5,390,103
Other tax-related expenses and custom duties *(Note(i))*	**4,177,930**	2,042,408
Bank charges	**1,527,913**	513,548
Provision for impairment of trade receivable	**–**	1,942,469
Write off of inventories *(Note (ii))*	**1,246,753**	–
Others	**3,668,766**	2,257,730
	42,980,898	29,137,863

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

Note (ii): As at 30 June 2014, assembling materials with cost of HK$1,246,753 were considered as obsolete and were written down (30 June 2013: Nil).

8 OTHER LOSSES, NET

	Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Foreign exchange losses	**(5,266,133)**	(1,237,321)
Loss on disposals of property, plant and equipment	**(74,968)**	(60,022)
Fair value change on forward share exchange contract	**–**	67,274
	(5,341,101)	(1,230,069)

9 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Interest expenses:		
– Bank borrowings	**(7,431,195)**	(6,476,624)
– Loan from a related party	**(311,548)**	–
– Net foreign exchange (losses)/gains on financing activities	**(2,499,086)**	1,601,620
– Provision for impairment of trade receivables	**(1,076,145)**	–
Finance costs	**(11,317,974)**	(4,875,004)
Finance income:		
– Interest income from bank deposits	**2,152,788**	415,065
– Gain on the net monetary position	**1,494,630**	973,172
Finance income	**3,647,418**	1,388,237
Finance costs, net	**(7,670,556)**	(3,486,767)

10 INCOME TAX EXPENSE

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

For the Company's subsidiaries, income tax is provided on the basis of their profits for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purpose. The applicable enterprise income tax rate for PRC subsidiaries of the Group was 25% for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 25%), based on the relevant PRC tax laws and regulations, except those subsidiaries that were approved by relevant local tax bureau authorities as the High-technological Enterprise, and was entitled to a preferential Enterprise income tax rate of 15% during the period. The subsidiaries established in Hong Kong and overseas are subject to 16.5% (2013: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively. Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (2013: 17%) during the period. Subsidiary established in Venezuela is subject to Venezuelan corporate tax at a rate of 34% during the period.

	Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Current tax		
– Hong Kong profits tax	**3,696,849**	9,752,957
– PRC enterprise income tax	**1,063,147**	17,850,541
– Singapore corporate tax	**30,860**	–
– Venezuela corporate tax	**3,401,172**	–
	8,192,028	27,603,498
Under/(Over) provision in prior year		
– PRC enterprise income tax	**337,921**	(564,033)
Deferred income tax	**(3,881,823)**	(701,479)
Income tax expense	**4,648,126**	26,337,986

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

(a) Basic

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

	Six months ended 30 June	
	2014	2013
Profit attributable to owners of the Company *(HK$)*	**13,479,233**	68,616,107
Weighted average number of ordinary shares in issue (Number of shares)	**1,075,095,209**	932,219,142
Basic earnings per share *(HK$ cents)*	**1**	7

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined using discounted cash flow model) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2014	2013
Profit attributable to owners of the Company *(HK$)*	**13,479,233**	68,616,107
Weighted average number of ordinary shares in issue (Number of shares)	**1,075,095,209**	932,219,142
Adjustment for:		
– Share options	**12,491,462**	34,693,837
– Contingently issuable shares *(Note)*	**–**	248,359
Weighted average number of ordinary shares for diluted earnings per share	**1,087,586,671**	967,161,338
Diluted earnings per share *(HK$ cents)*	**1**	7

Note: The contingently issuable shares represent the share exchange in respect of the further acquisition of 4% interest in Sheraton Investment Worldwide Limited ("**Sheraton**") where the conditions governing exercisability have been satisfied as at the end of the reporting period.

The basic and diluted earnings per share for the six months ended 30 June 2013 have been taken into account the share capitalisation issue which took place upon the completion of the Global Offering. The weighted average number of shares outstanding was retrospectively increased to reflect the proportionate ratio between the number of shares before and after the capitalisation issue.

12 DIVIDENDS

A dividend in respect of the year ended 31 December 2013 of HK$ 0.05 per share, amounting to a total dividend of HK$ 53,405,022, that was proposed at the annual general meeting on 30 May 2014 has not yet been paid as at 30 June 2014. The dividend was subsequently paid on 25 July 2014.

The Board of Company does not recommend the payment of interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to HK$353.3 million in 1H2014, representing a decrease of HK$142.4 million, or approximately 28.7% as compared to HK$495.7 million in the same period of 2013. The decrease in revenue was partly due to the slowdown in business activities of major customers in various oilfields in China and partly due to the postponement of delivery of goods and services to a major customer in South America. However, the growth of the business in the Middle East market has largely compensated the decrease in China and Venezuela market.

Material costs

The Group's material costs decreased by HK$97.0 million, or approximately 50.5%, from HK$191.9 million in 1H2013 to HK$94.9 million in 1H2014. The decrease was partially due to the drop of revenue of oilfield project services, and partially contributable to the cost saving in material and tools as the Group used more self-designed and self-made tools in its oilfield projects, and the cost of self-made tools is much lower than those outsourced.

Employee benefit expenses

In 1H2014, the Group's employee benefit expenses amounted to HK$93.1 million, representing an increase of HK$24.7 million, or approximately 36.1% as compared to HK$68.4 million in the same period of 2013. The increase was mainly due to the fact that the number of the Group's employees has increased by approximately 44.6% from 644 in June 2013 to 931 in June 2014.

Distribution expenses

The Group's distribution expenses was decreased by HK$3.2 million, or approximately 29.1%, from HK$11.0 million in 1H2013 to HK$7.8 million in 1H2014, which was in line with the decrease in revenue.

Technical service fees

Technical service fees were mainly paid to the oilfield equipment rental services, technical supporting services and sales supporting services provided by our suppliers. In 1H2014, the technical service fees amounted to HK$36.0 million, representing a decrease of HK$12.0 million, or approximately 25.0%, as compared to HK$48.0 million in 1H2013. Such decrease was in line with the decrease in revenue.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment was increased by HK$14.0 million, or approximately 264.2%, from HK$5.3 million in 1H2013 to HK$19.3 million in 1H2014, primarily due to the depreciation of newly purchased equipment.

Other expenses

Other expenses of the Group's operations were HK$43.0 million for 1H2014, representing an increase of HK$13.9 million, or approximately 47.8% as compared to HK$29.1 million in the same period of 2013, mainly due to the increase of professional service fee, office utilities and other overhead expenses due to expansion of regional offices in order to build a foundation that supports a larger business operation.

Operating profit

As a result of the foregoing, the Group's operating profit decreased from HK$107.2 million in 1H2013 to HK$26.9 million in 1H2014, representing a drop of HK$80.3 million, or approximately 74.9%. The Group's operating profit margin for 1H2014 was approximately 7.6%, representing a decrease of 14 percentage points as compared to approximately 21.6% in 1H2013. The decrease in operating profit margin was mainly due to the decrease in revenue and the increase in operating costs (excluding tools and materials) as the Group has invested in oilfield service equipment and expanded its service engineering team to enhance its service capability and capacity in 2013 and 1H2014, substantial part of such investment and capacity enhancement have yet to contribute to the Group's revenue and operating profits.

Net finance costs

Net finance costs in 1H2014 were HK$7.7 million, representing an increase of HK$4.2 million, or approximately 120.0% as compared to HK$3.5 million in the same period of 2013, mainly due to the foreign exchange losses for borrowings on RMB against Hong Kong dollar which the Group's consolidated financial information was presented in.

Income tax expenses

Income tax expenses were HK$4.6 million for 1H2014, representing a decrease of HK$21.7 million or approximately 82.5% as compared to HK$26.3 million for the same period of 2013, mainly due to the drop in operating profit.

Profit for the period

As a result of the foregoing, the Group's profit for 1H2014 was HK$14.6 million, representing a decrease of HK$62.7 million or approximately 81.1%, as compared to HK$77.3 million in the same period of 2013.

Profit attributable to owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company for 1H2014 was HK$13.5 million, representing a decrease of HK$55.1 million or approximately 80.3% as compared to HK$68.6 million in the same period of 2013.

Property, plant and equipment

Property, plant and equipment mainly comprise of building, construction in progress, and equipment for oilfield services, such as pressure pumping truck. As at 30 June 2014, the Group's property, plant and equipment were HK$686.6 million, representing an increase of HK$393.2 million or approximately 134.0%, from HK$293.4 million at 31 December 2013. The increase was primarily due to purchases of new equipment and construction of building of new service bases for supporting the Group's business expansion.

Intangible assets

Intangible assets primarily consist of goodwill. The Group's intangible assets increased from HK$570.1 million as at 31 December 2013 to HK$570.6 million as at 30 June 2014, which was mainly due to the translation of goodwill at prevailing exchange rate at the period end.

Inventories

The Group's inventories increased from HK$298.6 million as at 31 December 2013 to HK$324.0 million as at 30 June 2014, representing an increase of HK$25.4 million, or approximately 8.5%. The average turnover days of inventories increased from 181 days in 1H2013 to 591 days in 1H2014. The increase of inventories turnover days was primarily due to the stock up on inventories for business expansion and the risk control measures taken by the Group to tackle the slow payment from a major customer in South America and the delayed delivery of well completion tools by the Group to the client.

Trade receivables

As at 30 June 2014, the trade receivables were HK$1,092.8 million, representing an increase of HK$88.4 million or approximately 8.8% as compared to HK$1,004.4 million as at 31 December 2013. The average turnover days of trade receivables were 534 days in 1H2014, representing an increase of 280 days as compared to 254 days in the same period of 2013. The increase of average turnover days of trade receivables was mainly due to the delay in settlement of trade receivable from a major customer in South America. However, the Group collected approximately HK$44.6 million in 1H2014 and HK$46.7 million in July 2014 from the above mentioned customer. The Group will continue to put extra efforts to monitor the repayment of our trade receivables and carefully control the risk exposure in Venezuela.

Trade payables

As at 30 June 2014, the trade payables were HK$259.6 million, representing an increase of HK$16.2 million or 6.7% as compared to HK$243.4 million as at 31 December 2013. The increase was primarily resulted from the growth of inventories. The average turnover days of trade payables increased from 194 days in 1H2013 to 346 days in 1H2014, representing an increase of 152 days, which was mainly attributable to the Group obtaining longer credit terms from its suppliers.

Liquidity, Capital Resources and Capital Management

The Group's primary objective of capital management is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for its shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may obtain borrowings from financial institutions or related parties, issue new shares or sell assets. The Group reviews and analyses its trade payables, trade receivables and cash and cash equivalents on a regular basis. The Group closely monitors its trade receivables and has established procedures to manage and control the recoverability of the trade receivables. The Group may also obtain bank borrowings if required.

As at 30 June 2014, the Group's cash and cash equivalents were HK$168.4 million, representing a decrease of HK$177.0 million as compared to HK$345.4 million as at 31 December 2013, which was primarily due to the cash outflows for the purchases of equipment. As at 30 June 2014, the Group's bank borrowings was HK$615.2 million, and the Group has undrawn facilities of HK$830.9 million under its banking facilities from major banks.

As at 30 June 2014, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 20.2%.

The Group's equity attributable to the owners of the Company decreased from HK$2,191.0 million as at 31 December 2013 to HK$2,177.8 million as at 30 June 2014. The decrease was primarily due to the declaration of a dividend of HK$0.05 per share of the Company for the year ended 31 December 2013 of the Company, amounting to a total dividend of HK$53.4 million payable as at 30 June 2014.

Foreign exchange risk

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

Contractual obligations

The Group's contractual obligations mainly include the capital expenditure commitments and the payment obligations under operating lease arrangements. The capital expenditure commitments were approximately HK$232.7 million as at 30 June 2014, mainly represent contract for the purchase of equipment of approximately HK$146 million and construction of a factory of approximately HK$48 million. The operating leases mainly include the leases of offices and warehouses. The Group's commitment under operating leases was approximately HK$29.1 million as at 30 June 2014.

Contingent liabilities

As at 30 June 2014, the Group had a litigation claimed for a total amount of HK$20.7 million and a guarantee for the performance bond of HK$0.3 million.

Off-balance sheet arrangements

As at 30 June 2014, the Group did not have any off-balance sheet arrangements.

CHANGE OF NAME

In order to reconcile the name of the Company with the Group's principal business name in the China market and the international market, effective from 30 May 2014, the name of the Company has been changed from "Termbray Petro-king Oilfield Services Limited 添利百勤油田服務有限公司" to "Petro-king Oilfield Services Limited 百勤油田服務有限公司".

CORPORATE GOVERNANCE

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

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

Code A.2.1

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

Mr. Wang Jinlong ("**Mr. Wang**") is currently performing both the roles of chairman and chief executive officer of the Group. Taking into account Mr. Wang's strong expertise in the oil and gas industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply with Code Provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

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

Hong Kong, 22 August 2014

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

* *For identification purpose only*