Annual Report

2014

PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178

Petro-king 百勤油服

CONTENTS

FINANCIAL HIGHLIGHTS

Operating Figures

For the year ended 31 December	2014 HK$	2013 HK$	Change	2012 HK$	2011 HK$	2010 HK$
Revenue	**705,171,931**	1,060,434,801	-34%	1,106,333,283	559,490,832	558,261,469
Operating profits	**(397,999,976)**	259,704,858	-253%	194,084,367	116,074,393	107,637,725
(Loss)/profit for the year	**(418,147,547)**	210,506,147	-299%	184,690,978	92,092,536	84,634,412
(Loss)/earnings per share						
Basic (HK$ cents)	**(38)**	20	-290%	23	12	16
Diluted (HK$ cents)	**(38)**	20	-290%	23	11	16

Consolidated Balance Sheet

As at 31 December	2014 HK$	2013 HK$	Change	2012 HK$	2011 HK$	2010 HK$
Total assets	**3,162,094,595**	2,849,166,396	11%	1,832,335,809	1,234,526,218	1,230,370,717
Non-current asset	**1,563,766,454**	893,917,352	75%	741,629,235	549,393,417	492,368,443
Current assets	**1,598,328,141**	1,955,249,044	-18%	1,090,706,574	685,132,801	738,002,274
Total liabilities	**1,367,166,568**	623,599,533	119%	741,497,540	231,530,769	341,479,296
Non-current liabilities	**55,457,818**	14,589,423	280%	11,821,404	12,873,620	10,244,983
Current liabilities	**1,311,708,750**	609,010,110	115%	729,676,136	218,657,149	331,234,313
Net current assets	**286,619,391**	1,346,238,934	-79%	361,030,438	466,475,652	406,767,961
Net assets	**1,794,928,027**	2,225,566,863	-19%	1,090,838,269	1,002,995,449	888,891,421

Financial Indicators

For the year ended 31 December	2014	2013	2012	2011	2010
Trade receivables turnover days	**461**	285	165	263	188
Inventory turnover days	**552**	268	90	107	47
Trade payables turnover days	**334**	225	86	131	112
Current ratio	**1.22**	3.21	1.49	3.13	2.23
Gearing ratio *(Note 1)*	**21%**	N/A	5%	3%	N/A
Return on Equity *(Note 2)*	**-23%**	13%	18%	10%	13%

Note 1: Based on total borrowing net of cash and cash equivalents over total capital.

Note 2: Based on the loss/profit for the year over the average of the total equity at the beginning and end of the financial year.

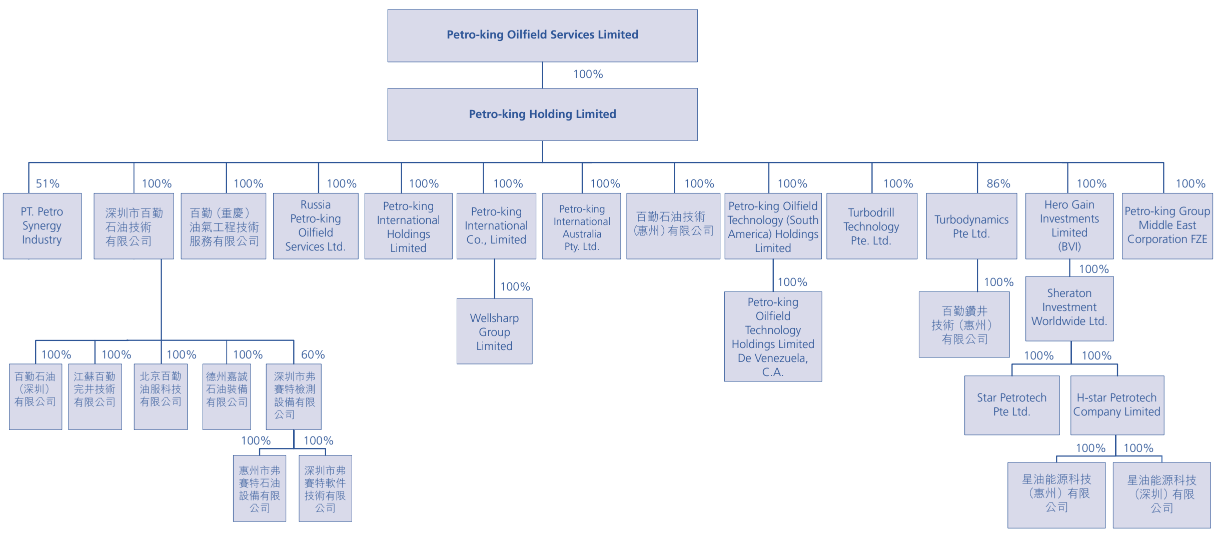
CORPORATE PROFILE

Petro-king Oilfield Services Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**" or "**our**") (stock code: 2178) is a leading independent China-based provider of high-end oilfield services.

We provide high-end services and products across various stages in the life of an oil or gas field, including the provision of services in well evaluation and appraisal, drilling, casing, well completion, well production, well workover, production enhancement and well abandonment, as well as the supply of oilfield services tools and equipment. Amongst our available services, we principally focus on the provision of consultancy services; oilfield project services in drilling, well completion and production enhancement; manufacturing and sales of oilfield services tools and equipment.

Since our inception in 2002, we have provided services/products to customers located in various regions/countries in the world, including China, the Middle East, Russia, Australia, South America, Singapore, Indonesia, Taiwan, Kazakhstan, Turkmenistan, the Republic of Trinidad and Tobago, and the Gabonese Republic.

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

WANG JINLONG
Chairman

On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present to the shareholders of the Company (the "**Shareholders**") the annual report of the Group for the year ended 31 December 2014.

RESULTS

In 2014, the Group recorded an operating loss of HK$398.0 million against the operating profit of HK$259.7 million in 2013. During the year, the Group's revenue dropped by 34% to HK$705.2 million, as compared to that of HK$1,060.4 million in 2013. However, operating costs surged by 37% to HK$1,103.6 million in 2014, as compared to that of HK$803.1 million in 2013. The increase in operating cost was mainly due to a provision for impairment of trade receivables of HK$280.3 million, and the increase in employee benefit expenses and depreciation expenses. As a result, the Group recorded a loss of HK$423.08 million attributable to owners of the Company in 2014, against the profit of HK$196.6 million attributable to the owners of the Company in 2013.

OVERVIEW

2014 was a challenging year for the Group. There were various dramatic changes in the business environment for the oilfield services industry domestically and internationally. The reduction of capital expenditure by Chinese national oil companies ("**NOCs**") as well as the reform and restructuring of the NOCs led to a general decline in business activities of the oilfield services sector in the China market. In addition, the pace of development of shale gas projects in China was slower than expected at the beginning of the year, leading to a low utilisation of the Group's newly purchased high-pressure pumping equipment in 2014. The slump in the international oil price has also cast uncertainty over the future development of the industry and has severely weakened the financial strength of a major customer in South America, and thus affected the Group's collection of the outstanding accounts receivable from the customer.

Despite the unfavorable business environment in 2014, the Group further diversified its customer base, received recognition from its customers for the high quality of its new products and services, and developed new and advanced technology and tools:

- Our oilfield technology and services have gained recognition from customers after the successful installation of the Group's self-developed down-hole completion tools in two oilfields owned by international oil companies ("**IOCs**") in Southern Iraq.

- We gained oilfield services contracts for the provision of production management services and surface engineering services for a major oilfield owned by an NOC in Southern Iraq.

- The Group's new tools and technology, such as high speed turbine drilling tools, oil-based mud and multistage fracturing packers are well received by the market in China.

- After the successful application of its self-developed high speed turbine drilling tools in China, the Group made significant progress by reaching a collaboration agreement with a renowned international oilfield equipment and services company for business development of turbine drilling services in the overseas market.

- We gained a new customer for the provision of production enhancement services in Central Asia.

In the third quarter of 2014, the Group commenced the commercial operation of its newly established manufacturing base in Huizhou, and enhanced its capability of research and product development in its Singapore operations. The Group had further advanced its strategy in vertical integration of its high-end oilfield services and its self-sufficiency in key technology and critical tools and laid a solid foundation for its long-term business development as an independent high-end oilfield services provider in both the PRC market as well as the overseas market.

THE PRC MARKET

In 2014, the Ordos Basin continued to be the Group's major operating area in China. Sinopec Northern China Company and the Changqing Oilfield of China National Petroleum Corporation ("**CNPC**") were the major customers of the Group's production enhancement services such as horizontal well open-hole packer multistage fracturing and coiled tubing-conveyed resettable packer multistage fracturing. Although the Group saw a slowdown in the overall volume of business in its fracturing services for these customers, it continued to maintain a large share of the multistage fracturing services market in the Ordos Basin. Leveraging on its well-established long term relationships with the customers in the Ordos Basin, the Group has been invited by our customers in the area to participate in tender bidding and technical discussions from time to time. Our self-developed multistage fracturing packers continued to gain market reputation in China, further enhancing the Group's overall competitiveness in the market for multistage fracturing services.

Further to the successful application of the Group's oil-based drilling fluid in CNPC's shale gas project in the Sichuan Basin, the Group's drilling fluid system has gained further market penetration through the sales to the subsidiaries of CNPC. This, together with the successful application of the Group's self-developed turbine drilling tools and expanded service capacity in directional drilling, has led to a significant growth in revenue from the Group's provision of drilling services in China in 2014.

The development of shale gas projects by the NOCs in the Sichuan Basin was slower than what the Group had expected. In order to have a higher utilisation of its pressure pumping equipment, the Group relocated some of its fracturing service capacity to a production enhancement services project in Central Asia and expected its business in this area to continue to make progress in 2015.

The Group's operations in the Tarim Basin are mainly focused on drilling services and completion services. In 2014, the Group conducted services at a few technically challenging wells in the area, including turbine drilling services at a big-bore well with a depth of 7,360 meters and a technically challenging well which required the Group's well-completion engineer to run a tubing-retrievable safety value into the well at a depth of about 1,500 meters, in order to avoid hydrate deposit problems. The success in these technically challenging projects has gained our customers' recognition for the Group's technical capability and, once again, enhanced the Group's leading market position as a high-end oilfield services provider in China.

THE OVERSEAS MARKET

The Group's business development in the Middle East has been progressing well in 2014. During the year, the Group started providing directional drilling services, drilling mud services and completion services in Iraq and gained good recognition from its customers after successful installation of its self-developed completion tools in two oilfields owned by IOCs in Southern Iraq. In addition, the Group continued to win tenders for contracts for provision of surface engineering services and oilfield production management services. A wide range of our products and services are successfully and gradually increasing their market penetration in the Middle East now.

Collection of the outstanding accounts receivable from a major customer in Venezuela continued to be a major issue of the Group's business development in the country. In 2014, the Group received approximately HK$122.3 million from the customer, and most of the settlements happened in the second quarter and third quarter of the year. Settlement had slowed down again since the fourth quarter of 2014 after the slump in international oil price in the second half of 2014. The Group took risk control measures to limit the exposure of its business to the country, and has since then maintained limited business operations in Venezuela.

OUTLOOK

Year 2014 was full of challenges for China's oilfield services industry such as the reduced capital expenditure of the NOCs in the domestic market, the delayed shale gas projects in the Sichuan Basin, the outbreak of political unrest in the Middle East, and the slump in the international oil price. All these have resulted in harsh market conditions and a difficult operating environment for the industry. In view of the uncertainties over the international oil price and the unfavorable business environment, the Group takes a cautious approach to its business plan and financial budget for 2015.

In China, the economic reform and the NOC's restructuring may continue to affect the volume of business of the independent oilfield services providers in the short run. If the international oil price continues to remain low, the NOCs may cut capital expenditure in 2015 as well, and this may further impinge on the business of independent oilfield services providers in China. To cope with the uncertainties in the oilfield services sector in China, the Group will shift a certain part of its resources (such as oilfield services equipment and engineers) to the Middle East, Central Asia, Australia and other overseas markets where, we believe, will enable us to gain services contracts from its IOC customers. In addition, the Group will review and make necessary adjustment to the current staff structure and compensation packages in order to streamline the cost structure and improve the operational efficiency of its business operations in China.

In the overseas market, we see both risks and opportunities. Our current business development in the Middle East market has been progressing well. Our high-end oilfield services together with our self-developed down-hole completion tools have been successfully introduced to the IOC customers in Iraq and have been highly regarded by our customers. As the Group's professional oilfield services and technology have been gaining market reputation since the mid of 2014. We expect our business development with the IOC customers in the Middle East market will continue to progress well in 2015.

The collection of trade receivables from our customer in Venezuela remains an issue, which has, to a certain extent, delayed our execution of business contracts and orders in the country in order to manage the Group's business exposure in Venezuela. We believe that the recent slump in international oil price has weakened the financial strength of the customer and thus has exacerbated the Group's difficulty in collecting the trade receivables. As such, we are circumspect in our business plan in the country for 2015. Currently, the Group will maintain its business operations in Venezuela but will closely monitor the customer's punctuality in settlement and will execute the contracts cautiously.

Looking ahead to 2015, we will continue to put effort into marketing and promoting the Group's high-end oilfield services, tools and technology in order to gain further recognition from NOCs and IOCs for the Group's services and products. In light of the recent development of the oil and gas industry as well as the oilfield services sector, the Group will control the pace of its overall business development plan by downsizing business operations in certain regions with less opportunity and reduce the magnitude of capital expenditure investment in 2015.

APPRECIATION

On behalf of the Board, I would like to express my sincere thanks to the Company's Shareholders, customers and business partners for their continuous support. Also, I would like to take this opportunity to thank all our dedicated staff members for their valuable contribution during the year.

Wang Jinlong
Chairman

Hong Kong, 30 March 2015

OVERVIEW

In 2014, the Group recorded a total revenue of HK$705.2 million, representing a decrease of HK$355.2 million or 34%, from 1,060.4 million in 2013. The Group posted an operating loss of HK$398.0 million in 2014 against the operating profit of HK$259.7 million in 2013. The operating profit margin was -56% in 2014 against the operating profit margin of 24% in 2013. The Group recorded a net loss of HK$418.1 million in 2014 against a net profit of HK$210.5 million in 2013. The Group's net profit margin was -59% in 2014 against the net profit margin of 20% in 2013. The negative operating profit margin and negative net profit margin in 2014 were mainly attributable to the decrease in revenue and the expanded business scale in 2014, as well as the provision for impairment of trade receivables of HK$280.3 million.

In 2014, the decrease in revenue was mainly attributable to the general slowdown in business activities of the Group's major customers in China and the risk control measures taken by the Group in South America. The Group's revenue from the China market dropped by 26% and was mainly due to (i) the dramatic decline in demand for production enhancement services, and (ii) the decline in demand for oilfield services tools and equipment due to the current slow-down of the industry. However, even during the downturn of the industry, our drilling department recorded a significant growth due to the introduction of our turbine drilling tools and oil-based mud to the market.

The revenue from the overseas market declined by 45%, mainly due to the risk control measures taken by the Group as a result of the unfavorable domestic situation in Venezuela and the slump of the international oil price. Nevertheless, the Group seized other business opportunities in the overseas markets and recorded a significant growth in business in the Middle East.

A provision for impairment of trade receivables of HK$280.3 million was made, in response to the slow payment from a customer in Venezuela.

GEOGRAPHICAL MARKET ANALYSIS

Set out below is the revenue analysis by geographical area:

	2014 (HK$ million)	2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2014 (%)**	Approximate percentage of total revenue in 2013 (%)
China market	**465.4**	625.8	-26%	**66%**	59%
Overseas market	**239.8**	434.6	-45%	**34%**	41%
Total	**705.2**	1,060.4	-34%	**100%**	100%

The Group's revenue from the China market decreased by HK$160.4 million or approximately 26% to HK$465.4 million in 2014 from HK$625.8 million in 2013. The drop in revenue from the China market was mainly due to the general decline in the demand of high-end oilfield services. In particular, a significant decrease in the revenue from the production enhancement services in Northern China was recorded.

The Group's revenue from overseas market decreased by HK$194.8 million or approximately 45% to HK$239.8 million in 2014 from the HK$434.6 million in 2013. The decrease in revenue from the overseas market was mainly attributable to the substantial decrease in revenue from South America which was caused by the slow payment of our trade receivables by our customer in Venezuela. In the Middle East, a substantial growth in revenue was recorded. The development of the Group's business in that area has been encouraging.

Revenue from the China Market

Set out below is the breakdown of the revenue from the China market:

	2014 *(HK$ million)*	2013 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total in 2014** ***(%)***	Approximate percentage of total in 2013 *(%)*
Northern China	**165.5**	310.6	-47%	**36%**	50%
Northwestern China	**76.0**	21.2	258%	**16%**	3%
Southwestern China	**56.0**	48.5	15%	**12%**	8%
Other regions in China	**167.9**	245.5	-32%	**36%**	39%
Total	**465.4**	625.8	-26%	**100%**	100%

In 2014, the Group's revenue from Northern China amounted to HK$165.5 million, which has decreased by HK$145.1 million or approximately 47% from HK$310.6 million in 2013. The drop in revenue 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 average-price of the services per well compared to that in the same period last year. The average-price of services per well decreased mainly because the Group was able to save cost by replacing the tools with self-made ones, and passed the benefit of the saved cost to our customers.

The revenue from Northwestern China amounted to HK$76.0 million in 2014, which has increased by HK$54.8 million or approximately 258% from HK$21.2 million in 2013. The significant increase in revenue in Northwestern China was mainly due to the success of the promotion of our drilling services with our self-developed turbine drilling tools and oil-based mud.

The revenue from Southwestern China amounted to HK$56.0 million in 2014, which has increased by HK$7.5 million or approximately 15% from HK$48.5 million in 2013. The increase in revenue in Southwestern China was mainly due to the business development of the non-national oil company ("**NOC**") shale gas projects.

The revenue from other regions in China amounted to HK$167.9 million in 2014, which has decreased by HK$77.6 million or approximately 32% from HK$245.5 million in 2013. The significant decrease in revenue in other regions in China was mainly due to the general decline of the demand for oilfield services during the period.

Revenue from the Overseas Market

Set out below is the breakdown of the revenue from the overseas market:

	2014 (HK$ million)	2013 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total in 2014 (%)**	Approximate percentage of total in 2013 *(%)*
South America	**71.7**	358.4	-80%	**30%**	82%
Middle East *(Note 1)*	**146.3**	55.0	166%	**61%**	13%
Other overseas regions *(Note 2)*	**21.8**	21.2	3%	**9%**	5%
Total	**239.8**	434.6	-45%	**100%**	100%

Note 1: The Middle East region includes Iraq, the United Arab Emirates, etc.

Note 2: Other overseas regions include Russia, Singapore, Indonesia, Kazakhstan, Uganda and the Gabonese Republic, etc.

The Group's revenue from the overseas market in 2014 was mainly from the Middle East. The revenue from the Middle East increased by HK$91.3 million or approximately 166%, to HK$146.3 million in 2014 from HK$55.0 million in 2013. The Group's business development in the Middle East was remarkable in 2014. In March 2014, the Group won two biddings for the provision of various oilfield services to the oilfield projects owned by international oil companies ("**IOCs**") in Iraq, where we applied our self-developed down-hole completion tools to IOC projects for the first time. We installed our tools in two oilfield projects in the fourth quarter of 2014. Our services and products gained high recognition from our customers and helped us gain more contracts from these IOCs and Chinese NOCs in the area. The growth in business in the Middle East is expected to continue its momentum in 2015.

However, the Group's revenue from South America amounted to HK$71.7 million, which has decreased by HK$286.7 million or approximately 80%, from HK$358.4 million in 2013. The drop in revenue was caused by the slow payment of our trade receivables by a major customer in Venezuela. This was a setback for the Group in 2014. The customer's financial strength had been weakened by the political instability in country since early 2013 and the slump in international oil price since the second half of 2014. The Group has taken risk control measures to limit the exposure of its business in the area. During 2014, the Group received approximately HK$122.3 million in payment from the customer.

BUSINESS SEGMENT ANALYSIS

Set out below is the revenue analysis by business segment:

	2014 (HK$ million)	2013 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2014 (%)**	Approximate percentage of total revenue in 2013 (%)
Oilfield project services	**433.2**	739.2	-41%	**61%**	70%
Consultancy services	**89.1**	40.5	120%	**13%**	4%
Manufacturing and sales of tools and equipment	**182.9**	280.7	-35%	**26%**	26%
Total	**705.2**	1,060.4	-34%	**100%**	100%

In 2014, the Group's revenue from oilfield project services amounted to HK$433.2 million, accounting for approximately 61% of the Group's total revenue, which has decreased by HK$306.0 million or approximately 41% from HK$739.2 million in 2013. The drop in the revenue from oilfield project services was mainly due to the general downturn in the industry, particularly the decrease in revenue from multistage fracturing services in Northern China and the decrease in revenue in South America as a result of the risk control measures taken by the Group.

The Group's revenue from consultancy services amounted to HK$89.1 million in 2014, which has increased by HK$48.6 million or approximately 120% from HK$40.5 million in 2013. The major reason for the growth was the development of business in the Middle East.

In 2014, the construction of the Huizhou base was completed and the production there was ramped up in the fourth quarter of 2014. The Group's revenue from manufacturing and sales of tools and equipment has decreased by HK$97.8 million or approximately 35% to HK$182.9 million in 2014, from HK$280.7 million in 2013. The drop in revenue was partly due to the general decline in demand in the oilfield services industry, and partly due to the halt of production for ramping up the capacity of the new factory in Huizhou.

Oilfield Project Services

Set out below is the revenue analysis of oilfield project services:

	2014 **(HK$ million)**	2013 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total in 2014** **(%)**	Approximate percentage of total in 2013 *(%)*
Drilling	**179.1**	66.5	169%	**41%**	9%
Well completion	**28.6**	253.4	-89%	**7%**	34%
Production enhancement	**225.5**	419.3	-46%	**52%**	57%
Total	**433.2**	739.2	-41%	**100%**	100%

Drilling services

The Group's revenue from drilling services increased significantly by HK$112.6 million or approximately 169% to HK$179.1 million in 2014 compared to HK$66.5 million in 2013. The growth was mainly attributable to the successful application of our turbine drilling tools and oil-based mud. In particular, there is large room for growth in demand for our turbine drilling tools as we are promoting the tools to the international market. In 2014, the Group provided directional drilling or turbine drilling services for 34 wells, of which 31 wells were completed before 31 December 2014 and the works at three wells were still in progress as at 31 December 2014. Of the completed wells, 26 wells were in the China market and five wells were in the overseas market.

In 2014, the drilling department of the Group made remarkable achievements by finishing several complicated projects including a fishbone horizontal well in the Liaohe Oilfield, a big-bore well in the Tarim Basin, which was one of the deepest wells in China, and an extended shallow well in northern Shaanxi Province. The accomplishment of tasks in these complicated wells has greatly improved the Group's reputation as a leading high-end oilfield services provider.

Well Completion Services

In 2014, the Group's revenue from well completion services amounted to HK$28.6 million, which has decreased by HK$224.8 million or approximately 89% from HK$253.4 million in 2013. In 2013, the Group's revenue from completion services was mainly derived from well completion services and provision of tools to a major customer in Venezuela. However, due to the risk control measures taken to limit the exposure to the customer, we delayed the shipment of some tools and delivery of oilfield services to the customer. These were the major reasons for the drop in revenue in this business segment. In 2014, the Group provided well completion services for 27 wells, of which 22 wells were completed before 31 December 2014 and the works at five wells were still in progress as at 31 December 2014. Of the completed wells, 17 wells were in the China market and five wells were in the overseas market.

In the third quarter of 2014, our engineers successfully installed a tubing-retrievable safety-valve in a well in the Tarim Basin, to a depth of about 1,500 meters. The operation with this deep well completion tool helped to avoid hydrate deposit problems in the well. The accomplishment of such work at this challenging well has proven the capability of our engineers.

In the overseas market, we successfully installed the Group's self-developed well completion tools in two oilfields in Southern Iraq owned by IOCs. Our tools were recognised by our customers for their quality and performance, and we received further orders for our tools for the oilfield projects in the same area.

Production Enhancement Services

In 2014, the Group's revenue from production enhancement services amounted to HK$225.5 million, which has decreased by HK$193.8 million or approximately 46% from HK$419.3 million in 2013, and was mainly due to the decrease in the revenue from production enhancement services in Northern China in 2014 as mentioned above. In 2014, the Group provided production enhancement services for 135 wells, of which 126 wells were completed before 31 December 2014 and the works at nine wells were still in progress as at 31 December 2014. Of the completed wells, 115 wells were in the China market and 11 wells were in the overseas market.

Although the growth of this business segment was limited by a couple of unfavorable factors in China, such as the reform and restructuring of NOCs, the NOCs' move to cut capital expenditure, and the delay of the shale gas projects in the Sichuan Basin, there were new business opportunities in the overseas market. We obtained business from a new customer in Central Asia in the fourth quarter of 2014 through an open tender for work at the first batch of 50 wells. We can expect to win more contracts in 2015 after we have successfully provided our professional services to the customer.

In the fourth quarter of 2014, the Group provided fracturing services to a shale gas well in Hunan, using our newly developed non-fresh water fracturing fluid system. This technology was jointly developed by the Group and TouGas Oilfield Solution GmbH from Germany. The non-fresh water fracturing fluid system reduces the environmental impact of hydraulic fracturing.

CUSTOMER ANALYSIS

	2014 **(HK$ million)**	2013 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2014** **(%)**	Approximate percentage of total revenue in 2013 *(%)*
Customer 1	**71.7**	358.4	-80%	**10%**	34%
Customer 2	**135.7**	333.0	-59%	**19%**	31%
Customer 3	**101.2**	–	N.A	**15%**	–%
Others *(Note)*	**396.6**	369.0	7%	**56%**	35%
Total	**705.2**	1,060.4	-34%	**100%**	100%

Note: Others include CNPC, China National Offshore Oil Corporation, Winfield Oil Services Limited, ConocoPhillips China Inc., Venineft, Weatherford, EOG Resource, Shell, etc.

The Group is committed to diversifying its customer base so as to reduce the risk of relying heavily on a few customers for income. The revenue from Customer 1 decreased by HK$286.7 million or approximately 80% to HK$71.7 million in 2014 compared to HK$358.4 million in 2013. The decrease was mainly due to the Group's measures to manage the risk of slow settlement of the Group's trade receivables from the customer. The revenue from Customer 2 declined by HK$197.3 million or approximately 59%, from HK$333.0 million in 2013 to HK$135.7 million in 2014. 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 and the revenue generated from business with that customer amounted to HK$101.2 million in 2014. The revenue from other customers, including two major NOCs in China and a few IOCs, rose by approximately 7% to HK$396.6 million in 2014 from HK$369.0 million in 2013.

Significant Investment

In view of the PRC government policy to support the development of unconventional gas, in the fourth quarter of 2013, the Group foresaw the potential market opportunity for expanded production enhancement services demanded by the oil and gas companies in the PRC. The Group ordered a high-pressure pumping fracturing equipment with 37,500 hydraulic horsepower in December 2013 at the price of approximately HK$320.5 million, which was delivered by the supplier to our Jiaoshiba Base in April 2014 and started to provide fracturing services for customers in the Sichuan Basin. But the development of shale gas projects by the NOCs in that area was slower than what the Group had expected. In order to have a higher utilisation of this high-pressure pumping fracturing equipment, the Group relocated some of its fracturing service capacity to a production enhancement services project operated by a new customer in Central Asia at the end of 2014 and expected to win more contracts in 2015 after we have successfully provided our professional fracturing services to the customer.

RESEARCH AND DEVELOPMENT

As a high-end oilfield services provider, the Group attaches great importance to technology, and prides itself on introducing innovative products and services in a number of areas in oilfield services, such as turbine-drilling, multistage fracturing, surface facilities for safety and surface flow control systems and the use of safety valve, packer, other well-completion and production enhancement tools, drilling fluids and fracturing liquid. In 2014, even during the industry's downturn, the Group still pressed on with technological advancement and enhancement of service capability and capacity. Our technology development team has expanded to 58 experienced engineers. The research and development ("**R&D**") expenses increased to HK$24.6 million in 2014 from HK$14.6 million in 2013. In 2014, the Group made notable advancements in R&D. Our KingFrac™ tools were put into operational use in our projects. Queen Sleeve™ tools have been at the testing stage. The non-fresh water fracturing fluid system has been commercialised. The improved slick water for the fracturing of shale gas wells has been applied to two projects in Guizhou and Hunan.

In order to gain further recognition from IOC, we have successfully applied for the licences for the Group's down-hole completion tools upgraded from American Petroleum Institute ("**API**") V5 and API V6 to API V3. This is a remarkable step for the Group's self-produced products as it has proven that the product quality has attained a high level. Moreover, our tools were sent to our customer, TOTAL E&P Indonesie, for various field and surface tests and obtained positive results with encouraging feedback from the customer such as "Good serviceable", "No defect finding", "The surface test has been achieved without any problem", etc.. All these have been encouraging to our R&D team, and it will make further advancements in the future.

At the same time, the Group has been actively innovating technology and applying for patents. The Group was holding one invention patent and 26 utility model patents as at 31 December 2014 and 13 invention patents and four utility model patents were under application as at 31 December 2014.

The Group will continue to develop more down-hole completion tools and fracturing tools, as well as various oilfield services technologies in order to maintain its leading position in the high-end oilfield services sector.

HUMAN RESOURCES

It has always been the Group's belief that its employees are its most valuable assets and the development of each employee has always been the Group's first priority in human resources management. To this end, the Group has developed a modern training system. This system includes the usage of information technology to train our young engineers and the provision of customised business management courses for our managerial personnel. We are eager to improve the Group's employees' professional knowledge and enhance their professional standard.

However, due to the plans on downsizing in respect to the downturn of the industry, the management of the Group would like to optimise the human resources by decreasing the number of employees and decreasing the staff cost in general. Such plans have been carried out since early 2015. We believe such measures will benefit the Group during the industry downturn period.

As at 31 December 2014, the Group had 989 employees, representing an increase of 15% from 863 in February 2014. In particular, the number of oilfield services engineers or technical personnel was 381, representing an increase of 22% compared to the 312 in February 2014.

FINANCIAL REVIEW OF CONTINUING OPERATIONS

Revenue

The Group's revenue amounted to HK$705.2 million in 2014, which has decreased by 34% as compared to that of HK$1,060.4 million in 2013, representing a decrease of approximately HK$355.2 million. In particular, the revenue from oilfield project services amounted to HK$433.2 million in 2014, which has dropped by HK$306.0 million compared with last year. This decrease was mainly due to the falling revenues of well completion and production enhancement, which have dropped by approximately 89% and 46% respectively compared with last year. The revenue from manufacturing and sales of tools and equipment amounted to HK$182.9 million in 2014, representing a decrease of HK$97.8 million when compared to the revenue in 2013. Besides, the revenue of consultancy services increased by approximately 120%, from approximately HK$40.5 million in the corresponding period of 2013 to approximately HK$89.1 million in 2014.

Material Costs

During the reporting period, the Group's material costs were HK$220.3 million, which has dropped by HK$94.6 million or 30% as compared to that of HK$314.9 million in 2013. The decrease of material costs were in line with the decrease of revenue in 2014.

Employee Benefit Expenses

During the reporting period, the Group's employee benefit expenses were HK$214.9 million, which has increased by HK$46.5 million or 28% as compared to that of HK$168.4 million in 2013. This change was mainly due to the substantial increase in the number of the Group's employees in 2014.

Depreciation of Property, Plant and Equipment

During the reporting period, the depreciation of property, plant and equipment ("**PPE**") amounted to HK$61.2 million, which has increased by HK$41.6 million or 212% as compared to that of HK$19.6 million in 2013. The increase of depreciation was the result of the increment in PPE primarily including items such as buildings at Huizhou base, fracturing trucks, cranes and other motor vehicles.

Distribution Expenses

During the reporting period, the Group's distribution expenses amounted to HK$22.2 million, which has increased by HK$3.6 million or approximately 19% from HK$18.6 million in 2013. It was mainly due to more transportation of tools and equipment to distant areas.

Technical Service Fee

During the reporting period, the Group's technical service fee amounted to HK$74.7 million, which has decreased by HK$50.0 million or approximately 40% from HK$124.7 million in 2013, and was in line with the decrease in revenue from oilfield services projects.

Provision for Impairment of Trade Receivables

During the reporting period, the provision for impairment of trade receivables amounted to HK$280.3 million. The management considered that certain customers of the Group experienced significant and rapid deterioration in the credit ratings as well as other market parameters which indicate an increase in the credit default risk. Therefore, management has determined to recognise the impairment of part of trade receivables from a customer in Venezuela.

Other Expenses

During the reporting period, the Group's other expenses were HK$147.9 million, which has increased by HK$53.2 million or approximately 56% from HK$94.7 million in 2013. It was mainly attributable to the increase of agency fee and travelling expenses and the provision for impairment of inventories.

Operating (loss)/profit

During the reporting period, the Group's operating loss amounted to HK$398.0 million, which has dropped by HK$657.7 million or 253% as compared to the operating profit of HK$259.7 million in 2013. This change was partly due to the decrease of revenue in 2014, representing a drop of 34% compared with last year; and partly due to the increase of operating costs, approximately increased by 37% compared with last year; in particular, a large number of provision for impairment of trade receivables amounted to approximately HK$280.3 million in 2014.

Net Finance Costs

During the reporting period, the Group's net finance costs amounted to HK$18.8 million, which has increased by HK$18.6 million as compared to that of HK$0.2 million in 2013. The increase mainly attributable to the increase of bank loans, and the increase of finance costs were in line with the increase of bank borrowings in 2014.

Income Tax Expense

During the reporting period, the Group's income tax expense amounted to HK$1.3 million.

(Loss)/profit for the Year

During the reporting period, the Group's net loss amounted to HK$418.1 million, which has decreased by approximately HK$628.6 million as compared to the net profit in 2013.

(Loss)/profit Attributable to Owners of the Company

During the reporting period, the Group's profit attributable to owners of the company amounted to negative HK$423.1 million, which has decreased by HK$619.7 million as compared to that of HK$196.6 million in 2013.

Property, Plant and Equipment

Property, plant and equipment normally include items such as buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, construction in progress and plant and machinery. As at 31 December 2014, the Group's property, plant and equipment amounted to HK$815.1 million, which has increased by HK$521.7 million or approximately 178% from HK$293.4 million in 2013. The increase was primarily due to the purchase of fracturing trucks for expected growth in business in 2015, and also contributed by the completion of the processing base in Huizhou.

Intangible Assets

During the reporting period, the Group's intangible assets amounted to HK$567.3 million, representing a slightly decrease of approximately HK$2.8 million, when compared to the corresponding period of last year.

Inventories

As at 31 December 2014, the Group's inventories amounted to HK$368.0 million, representing an increase of HK$69.4 million as compared to that of HK$298.6 million in 2013. The increase of inventories was partly due to the increase in tools for preparation for expected growth in business in 2015 and partly contributed by the increase in raw materials, assembling materials, work in progress and finished goods.

Trade Receivables

As at 31 December 2014, the Group's trade receivables amounted to HK$778.4 million, which has decreased by HK$226.0 million as compared to that of HK$1,004.4 million in 2013. This decrease was primarily due to that the management has determined to record a provision for doubtful receivables as at 31 December 2014 amounted to HK$297.6 million (2013: HK$7.1 million). In particular, based on the assessment of the credit quality of customers, the Group recorded a provision amounted to HK$237.9 million from one of the Group's major customers located in Venezuela.

Trade Payables

As at 31 December 2014, the Group's trade payables were HK$312.0 million, which has increased by HK$68.6 million as compared to that of HK$243.4 million in 2013. This increase was mainly caused by the Group obtaining longer credit term from suppliers.

Liquidity and Capital Resources

The Group's objectives in 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 31 December 2014, the Group's cash and cash equivalent amounted to HK$55.3 million, which was mainly held in HK$, RMB and US$. HK$200.2 million cash was pledged in the bank deposits for the Group's borrowings and bidding bonds.

During the year ended 31 December 2014, the Group reported net loss attributable to owners of approximately HK$423,081,000 and operating cash outflow of approximately HK$85,248,000 due to the sluggish global oil and gas market that caused significant decline in new oilfield services orders and delay in realising trade receivables. As at 31 December 2014, the Group had total bank borrowings of approximately HK$749,000,000, of which approximately HK$712,699,000 will be due in the coming twelve months. As at 31 December 2014, the Group had cash and cash equivalents and pledged bank deposits of approximately HK$55,339,000 and HK$200,154,000, respectively.

Pursuant to the requirements of the Term Loan (as defined hereinafter), the Group is obliged to comply with restrictive financial covenants and certain undertakings, including not to incur additional financial indebtedness by the Group. As at 31 December 2014, the Term Loan amounted to US$40,000,000 (equivalent to HK$312,000,000), which has scheduled repayment dates from 2015 to 2017. The Group is required to file a compliance certificate and to supply to the financiers financial statements for the year ended 31 December 2014. Based on the Group's financial statements for the year ended 31 December 2014, the Group has breached certain of these financial covenants. On 12 March 2015, the Group entered into a placing agreement (the "**Placing Agreement**") with a placing agent for the proposed issuance of convertible bonds, which is conditional upon, amongst others, the waiver obtained from the bank. The breach of the restrictive financial covenants constituted events of default under the Term Loan agreement, which may cause the relevant Term Loan of HK$312,000,000 to become immediately repayable. In this connection, the Group has classified the entire HK$312,000,000 outstanding balance of the Term Loan under current liabilities. This has increased the Group's total borrowings due within a year to approximately HK$712,699,000 as at 31 December 2014 and the Group did not have any committed long-term financing to fund the repayment of such borrowings at year end.

In view of such circumstances, the Directors and the Group's management have given careful consideration to the future liquidity and performance of the Group and its available sources of financing to assess whether the Group will have sufficient working capital to fulfill its financial obligations as a going concern. The Group has implemented a number of measures to improve its financial position and alleviate its liquidity pressure, including:

(i) The Group has been actively seeking new sources of long-term financing to refinance the Group's borrowings due within a year. On 4 February 2015, the Group completed the rights issue of 154,341,411 ordinary shares of the Company at HK$0.98 per rights share (the "**Rights Issue**") and obtained net proceeds of HK$147,930,000.

(ii) On 25 March 2015, the Group has obtained waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached and the compliance of incurrence of additional financial indebtedness arising from the proposed issuance of the Convertible Bonds. Under the terms of the waiver, the Group is required and has agreed to apply the net proceeds from the expected issuance of the convertible bonds to partial repay the Term Loan no later than 30 April 2015. The financiers have agreed to defer the due date of the remaining outstanding principal of the Term Loan of US$20,000,000 (equivalent to approximately HK$156,000,000) to 31 January 2016.

(iii) On 30 March 2015, the Group has satisfied all the conditions set out in the Placing Agreement and obtained the necessary regulatory approvals for the issuance of Convertible Bonds to raise HK$153,000,000. The final issuance of the Convertible Bonds is subject to the completion of certain administrative procedures. The net proceeds from the issuance of Convertible Bonds will be used for partial repayment of the Term Loan.

(iv) The Group is in advance discussions with a financier to obtain a long-term borrowing facility of up to HK$150,000,000 to be secured by the Group's certain property, plant and equipment.

(v) The Group has engaged in on-going discussions with its financiers to renew its short-term bank borrowings and borrowing facilities. As at 30 March 2015, the Group has approximately HK$342,252,000 unutilised uncommitted borrowing facilities. The Group's management will continue to negotiate with the financiers to renew the Group's short-term bank borrowings as and when they fall due in the coming twelve months.

(vi) The Group has intensified its efforts to collect outstanding trade receivables from its customers to reduce the Group's working capital requirements. It is also continuing its efforts to increase its income from overseas operations, in particular in the Middle East, to reduce its reliance on certain major customers in the PRC and South America. At the same time, the Group is implementing measures to contain its operating and capital expenditures with an aim to enhance the Group's liquidity and profitability in the long run.

Charges on Group Assets

As at 31 December 2014, banking facilities of approximately HK$1,028 million (2013: HK$1,088 million) were granted by banks to the Company and its subsidiaries, of which approximately HK$749 million (2013: HK$233 million) have been utilised by the Company and its subsidiaries. The facilities are secured by:

(a) certain pledged bank deposits;

(b) corporate guarantees given by certain Group companies;

(c) floating charge on all trade receivables of certain subsidiaries of the Company of approximately HK$641 million (2013: Nil); and

(d) a building under construction of the Group.

For further information on the charges on the Group's assets, please refer to notes 6, 11 and 12 to the consolidated financial statements.

Gearing Ratio

The gearing ratio of the Group as at 31 December 2014 was 21%. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the 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 USD, RMB and Bs. Foreign exchange risk mainly arises from trade and other receivables, pledged bank deposits, restricted bank balance, cash and cash equivalents, trade and other payables and bank borrowings in foreign currencies.

Contractual Obligations

The Group's contractual obligations include the capital commitments and the payment obligations under operating lease arrangements. The capital commitments mainly represent PPE purchase and land use right acquisition contracts which amounted to HK$141.6 million as at 31 December 2014. The Group leases various offices, warehouses and a land in Singapore under non-cancellable operating lease agreements. The Group's commitment under operating leases amounted to HK$48.5 million as at 31 December 2014.

Contingent Liabilities

As at 31 December 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 HK$30.6 million. The Group's legal counsel indicates that it is not probable that there is an outflow of resources embodying economic benefits will be required to settle any obligation.

Off-balance Sheet Arrangements

As at 31 December 2014, the Group did not have any off-balance sheet arrangements.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 3 June 2015 to Friday, 5 June 2015, both dates inclusive, during which period no share transfers will be registered. In order to determine the identity of the shareholders of the Company entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at its office situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 2 June 2015.

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".

LOAN AGREEMENT WITH SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

On 25 September 2014, the Company, Petro-king International Co., Limited (as borrowers and corporate guarantors), Petro-king Holding Limited (as corporate guarantor), both wholly owned subsidiaries of the Company and two banks entered into a 3-year term loan facility agreement (the "**Loan Agreement**") of up to an aggregate amount of US$40 million (the "**Term Loan**").

Pursuant to the Loan Agreement, one of the events of default is that King Shine Group Limited, a controlling shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 20% of the equity interest in the Company during the term of the Term Loan. On and at any time after the occurrence of an event of default, the banks may (i) cancel the commitments of the lenders and reduce them to zero, (ii) cancel any part of the commitments of the lenders and reduce them accordingly, (iii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable, and/or (iv) declare that all or part of the loans be payable on demand.

EVENTS AFTER REPORTING PERIOD

(a) Rights Issue

On 4 February 2015, the Group completed the Rights Issue of 154,341,411 rights shares at HK$0.98 per rights share on the basis of one rights share for every seven existing shares held on 12 January 2015. The Company intended to use the net proceeds from the Rights Issue as to approximately HK$50.0 million for the purchase of oilfield services equipment, as to approximately HK$50.0 million for the repayment of bank borrowings and as to the remaining for general working capital as to approximately HK$30.0 million for settlement of purchase of tools and materials and the remaining for daily operation expenses.

As a result of the Rights Issue, adjustments are required to be made to the exercise prices of and the number of the shares falling to be issued under the outstanding share options in accordance with the terms of the share option scheme adopted by the Company on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012) and the share option scheme adopted by the Company on 18 February 2013 and the supplementary guidance issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules.

(b) Exchange Rates in Venezuela

As at 31 December 2014, there are three official exchange rates in Venzuela, which are Cencoex, Sicad I and Sicad II. On 12 February 2015, Venezuela foreign currency legislation modified the exchange mechanisms by unifying Sicad I and Sicad II (Sicad) and introduced a new legal exchange rate (known as SIMADI) which permits foreign exchange barter and cash transactions.

In preparing the Group's consolidated financial statements for the year ended 31 December 2014, all components of the financial statements were translated at Cencoex (the official exchange rate of 6.3 Bolivares Fuertes per US dollar). The Group will continue to apply Cencoex in preparing consolidated financial statements.

(c) Convertible Bonds

On 30 March 2015, the Group has satisfied all the conditions and obtained the necessary regulatory approvals to complete the issuance of certain three-year 5% convertible bonds (the "**Convertible Bonds**") to raise HK$153,000,000. The net proceeds from the issuance of Convertible Bonds will be used for partial repayment of the Term Loan.

(d) Waivers Obtained for the Term Loan

On 25 March 2015, the Group has obtained waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached and the compliance of incurrence of additional financial indebtedness arising from the proposed issuance of the Convertible Bonds. Under the terms of the waiver, the Group is required and has agreed to apply the net proceeds from the expected issuance of the convertible bonds to partially repay the Term Loan by no later than 30 April 2015. The financiers have agreed to defer the due date of the remaining outstanding principal of the Term Loan of US$20,000,000 (equivalent to approximately HK$156,000,000) to 31 January 2016.

CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to attaining and maintaining high standards of corporate governance. The directors of the Company (the "**Directors**") recognise that good corporate governance practices and procedures are essential to ensure the Company's transparency and accountability and to its long-term success as well as to enhance the value of the Shareholders and safeguard their interests. The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange as its own code of corporate governance.

Throughout the year ended 31 December 2014, the Company has complied with the CG Code save as disclosed in the paragraph headed "**Chairman and Chief Executive Officer**" below.

DIRECTORS' SECURITIES TRANSACTIONS

On 18 February 2013, prior to the Listing Date, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealings in the Company's securities. Having made specific enquiry to all the Directors, all the Directors have confirmed that they had complied with the required standards of dealings as set out in the Model Code throughout the year ended 31 December 2014.

THE BOARD OF DIRECTORS

The board of Directors (the "**Board**") is responsible and has general powers for supervising and overseeing all important matters of the Group, including but not limited to the formulation and approval of management strategies and policies, review of the internal control and risk management systems as well as financial performance, considering dividend policies and monitoring the performance of the senior management, while the management is responsible for the day-to-day management, administration and operations of the Group.

The Board comprises two executive Directors, namely Mr. Wang Jinlong and Mr. Zhao Jindong; three non-executive Directors, namely Mr. Ko Po Ming, Mr. Lee Tommy and Ms. Ma Hua; and three independent non-executive Directors, namely Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur.

To the best knowledge of the Company, there are no financial, business and family relationships among members of the Board.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

According to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

Details of the continuous professional development participated by the Directors during the period under review are as follows:

	Reading materials	Attending courses, seminars or conferences
Executive Directors		
Wang Jinlong	✓	✓
Zhao Jindong	✓	✓
Non-executive Directors		
Ko Po Ming	✓	✓
Lee Tommy	✓	
Ma Hua	✓	✓
Independent non-executive Directors		
He Shenghou	✓	✓
Tong Hin Wor	✓	
Wong Lap Tat Arthur	✓	✓

To ensure the Directors' contribution to the board remain informed and relevant, the Company will be responsible for arranging and funding suitable training to the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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, our 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 the code provisions, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, representing one-third of the members of the Board, and one of whom possesses the appropriate professional qualifications in accounting and financial management.

Having considered the factors for assessing the independence of the independent non-executive Directors and the written annual confirmations from each of them, the Board considers that all the independent non-executive Directors are independent.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company with an initial term of three years commencing from 18 February 2013.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

Code provision A.1.1 of the CG Code provides that board meetings should be held at least four times a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through electronic means of communication.

During the year ended 31 December 2014, the Board has held board meetings regularly for at least four times a year at approximately quarterly intervals. The matters covered in the board meetings held during the period under review include, among others, approval of the final results of the Group for the year ended 31 December 2013, approval of the interim results of the Group for the year ended 30 June 2014, review of the management accounts of the Group, grant of share options, purchase of drilling rigs, approval of the Term Loan and the Rights Issue.

Details of the attendance of the Directors in the board meetings, board committee meetings and general meetings held during 2014 are as follows:

	Meetings attended/Meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Sanction Oversight Committee	2013 Annual General Meeting
Executive Directors						
Wang Jinlong	10/10	–	1/1	1/1	3/3	1/1
Zhao Jindong	10/10	–	–	–	–	–
Non-executive Directors						
Ko Po Ming	10/10	–	–	–	–	–
Lee Tommy	10/10	–	1/1	1/1	–	1/1
Ma Hua	10/10	–	–	–	–	–
Independent non-executive Directors						
He Shenghou	7/10	2/3	1/1	1/1	2/3	1/1
Tong Hin Wor	10/10	3/3	1/1	1/1	–	1/1
Wong Lap Tat Arthur	10/10	3/3	1/1	1/1	3/3	1/1

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

The term of office of each of the non-executive Directors, namely, Mr. Ko Po Ming, Mr. Lee Tommy and Ms. Ma Hua is three years commencing from 18 February 2013.

BOARD COMMITTEE

The Board has established four Board committees, namely, the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the sanction oversight committee (the "**Sanction Oversight Committee**") to oversee the various aspects of the Company's affairs. The four Board committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and approve our Group's financial reporting process and internal control system. The members of the Audit Committee are Mr. Wong Lap Tat Arthur, Mr. Tong Hin Wor and Mr. He Shenghou. Mr. Wong Lap Tat Arthur is the chairman of the Audit Committee.

During the year ended 31 December 2014, three meetings of the Audit Committee were held on 20 March 2014, 30 May 2014 and 22 August 2014 to review and consider, among others, the financial statements of the Company for the year ended 31 December 2013 and for the six months ended 30 June 2014, respectively.

The Audit Committee has reviewed, considered and discussed the Company's annual report, financial statements and internal control system for the year ended 31 December 2014.

Remuneration Committee

The Remuneration Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to review and determine the policy and the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Group, to assess performance of executive directors and approve the terms of their service contracts. The members of the Remuneration Committee are Mr. He Shenghou, Mr. Tong Hin Wor, Mr. Wong Lap Tat Arthur, Mr. Wang and Mr. Lee Tommy. Mr. He Shenghou is the chairman of the Remuneration Committee.

During the year ended 31 December 2014, one meeting of the Remuneration Committee was held on 20 March 2014 to discuss, among others, level of salaries of each of the executive Directors, non-executive Directors, independent non-executive Directors and the management of the Company, and to approve their remuneration proposals with reference to the corporate goals and objectives of the Board.

Pursuant to code provision B.1.2(c) of the CG Code, the Remuneration Committee made recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

Pursuant to code provision B.1.5 of the CG Code, the emolument of the members of the senior management (excluding the Directors) paid by the Group by band for the year ended 31 December 2014 is set out below:

Emolument band	Number of individuals
Nil to HK$1,000,000	6
HK$1,000,001 to HK$1,500,000	1

Further particulars regarding Directors' and chief executive's emoluments and the five highest paid employees are set out in note 23 to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and the management of the Board succession. The members of the Nomination Committee are Mr. Wang, Mr. Lee Tommy, Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur. Mr. Wang is the chairman of the Nomination Committee.

During the year ended 31 December 2014, one meeting of the Nomination Committee was held on 20 March 2014 to review the structure, size and composition (including the skills, knowledge and experience) of the Board, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to assess the independence of independent non-executive Directors, to discuss the re-election of Directors in the annual general meeting according to the articles of association of the Company.

Pursuant to code provision A.5.6 of the CG Code, the Board has adopted a board diversity policy and the Nomination Committee is responsible for monitoring the achievement of the measurable objectives set out in the policy.

The Company recognises and seizes the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merit, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Sanction Oversight Committee

The Sanction Oversight Committee was established on 1 November 2012 with written terms of reference. The primary duties of the Sanction Oversight Committee are to assess sanctions risk that the Group may face and to determine whether the Group should embark on business opportunities with any sanctioned countries. The members of the Sanction Oversight Committee are Mr. Wong Lap Tat Arthur, Mr. Wang and Mr. He Shenghou. Mr. Wong Lap Tat Arthur is the chairman of the Sanction Oversight Committee.

During the year ended 31 December 2014, three meetings of the Sanction Committee were held on 20 March 2014, 30 May 2014 and 22 August 2014 respectively to review and discuss issues according to the working plan prepared by the Company.

EXTERNAL AUDITORS' REMUNERATION

The amount of fees charged by the Company's external auditors, PricewaterhouseCoopers, in respect of their audit services for the year ended 31 December 2014 amounted to HK$3,085,378.

THE COMPANY SECRETARY

The Company engaged an external service provider, Mr. Tung Tat Chiu, Michael as its company secretary. Mr. Shu Wa Tung Laurence, our Chief Financial Officer, is the key contact person with whom Mr. Tung can contact. For the year ended 31 December 2014, Mr. Tung has received relevant professional trainings of not less than 15 hours to update his skills and knowledge.

INTERNAL CONTROL

An effective internal control system is a key factor in maintaining the integrity of business, results of operations and reputation of the Group. As such, the Company has implemented an effective internal control system by developing and enhancing, from time to time since our establishment, different sets of internal control procedures and manuals covering a number of key control areas such as financial management, separation of management power, credit and settlement control and management and health, safety and environment compliance management, with a view to ensuring compliance by the Group with applicable laws and regulations.

During the year, the Group had reviewed its internal control system. The review has covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the review, the Board was satisfied with the effectiveness of the current internal control system of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

SHAREHOLDER'S RIGHTS

How shareholders can convene an extraordinary general meeting

Pursuant to Article 49 of the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of Company in Hong Kong at Office No. 504, 5th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong by post for the attention of the Board.

The procedures and sufficient contact details for putting forward proposals at shareholders' meetings

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the Board by written requisition. Pursuant to the articles of association of the Company, shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures as set out in paragraph headed "How shareholders can convene an extraordinary general meeting" above.

Procedures for proposing a person for election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Announcements and Circulars section of the Company's website at http://www.petro-king.cn.

INVESTOR RELATIONS

The Company has uploaded its memorandum and articles of association on the websites of the Stock Exchange (http://www.hkexnews.hk/) and the Company (http://www.petro-king.cn). There are no significant changes in the Company's constitutional documents during the year ended 31 December 2014.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports in accordance with statutory requirements and applicable accounting standards. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

In preparing the financial statements for the year ended 31 December 2014, the Directors have selected appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Jinlong (王金龍) ("**Mr. Wang**"), aged 49, is our chairman, chief executive officer and executive Director. He was appointed as an executive Director on 31 December 2007 and is also a director of certain subsidiaries of the Group. Mr. Wang is primarily responsible for formulating our corporate strategy and overall operations of the Group. He has over 20 years of experience in the oil and gas industry. Mr. Wang founded our Group in April 2002 as the executive director and general manager of Petro-king Oilfield Technology Ltd. Prior to that, he worked at 菲利普斯中國有限公司 (Phillips China Inc.) (later known as 康菲石油中國有限公司 (ConocoPhillips China Inc.)) between 1994 and 2003 where he had served as a senior drilling/production engineer. Mr. Wang graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering degree majoring in drilling engineering in July 1986. Mr. Wang obtained a Mid-level Professional Qualification as an engineer in April 1993 issued by 中華人民共和國地質礦產部 (the PRC Ministry of Geology and Mineral Resources*), which was later reformed and incorporated into 中華人民共和國國土資源部 (the PRC Ministry of Land and Resources*), and a qualification of senior engineer issued by CNOOC in March 2002. Mr. Wang has been recognised for his contributions to the development of the technology of geology and was awarded certificates for such contributions by the PRC Ministry of Geology and Mineral Resources in December 1996. Mr. Wang is currently performing the roles of chairman and chief executive officer of our Company. Under code provision A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should not be performed by the same individual. Taking into account Mr. Wang's strong expertise in the oil and gas industry, our 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 our Group. In order to maintain good corporate governance and fully comply with the code provisions, our Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Mr. Zhao Jindong (趙錦棟) ("**Mr. Zhao**"), aged 51, is our vice president and executive Director. He joined our Group in 2003 as a vice general manager. He was appointed as an executive Director on 24 December 2012 and is also a director of certain subsidiaries of the Group. Mr. Zhao has over 30 years of experience in drilling and completion services of the oil and gas industry. Before joining our Group, Mr. Zhao was the senior drilling and completion engineer at 康菲石油公司 (ConocoPhillips Oil Company) from October 2002 to December 2003. He was employed by Conoco Phillips China Inc. from October 1997 to October 2002 where he was recognised for his exemplary performance and contributions to the operations in Xinjiang. Mr. Zhao started his career as an engineer trainee at 地質礦產部石油鑽井研究所 (Drilling Institute of Minority of Geology*) in December 1983. He continued his employment with the Drilling Institute of Minority of Geology where he became a senior engineer and an assistant manager of the drilling development department. Mr. Zhao graduated from 中國地質大學(China Geology University*) with a diploma in drilling engineering in 1988.

Non-executive Directors

Mr. Lee Tommy (李銘浚) ("**Mr. Lee**"), aged 38, is a non-executive Director. He joined our Group in December 2007 as a director of Petro-king Holding Limited. He was appointed as a non-executive Director on 31 December 2007. Mr. Lee has been the vice chairman and chief executive officer of Termbray Industries International (Holdings) Limited, ("**Termbray Industries**") since 2008 and 2010 respectively. Mr. Lee was appointed as director of Guangdong Ellington Electronics Technology Company Limited ("**Guangdong Ellington**") since 2001. Guangdong Ellington was listed on the Shanghai Stock Exchange (stock code: 603328) since 1 July 2014. He was a vice president of Guangdong Ellington from 2001 to 2008, primarily responsible for the overall management and strategic planning of Guangdong Ellington. Mr. Lee studied Economics in Seneca College of Canada.

Ms. Ma Hua (馬華) ("**Ms. Ma**"), aged 39, is our non-executive Director. She was appointed as a non-executive Director on 12 June 2012. She is now the managing director of 新疆TCL股權投資有限公司 (TCL Capital*). She was TCL Corporation's employee from January 2003 to February 2008 acting as the chairman's corporate secretary. Prior to that, Ms. Ma had already been employed by TCL 國際控股 (TCL International Holdings Ltd.) as an investor relations personnel from July 2001 to January 2003. Ms. Ma obtained her Master of Business Administration from 中國人民大學 (Renmin University of China*) in January 2004 and graduated from 太原理工大學 (Taiyuan Technology University*) with a Bachelor degree double majoring in industry and foreign trade/English language in July 1998.

Mr. Ko Po Ming (高寶明) ("**Mr. Ko**"), aged 56, is our non-executive Director. He was appointed as a non-executive Director on 18 February 2013. Mr. Ko graduated from The Chinese University of Hong Kong in 1982 with a Bachelor's degree in Business Administration. Mr. Ko has over 32 years of experience in finance and investment banking business. Prior to co-founding Goldbond Capital Holdings Limited ("**GCHL**") in 2003, he was the Head of Asian Corporate Finance of BNP Paribas Peregrine Capital Limited where he was in charge of the corporate finance business in Asia. GCHL was acquired by Piper Jaffray Companies (NYSE: PJC) in 2007 and its name was changed to Piper Jaffray Asia Holdings Limited ("**PJA**"). Since then and until September 2012, Mr. Ko served as the chief executive officer of PJA. Mr. Ko joined China Minsheng Banking Corp., Ltd Hong Kong Branch as a consultant in October 2012. Mr. Ko had acted as independent non-executive directors of a number of Hong Kong and PRC listed companies, including (i) Nanjing Panda Electronics Company Limited (stock code: 553) between 1996 and 1999; (ii) Dazhong Transport (Group) Company Limited (SHA: 600611) between 1997 and 2003; (iii) Chinese Energy Holdings Limited (formerly known as iMerchants Limited (stock code: 8009)) between 2000 and 2004; and (iv) Tianjin Capital Environmental Protection Group Company Limited (stock code: 1065) between 2003 and 2009. He was a Listing Committee member of the Main Board and GEM Board of the Stock Exchange between May 2003 and June 2009. At present, he is a non-executive director of Globe Metals and Mining Limited (ASX: GBE) and also a trustee of St. Johnsbury Academy, an independent day and boarding secondary school. St. Johnsbury Academy is a non-profit corporation under section 501(c)(3) of the Internal Revenue Code in the United States of America.

Independent Non-executive Directors

Mr. He Shenghou (何生厚) ("**Mr. He**"), aged 68, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. Mr. He obtained his diploma in production engineering from 北京石油學院 (Beijing Petroleum Institute, now known as China University of Petroleum*) in July 1970. He has over 40 years of experience in oilfield development engineering and technology research and practice while being employed by Sinopec. Mr. He retired in December 2008 as Sinopec's vice executive commander. In November 2007, Mr. He was engaged as a committee member of "大型油氣田及煤層氣開發" 重大專項實施方案論證委員會 (the "Large-scale Oil and GasFields and CBM Development" Major Projects Implementation Planning Committee*) by the NDRC, the Ministry of Finance and the Ministry of Science and Technology. Mr. He has numerous achievements throughout his career. A recent achievement is the receipt of a Scientific Development Award certificate from 中國石油和化學工業聯合會 (China Petroleum and Chemical Industry Federation*) in October 2011.

Mr. Tong Hin Wor (湯顯和) ("**Mr. Tong**"), aged 69, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. He holds a diploma in management studies from the Hong Kong Polytechnic University. Mr. Tong has over 32 years of working experience in financial management. He was appointed as an independent non-executive director of Termbray Industries in 2008 where he has also been serving as a member of the audit committee. Mr. Tong was the group vice president of Elec & Eltek Corporate Services Limited from 1995 to 2004 and the group controller of Elec & Eltek (International) Limited in 1995. He was the financial controller of Karrie Industrial Company Limited, a company principally engaged in electronics and sheet metal manufacturing in 1993.

Mr. Wong Lap Tat Arthur (黃立達) ("**Mr. Wong**"), aged 55, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. He is also the chairman of our audit committee. Mr. Wong has more than 32 years of experience in the field of accounting. He is currently the chief financial officer of 北京瑞迪歐文化傳播有限責任公司 (Beijing Radio Cultural Transmission Co., Ltd.*). He was the chief financial officer of GreenTree Inns Hotel Management Group, Inc. from February 2011 to May 2012. He had also previously acted as the chief financial officer of Nobao Renewable Energy Holdings Limited from March 2010 to November 2010 and of Asia New-Energy Holdings Pte. Ltd. from June 2008 to December 2009. Prior to that, Mr. Wong built his career at Deloitte Touche Tohmatsu from July 1982 to May 2008 where he left as a partner of the Beijing office. Mr. Wong received a Bachelor of Science in applied economics from the University of San Francisco in 1988 and completed a higher diploma of accountancy at Hong Kong Polytechnic University in 1982. He obtained his CPA accreditation from both the American Institute of CPAs and the Hong Kong Institute of CPAs. He is also a member of the Chartered Association of Certified Accountants. He is currently an independent non-executive director and the chair of the audit committee of Sky Solar Holdings, Ltd. (NASDAQ: SKYS), China Maple Leaf Educational Systems Limited (HKSE: 1317), VisionChina Media Inc.(NASDAQ: VISN), China Automotive Systems, Inc. (NASDAQ: CAAS), Daqo New Energy Corp. (NYSE: DQ) and You On Demand Holdings, Inc. (NASDAQ: YOD).

SENIOR MANAGEMENT

Ms. Sun Jinxia (孫金霞) ("**Ms. Sun**"), aged 40, is our vice president. She is also a director of certain subsidiaries of the Group. Ms. Sun is responsible for the Group's daily operation of the business department, Venezuelan Market and quality assurance department. She joined our Group in 2003 as an assistant to general manager. She has over 17 years of experience in business management. Ms. Sun was a sales manager of 深圳威尼斯酒店 (the Venice Hotel Shenzhen*) between October 2001 and July 2002. Prior to that, she was a sales supervisor and sales manager of 深圳南海酒店有限公司 (Shenzhen Nanhai Hotel Limited*) from July 1997 to April 1998 and from April 1998 to June 2000, respectively. She completed her Master of Business Administration at the University of Ballarat, Australia in July 2004.

Mr. Zhang Taiyuan (張太元) ("**Mr. Zhang**"), aged 49, is our vice president. He is also a director of certain subsidiaries of the Group. He joined our Group in 2004 as a senior drilling supervisor and has been subsequently promoted to director of international projects and also to vice president. Mr. Zhang has over 27 years of experience in project management and drilling engineering of the oil and gas industry. He was an offshore drilling supervisor of Devon Energy China Ltd. prior to joining our Group from December 2002 to December 2004. Between January 2002 and December 2002, he was a project manager of CNPC. Mr. Zhang acted as a CNPC engineering professional representative for CNPC-Burlington (then known as CNPC-ENRON) from October 1997 to January 2002. Prior, he was employed by 川中油氣公司 (Chuanzhong Oil and Gas Company of SPA*) from August 1986 where he acted as a drilling engineer. He graduated from 西南石油學院 (Southwest Petroleum Institute*) in 1986 with a Bachelor of Engineering degree, majoring in drilling engineering.

Mr. Shu Wa Tung Laurence (舒華東) ("**Mr. Shu**"),, aged 42, joined the Group in July 2010 as our chief financial officer and he is primarily responsible for the Group's overall financial strategies and daily management of the Group's financial, accounting and legal functions. Mr. Shu graduated from Deakin University, Australia in 1994 with a Bachelor degree in Business majoring in Accounting. He received his CPA accreditation from both the Hong Kong Institute of CPAs and the Australian Society of CPAs in 1997 and completed his CFO Programme at 中歐國際工商學院 (China Europe International Business School) in 2009. Mr. Shu has over 20 years of experience in audit, corporate finance, and financial management. He joined Deloitte in 1994 and later became a manager of the Reorganisation Services Group of Deloitte and joined Deloitte & Touche Corporate Finance Limited (a corporate finance service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and company secretary of Texhong Textile Group Limited (stock code: 2678) overseeing the group's financial management functions. From July 2008 to June 2010, Mr. Shu served as the chief financial officer of Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司) and oversaw the group's financial management functions and corporate finance activities as well as the daily management of the group's finance department. He is an independent non-executive director of Greater China Holdings Limited (stock code: 431).

Mr. Xie Qingfan (謝慶繁) ("**Mr. Xie**"), aged 51, is our vice president and chief engineer primarily responsible for the research and development of technologies for the Group, the organization and division, of the technical management of the Group and standardization of the management of technologies. He joined our Group in 2006 as the manager of the northwest region. Mr. Xie has over 32 years of experience in the oil and gas industry. He had acted in various roles during his employment with 中石化中原石油勘探局 (Sinopec Zhongyuan Petroleum Exploration Bureau) between 1982 to 2005; such as engineering service centre director of the 鑽井工程技術研究院 (Drilling Engineering and Technology Research Institute*) in 2001, deputy chief engineer of the 鑽井管具工程處 (Drilling Pipe Tool Engineering Department*) in 2002, and senior engineer in 2005. He received numerous certificates for his contributions to this bureau from as early as 1985. For instance, he was presented with a Technology Advancement Certificate for his research on technology to prevent failure of drilling tools in February 2006 and for his research and development of PDC drill heads in February 2003. Mr. Xie completed a training course of electrical wireline freepoint & backoff provided by HOMCO in 1993 and received training for the operation of motorized freepoint equipment held by Applied Electronic Systems, Inc. in 2001. He graduated from 石油大學 (Petroleum University*) with a Bachelor degree majoring in mine machinery in July 1996.

Mr. Yuan Fucun (袁夫存) ("**Mr. Yuan**"), aged 45, is our vice president. He joined our Group in 2013 and he is primarily responsible for the management of the international projects, ISPM engineering unconventionality oil & gas services, oilfield surface engineering business department, exploration & production department, and several other departments. Mr. Yuan has over 23 years of experience in offshore drilling and completion management of the oil and gas industry. Mr. Yuan was employed as Drilling Manager, Senior Drilling Engineer, Drilling Superintendent of Schlumberger Group, and responsible for IPM integrated project management and drilling engineering and technical services in Russia, the Middle East, Algeria. He was highly praised for his outstanding performance and contributions. Mr. Yuan has worked for Conoco Phillips China Inc. for 12 years, and worked as Xijiang Drilling, Completion Services Manager, Senior Reservoir, Production Engineer, Senior Drilling Engineer, Senior Production, Completion Engineer, Engineers and so on. Mr. Yuan graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering, majoring in offshore petroleum engineering in 1992.

Mr. Pan Yuxin (潘玉新) ("**Mr. Pan**"), aged 38, is our vice president. He joined our Group in 2011 and he is primarily responsible for the management of domestic market. Mr. Pan has over 20 years of experience in oil and gas service industry. He has worked as Northeast Project Manager, North China Project Manager, Southwest Project Manager, Marketing Director and Vice President for 北京一龍恒業石油工程技術有限公司. He has worked as field and sales department manager for Anton Oilfield Services Group. He has been in charge of water injection station, oil production station and oil producing region for Zhongyuan oilfield. Mr. Pan graduated in July 1995 from the Zhongyuan Oilfield Petroleum School and graduated from China PLA Institute of Engineering Corps undergraduate in June 2013.

Mr. Lin Jingyu (林景禹) ("**Mr. Lin**"), aged 41, is our vice president. Mr. Lin is responsible for the engineering and technology of our production enhancement department and Jiaoshiba project department. He joined our Group in 2008 as a senior engineer. He has over 19 years of experience in the exploration and development technology of oilfields. From July 2006 to August 2008, Mr. Lin served as the vice president and senior engineer of the Acid Fracturing Research Centre of the Research Institute of Petroleum Engineering and Technology of Sinopec Henan Oilfield Company (中石化河南油田分公司石油工程技術研究院壓裂酸化研究所). Before then, he was the office director and engineer of the Acid Fracturing Research Centre of the Research Institute of Petroleum Engineering and Technology of Henan Oilfield Company. From July 1996 to July 2000, he was the assistant engineer of Henan Oilfield and Oil Production Technology Research Institute (河南油田採油工藝研究所). Before then, Mr. Lin obtained a Master degree in oil, gas and oilfields exploration from the School of Petroleum Engineering of Yangtze University (formerly known as Jianghan Petroleum Institute) (長江大學石油工程學院（原江漢石油學院）). From September 1992 to June 1996, he obtained a Bachelor degree in petroleum engineering from Xi'an Petroleum Institute (西安石油學院). In addition, Mr. Lin participated in international investment and project management for oil and gas exploration and development in Imperial College London during September 2005 to March 2006.

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗) ("**Mr. Tung**"), aged 52, was appointed as the company secretary of our Company on 18 February 2013. He is the senior partner of Tung & Co., a law firm providing legal advice as to Hong Kong laws to our Group since 2007. He holds a Bachelor of Arts degree in law and accounting from The University of Manchester, the United Kingdom. He has over 24 years of experience as practising lawyer in Hong Kong. He is also a China-Appointed Attesting Officer. Mr. Tung currently serves as a joint company secretary of Jiangxi Copper Company Limited (stock code: 358), Harbin Electric Company Limited (stock code: 1133) and Qingling Motors Co. Ltd (stock code: 1122) and the sole company secretary of Yunbo Digital Synergy Group Limited (stock code: 8050), respectively. He is currently the internal legal adviser of Silver Grant International Industries Limited (stock code: 171).

Mr. Tung is an external service provider engaged by us as our company secretary and Mr. Shu Wa Tung Laurence (舒華東), our Chief Financial Officer, will be the key contact person with whom Mr. Tung can contact.

* *For identification purpose only*

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. Wong Lap Tat Arthur (黃立達)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)

AUDIT COMMITTEE

Mr. Wong Lap Tat Arthur (黃立達) (Chairman)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)

REMUNERATION COMMITTEE

Mr. He Shenghou (何生厚) (Chairman)
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)
Mr. Wang Jinlong (王金龍)
Mr. Lee Tommy (李銘浚)

NOMINATION COMMITTEE

Mr. Wang Jinlong (王金龍) (Chairman)
Mr. Lee Tommy (李銘浚)
Mr. He Shenghou (何生厚)
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)

SANCTION OVERSIGHT COMMITTEE

Mr. Wong Lap Tat Arthur (黃立達) (Chairman)
Mr. Wang Jinlong (王金龍)
Mr. He Shenghou (何生厚)

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

Office No. 504, 5th Floor
Tower 1, Silvercord
No. 30 Canton Road
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

COMPLIANCE ADVISER

China Galaxy International Securities
(Hong Kong) Co., Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

Codan Trust Company (B.V.I.) Ltd.
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

Standard Chartered Bank (China) Limited
11/F Tower A, Kingkey 100 Building
No. 5016 Shennan East Road, Luohu District
Shenzhen 518001
China

China Merchants Bank
China Merchants Building, Shekou
Shenzhen 518067
China

Industrial and Commercial Bank of China Limited
Clearing Centre the Second Floor
North Block Financial Center
Shennan Road East
Shenzhen
PRC

Hang Seng Bank Limited
83 Des Voeux Road
Central
Hong Kong

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS (HONG KONG LAW)

Tung & Co.
In association with Jia Yuan Law Office

COMPANY'S WEBSITE

www.petro-king.cn

STOCK CODE

2178

REPORT OF THE DIRECTORS

The directors of the Company (the "**Directors**") hereby present the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2014.

THE COMPANY AND INITIAL PUBLIC OFFERING

The Company was incorporated in the British Virgin Islands with limited liability on 7 September 2007. It was formerly known as "**Termbray Oilfield Services (BVI) Ltd. (添利油田服務(英屬維爾京群島)有限公司)**". Its name was changed to "**Termbray Petro-king Oilfield Services (BVI) Limited (添利百勤油田服務(英屬維爾京群島)有限公司)**" on 13 March 2008,"**Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司)**" on 9 August 2012 and further changed to "**Petro-King Oilfield Services Limited (百勤油田服務有限公司)**"on 30 May 2014, respectively. As fully explained in the section headed "**History and Development**" in the Company's prospectus dated 22 February 2013 (the "**Prospectus**"), the Company has since its incorporation become the ultimate holding vehicle of the Group's various arms of business. The Company has completed its initial public offering and the shares of the Company were listed on the Stock Exchange on 6 March 2013 (the "**Listing Date**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income on pages 60 to 61.

The Board of Company does not recommend the payment of final dividend for the year ended 31 December 2014. A dividend of HK$0.05 per share with total amount of HK$53,405,022 was declared and paid in respect of the year ended 31 December 2013.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's initial public offering, including those shares issued pursuant to the full exercise of the over-allotment option, after deducting underwriting fees and related expenses, amounted to approximately HK$912.7 million. As at 31 December 2014, HK$744.3 million was applied in accordance with proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus, and HK$273.8 million was used in the acquisition of a range of production enhancement related tools and equipments, HK$151.1 million was used in the construction of the Huizhou Base, HK$136 million was used in the investment in the Group's research and development in new services and technologies, while the rest was used in the enhancement of regional offices in China and overseas and daily operation.

SUMMARY FINANCIAL INFORMATION

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 2.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 14 and 24 respectively, to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the British Virgin Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$4,257,755 as computed in accordance with the BVI Business Companies Act 2004 (and any amendments thereto).

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers were as follows:

(1) The aggregate amount of revenue attributable to the Group's five largest customers represented approximately 59% of the Group's total revenue. The amount of revenue to the Group's largest customer represented approximately 19% of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 43% of the Group's total purchases. The amount of purchases to the Group's largest supplier represented approximately 15% of the Group's total purchases.

None of the Directors nor any of their close associates nor any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

DIRECTORS

The Directors during the year were as follows:

Executive Directors:

Mr. Wang Jinlong
Mr. Zhao Jindong

Non-executive Directors:

Mr. Ko Po Ming
Mr. Lee Tommy
Ms. Ma Hua

Independent non-executive Directors:

Mr. He Shenghou
Mr. Tong Hin Wor
Mr. Wong Lap Tat Arthur

Mr. Zhao Jindong, Ms. Ma Hua and Mr. Tong Hin Wor will retire at the forthcoming annual general meeting in accordance with Article 75 of the Company's articles of association respectively and, being eligible, will offer themselves for re-election.

The Company has received annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") from all independent non-executive Directors and the Board still considers them independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to annual review at the discretion of the Board). An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Wang Jinlong	HK$1,492,168 (as Director and chief executive officer)
Mr. Zhao Jindong	HK$853,748 (as Director and vice president)

Each of the non-executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these non-executive Directors is entitled to the respective basic salary set out below (subject to annual review at the discretion of the Board). A non-executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him/her. The current basic annual salaries of the non-executive Directors are as follows:

Name	Amount
Mr. Lee Tommy	HK$180,000
Ms. Ma Hua	HK$180,000
Mr. Ko Po Ming	HK$300,000

Each of the independent non-executive Directors has entered into a letter of appointment with the Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of the independent non-executive Directors are appointed with an initial term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The annual remuneration payable to the independent non-executive Directors under each of the letters of appointment is as follows:

Name	Amount
Mr. He Shenghou	HK$180,000
Mr. Tong Hin Wor	HK$180,000
Mr. Wong Lap Tat Arthur	HK$300,000

Save as disclosed above, none of the Directors has or is proposed to have any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

EMOLUMENT POLICY

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

The employee emolument policy of the Group is that the basis of determing the emolument of the employees is their merit, qualification and competence.

The Company has also adopted a share option scheme as incentive to eligible employees, details of which are set out in the section headed "**Share Option Scheme**" below.

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 31 December 2014, 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	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)*	376,092,414(L)	34.81%
	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	340,774,104(L)	31.54%
	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. Ko Po Ming	Beneficial owner *(Notes 4 and 5)*	1,242,857(L)	0.12%
Mr. Zhao Jindong	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Ms. Ma Hua	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. He Shenghou	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	100,000(L)	0.01%
Mr. Wong Lap Tat Arthur	Beneficial owner *(Note 4)*	100,000(L)	0.01%

Notes:

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

2. Mr. Wang holds approximately 41.19% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 31.42% of the total number of issued shares of the Company. Therefore, Mr. Wang is taken to be interested in the number of Shares held by King Shine pursuant to Part XV of the SFO. These Shares include 339,492,414 Shares beneficially owned by King Shine and 36,600,000 nil-paid rights shares for which King Shine has irrevocably and unconditionally undertaken to subscribe pursuant to its irrevocable undertaking dated 24 December 2014.

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 held by Termbray Natural Resources pursuant to Part XV of the SFO. Pursuant to its irrevocable undertaking dated 24 December 2014, Termbray Natural Resources has irrevocably and unconditionally undertaken to subscribe for 35,500,000 nil-paid rights shares.

4. 100,000 share options were granted to each of the Directors on 29 April 2014 pursuant to the Share Option Scheme. Therefore under Part XV of the SFO, the Directors are taken to be interested in the underlying shares that they are entitled to subscribe for subject to the exercise of the share options granted.

5. Apart from Note 4, these Shares include 1,000,000 Shares beneficially owned by Mr. Ko and 142,857 nil-paid rights shares for which he has irrevocably and unconditionally undertaken to subscribe pursuant to his irrevocable undertaking dated 24 December 2014.

Save as disclosed above, as at 31 December 2014, 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.

SUBSTANITAL SHAREHOLDERS

As at 31 December 2014, 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 shareholder	**Capacity/ Nature of interest**	**Number of shares *(Note 1)***	**Approximate percentage of shareholding in the Company**
Mr. Lee Lap	Settlor of a discretionary trust *(Note 2)*	340,774,104(L)	31.54%
HSBC International Trustee Limited	Trustee *(Note 2)*	340,774,104(L)	31.54%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 2)*	340,774,104(L)	31.54%
Lee & Leung (B.V.I.) Limited	Interest in a controlled corporation *(Note 2)*	340,774,104(L)	31.54%
Termbray Industries	Interest in a controlled corporation *(Note 2)*	340,774,104(L)	31.54%
Termbray Electronics (BVI)	Interest in a controlled corporation *(Note 2)*	340,774,104(L)	31.54%
Termbray Natural Resources	Beneficial owner	340,774,104(L)	31.54%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%
Exceltop Holdings Limited	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	74,242,724(L)	6.87%

Name of shareholder	Capacity/ Nature of interest	Number of shares *(Note 1)*	Approximate percentage of shareholding in the Company
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner	74,242,724(L)	6.87%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	376,192,414(L)	34.82%
King Shine	Beneficial owner	376,092,414(L)	34.81%
Yantai Jereh Oilfield Services Group Co., Ltd. ("**Yantai Jereh**")	Interest in a controlled corporation *(Note 5)*	67,109,714	6.21%

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 held by Termbray Natural Resources pursuant to Part XV of the SFO. Pursuant to its irrevocable undertaking dated 24 December 2014, Termbray Natural Resources has irrevocably and unconditionally undertaken to subscribe for 35,500,000 nil-paid rights shares.

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. Therefore, TCL Corporation, TCL HK, Exceltop Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of Shares held by Jade Win pursuant to Part XV of the SFO. Pursuant to its irrevocable undertaking dated 24 December 2014, Jade Win has irrevocably and unconditionally undertaken to subscribe for 10,606,103 nil-paid rights shares.

4. Ms. Zhou holds approximately 17.21% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the Shares in which Mr. Wang is interested for the purpose of the SFO.

5. Yantai Jereh directly holds 100% of the share capital of Yantai Jereh Petroleum Equipment & Technologies Co., Ltd., which in turn holds 100% of the issued share capital of Jereh International (Hong Kong) Co., Limited ("**Jereh**"). Therefore, Yantai Jereh and Yantai Jereh Petroleum Equipment & Technologies Co., Ltd. are taken to be interested in the number of Shares held by Jereh. These Shares include 7,971,000 Shares beneficially owned by Jereh, 58,000,000 rights shares underwritten by Jereh pursuant to the underwriting agreement dated 24 December 2014 and 1,138,714 nil-paid rights shares for which Jereh has irrevocably and unconditionally undertaken to subscribe pursuant to its irrevocable undertaking dated 24 December 2014.

Save as disclosed above, as at 31 December 2014, the Directors are not aware that there is any party (not being a Director) who had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to the 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.

PARTICULARS OF DIRECTORS OF THE COMPANY WHO WERE DIRECTORS/EMPLOYEES OF SUBSTANTIAL SHAREHOLDERS

Mr. Wang Jinlong and Mr. Zhao Jindong are directors of King Shine which is a substantial Shareholder of the Company.

Mr. Wang Jinlong was a director of Termbray Industries, which is a substantial shareholder of the Company, from December 2007 to November 2010.

Mr. Lee Tommy is a director of Termbray Industries which is a substantial Shareholder of the Company.

Ms. Ma Hua was an employee of TCL Corporation, which is a substantial Shareholder of the Company, from January 2003 to February 2008 acting as the chairman's corporate secretary.

Mr. Tong Hin Wor was appointed as an independent non-executive director of Termbray Industries, which is a substantial Shareholder of the Company, in 2008 where he has also been serving as a member of the audit committee.

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). As at 31 December 2014, 42,244,108 share options have been granted under the Pre-IPO Share Option Scheme, 34,009,203 of which have been exercised by the grantees.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme as at 31 December 2014:

Grantees	Number of options granted at Listing	Options exercised since Listing	Options lapsed/cancelled since Listing	Options outstanding as at 31 December 2014
Employees and senior management	42,244,108	(34,009,203)	(5,939,418)	2,295,487

The principal terms of the Pre-IPO Share Option Scheme are summarised in the section headed "Pre-IPO Share Option Scheme" in Appendix V to the Prospectus.

Details of the Pre-IPO Share Option Scheme are stated in note 24 to the consolidated financial statements.

SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. As at 31 December 2014, 20,000,000 share options have been granted under the Share Option Scheme, none of which has been exercised by the grantees.

Set out below are details of the movements of share options during the year ended 31 December 2014:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant (HK$)	Options outstanding as at 1 January 2014	Options granted since 1 January 2014	Options exercised since 1 January 2014	Options lapsed/ cancelled since 1 January 2014	Options outstanding as at 31 December 2014
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Zhao Jindong	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Ko Po Ming	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Lee Tommy	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Ma Hua	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
He Shenghou	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Tong Hin Wor	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Wong Lap Tat Arthur	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Employees	29 April 2014	2.606	2.44	–	19,100,000	– *(Note)*	(500,000)	18,600,000
Others	29 April 2014	2.606	2.44	–	100,000	– *(Note)*	–	100,000
Total				–	20,000,000	–	(500,000)	19,500,000

Note:

One third of the share options shall be 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 shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 29 April 2016 to 28 April 2019, both dates inclusive.

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

Save as disclosed above, at no time during the year ended 31 December 2014 was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The Share Option Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

The Board may, at its discretion, grant an option to eligible participants to subscribe for the shares of the Company at a subscription price and subject to the other terms of the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 100,000,000 shares, being 10% of the total number of shares in issue at the time dealings in the shares first commenced on the Stock Exchange and 8% of the issued shares as at the date of this report. The total number of shares issued and to be issued upon the exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

A share option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which an option was granted, at any time during the option period after the option has been granted by the Board but in any event, not longer than 10 years from the date of grant. There are neither any performance targets that need to be achieved by the grantee before an option can be exercised nor any minimum period for which an option must be held before the option can be exercised. Subject to the provisions of the Share Option Scheme and the Listing Rules, the Board may when making the offer of options impose any conditions, restrictions or limitations in relation to the option as it may at its absolute discretion think fit. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The Directors consider that the values of the share options are subject to a number of assumptions and the limitation of the models. The principal terms of the Share Option Scheme are summarised in the section headed “Share Option Scheme” in Appendix V to the Prospectus.

ADJUSTMENT TO THE SHARE OPTIONS UNDER THE PRE-IPO SHARE OPTION SCHEME AND THE SHARE OPTION SCHEME

On 4 February 2015, the Group completed the Right Issue of 154,341,411 ordinary shares of the Company at HK$0.98 per right share and obtained net proceeds of HK$147,930,000. As a result of the Rights Issue, pursuant to the terms of the Pre-IPO Share Option Scheme and the Share Option Scheme, adjustments may be required to be made to the exercise prices of and/or the number of the Shares falling to be issued under the outstanding share options of the Pre-IPO Share Option Scheme and the Share Option Scheme respectively.

The Company has calculated the necessary adjustments to the exercise prices of and the number of the Shares falling to be issued under the outstanding share options in accordance with the terms of the Pre-IPO Share Option Scheme and the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules. The adjustments to the exercise prices of and the number of the Shares falling to be issued under the outstanding share options of the Pre-IPO Share Option Scheme and the Share Option Scheme respectively are as follows and will become effective from 4 February 2015 upon the allotment and issue of the rights shares pursuant to the Rights Issue:

	Immediately prior to the adjustments as a result of completion of the Rights Issue		Immediately after the adjustments as a result of completion of the Rights Issue	
	Number of outstanding share options	Exercise price per Share (HK$)	Adjusted number of outstanding share options	Adjusted exercise price per Share (HK$)
Pre-IPO Share Option Scheme (Group A Participant)	1,924,273	0.7783	1,966,100	0.7617
Pre-IPO Share Option Scheme (Group C Participant)	371,214	1.09	379,283	1.0668
Share Option Scheme	19,500,000	2.606	19,923,857	2.5506

The Company's auditor certified in writing that such pro-rata adjustments are in accordance with the terms of the Pre-IPO Share Option Scheme and the Shares Option Scheme and the supplementary guidance regarding the adjustment of share options under Rule 17.03(13) of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2014, none of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

A deed of non-competition undertaking dated 18 February 2013 (the "**Deed of Non-competition Undertaking**") was entered into among (i) Termbray Industries International (Holdings) Limited, Termbray Electronics (B.V.I.) Limited, Termbray Natural Resources Company Limited, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited and First Trend Management (PTC) Limited (collectively, the "**Termbray Controlling Shareholder Group**"); (ii) King Shine Group Limited, Mr. Wang Jinlong and Ms. Zhou Xiaojun (collectively, the "**King Shine Controlling Shareholder Group**"); and (iii) the Company.

The Company has received the annual confirmations from the Termbray Controlling Shareholder Group and the King Shine Controlling Shareholder Group that they have complied with the non-competition undertakings in the Deed of Non-competition Undertaking during the financial year ended 31 December 2014.

The independent non-executive Directors have reviewed the abovementioned undertakings and considered that the Termbray Controlling Shareholder Group and the King Shine Controlling Shareholder Group have complied with the Deed of Non-competition Undertaking during the financial year ended 31 December 2014.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Wong Lap Tat Arthur, Mr. Tong Hin Wor and Mr. He Shenghou. The principal duties of the audit committee of the Company are to review and approve our Group's financial reporting process and internal control system.

The audit committee of the Company has reviewed with the management about the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters in connection with the preparation of the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2014.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2014.

CONTINUING CONNECTED TRANSACTION

A continuing connected transaction during the year was required to be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules:

On 2 August 2011, 深圳市弗賽特檢測設備有限公司 (Shenzhen Fluid Science & Technology Co., Ltd.) ("**Shenzhen FST**") (as tenant) and Ms. Chen Hongli (as landlord) entered into a tenancy agreement (the "**Shenzhen Tenancy Agreement**") in respect of the office premises located at Unit No. 2010, Block West, Haian Building, Commercial Cultural Centre District, Nanshan District, Shenzhen City, the People's Republic of China of 131.3 square meters (the "**Office Premises**") for a term of two years commencing from 15 August 2011 at a monthly rental of RMB9,825. On 2 September 2013, Shenzhen FST and Ms. Chen Hongli entered into a new tenancy agreement in respect of the Office Premises (the "**New Shenzhen Tenancy Agreement**", together with the Shenzhen Tenancy Agreement, the "**Tenancy Agreements**") for a term of two years commencing from 15 August

2013 at a monthly rental of RMB11,000. Given that Ms. Chen Hongli is interested in 16% equity interests in Shenzhen FST, a non-wholly owned subsidiary of the Company, Ms. Chen Hongli, being a substantial shareholder of Shenzhen FST, is a connected person of the Company. The annual rental payable by Shenzhen FST to Ms. Chen Hongli under the Shenzhen Tenancy Agreement and the New Shenzhen Tenancy Agreement will be approximately RMB117,900 and RMB132,000 respectively.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors reviewed the above continuing connected transaction and confirmed that it was entered into (i) in the ordinary and usual course of business of the Company, (ii) on normal commercial terms or better, and (iii) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the auditor of the Company has confirmed to the Board in writing that for the year ended 31 December 2014, nothing has come to attention that causes the auditor to believe that the continuing connected transactions above (i) have not been approved by the Company's board of directors and (ii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transaction.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 24 to 31.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules up to the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

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

Hong Kong, 30 March 2015

羅兵咸永道

TO THE SHAREHOLDERS OF
PETRO-KING OILFIELD SERVICES LIMITED
(Formerly known as Termbray Petro-king Oilfield Services Limited)
(Incorporated in the British Virgin Islands with limited liability)

We have audited the consolidated financial statements of Petro-king Oilfield Services Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 57 to 160, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosures requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that the Group reported net loss attributable to owners of approximately HK$423,081,000 and operating cash outflow of approximately HK$85,248,000 during the year ended 31 December 2014. In addition, the Group breached certain covenant requirements of a term loan amounting to US$40,000,000 as at 31 December 2014. These conditions, along with other matters as described in Note 2.1.1 to the consolidated financial statements, indicate that the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2015

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONSOLIDATED BALANCE SHEET

	Note	2014 HK$	2013 HK$
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**815,108,065**	293,367,628
Intangible assets	*7*	**567,312,381**	570,086,032
Land use rights	*8*	**27,624,161**	12,042,244
Other receivables, deposits and prepayments	*11*	**142,610,890**	15,483,332
Deferred tax assets	*18*	**11,110,957**	2,938,116
		1,563,766,454	893,917,352
Current assets			
Inventories	*10*	**367,967,129**	298,595,476
Trade receivables	*11*	**778,448,845**	1,004,403,841
Other receivables, deposits and prepayments	*11*	**170,989,049**	146,103,272
Current income tax recoverable		**19,092,871**	–
Pledged bank deposits	*12*	**200,153,654**	160,699,613
Restricted bank balance	*13*	**6,338,000**	1,526,000
Cash and cash equivalents	*13*	**55,338,593**	343,920,842
		1,598,328,141	1,955,249,044
Total assets		**3,162,094,595**	2,849,166,396
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*14*	**1,658,187,323**	1,634,591,001
Other reserves	*15*	**51,761,281**	36,174,501
Retained earnings			
– Proposed dividend	*29*	**–**	53,405,022
– Others		**41,679,117**	466,872,665
		1,751,627,721	2,191,043,189
Non-controlling interests		**43,300,306**	34,523,674
Total equity		**1,794,928,027**	2,225,566,863

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2014** **HK$**	 2013 HK$
LIABILITIES			
Non-current liabilities			
Bank borrowings	*17*	**36,784,340**	–
Deferred tax liabilities	*18*	**18,673,478**	14,589,423
		55,457,818	14,589,423
Current liabilities			
Trade payables	*16*	**312,042,125**	243,373,379
Other payables and accruals	*16*	**274,793,350**	109,464,337
Current income tax liabilities		**12,174,721**	22,749,194
Bank borrowings	*17*	**712,698,554**	233,423,200
		1,311,708,750	609,010,110
Total liabilities		**1,367,166,568**	623,599,533
Total equity and liabilities		**3,162,094,595**	2,849,166,396
Net current assets		**286,619,391**	1,346,238,934
Total assets less current liabilities		**1,850,385,845**	2,240,156,286

The notes on pages 66 to 160 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 57 to 160 were approved by the Board of Directors on 30 March 2015 and were signed on its behalf.

Mr. Wang Jinlong
Director

Mr. Zhao Jindong
Director

BALANCE SHEET

	Note	As at 31 December 2014 HK$	2013 HK$
ASSETS			
Non-current assets			
Investments in subsidiaries	*36*	**1,174,276,700**	1,153,534,733
Current assets			
Other receivables and prepayments	*11*	**506,695,617**	565,388,327
Cash and cash equivalents	*13*	**98,267**	8,156,777
Total current assets		**506,793,884**	573,545,104
Total assets		**1,681,070,584**	1,727,079,837
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*14*	**1,658,187,323**	1,634,591,001
Other reserves	*15*	**8,073,522**	13,008,237
Retained earnings	*34*		
– Proposed dividend	*29*	**–**	53,405,022
– Others		**4,257,755**	17,708,952
Total equity		**1,670,518,600**	1,718,713,212
LIABILITIES			
Current liabilities			
Other payables and accruals	*16*	**10,551,984**	8,366,625
Total liabilities		**10,551,984**	8,366,625
Total equity and liabilities		**1,681,070,584**	1,727,079,837
Net current assets		**496,241,900**	565,178,479
Total assets less current liabilities		**1,670,518,600**	1,718,713,212

The notes on pages 66 to 160 are an integral part of these consolidated financial statements.

The financial statements on pages 57 to 160 were approved by the Board of Directors on 30 March 2015 and were signed on its behalf.

Mr. Wang Jinlong
Director

Mr. Zhao Jindong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2014	2013
	Note	**HK$**	HK$
Revenue	*5*	**705,171,931**	1,060,434,801
Other income	*19*	**416,356**	2,406,217
Operating costs			
Material costs	*10*	**(220,280,044)**	(314,913,278)
Depreciation of property, plant and equipment	*6*	**(61,232,743)**	(19,615,366)
Amortisation of intangible assets and land use rights		**(1,640,437)**	(8,448,875)
Operating lease rental		**(20,169,812)**	(13,772,219)
Employee benefit expenses	*20*	**(214,901,798)**	(168,385,310)
Distribution expenses		**(22,196,088)**	(18,571,683)
Technical services fees		**(74,749,090)**	(124,709,462)
Research and development expenses		**(24,647,982)**	(14,580,370)
Entertainment and marketing expenses		**(27,794,024)**	(28,668,183)
Other expenses	*21*	**(147,868,522)**	(94,734,842)
Provision for impairment of trade receivables	*11*	**(280,296,230)**	–
Other (losses)/gains	*22*	**(7,811,493)**	3,263,428
Operating (loss)/profit		**(397,999,976)**	259,704,858
Finance income	*25*	**19,167,440**	12,744,503
Finance costs	*25*	**(38,000,767)**	(12,988,735)
Finance costs, net		**(18,833,327)**	(244,232)
(Loss)/profit before income tax		**(416,833,303)**	259,460,626
Income tax expense	*26*	**(1,314,244)**	(48,954,479)
(Loss)/profit for the year		**(418,147,547)**	210,506,147
Other comprehensive income			
Item that may be classified subsequently to profit or loss:			
Currency translation differences		**18,979,446**	37,656,636
Total comprehensive (loss)/income for the year		**(399,168,101)**	248,162,783

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2014 HK$	2013 HK$
		Year ended 31 December	
(Loss)/profit for the year attributable to:			
Owners of the Company		**(423,081,483)**	196,600,131
Non-controlling interests		**4,933,936**	13,906,016
		(418,147,547)	210,506,147
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(404,057,580)**	233,213,449
Non-controlling interests		**4,889,479**	14,949,334
		(399,168,101)	248,162,783
			(As restated)
(Losses)/earnings per share attributable to owners of the Company during the year	*28*		
Basic (losses)/earnings per share (HK$ cents)		**(38)**	19
Diluted (losses)/earnings per share (HK$ cents)		**(38)**	20
Dividend	*29*	**–**	53,405,022

The notes on pages 66 to 160 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves *(Note 15)*	Retained earnings	Total	Non-controlling interests	Total equity
	HK$	HK$	HK$	HK$	HK$	HK$
For the year ended 31 December 2014						
Balance at 1 January 2014	1,634,591,001	36,174,501	520,277,687	2,191,043,189	34,523,674	2,225,566,863
Comprehensive loss						
Loss for the year	–	–	(423,081,483)	(423,081,483)	4,933,936	(418,147,547)
Other comprehensive income						
Currency translation differences	–	19,023,903	–	19,023,903	(44,457)	18,979,446
Total comprehensive loss for the year	–	19,023,903	(423,081,483)	(404,057,580)	4,889,479	(399,168,101)
Total transactions with owners, recognised directly in equity:						
Exercise of share options	23,596,322	(11,658,591)	–	11,937,731	–	11,937,731
Recognition of share-based payment	–	6,723,876	–	6,723,876	–	6,723,876
Transfer to statutory reserve	–	1,497,592	(1,497,592)	–	–	–
Dividend *(Note 29)*	–	–	(54,019,495)	(54,019,495)	–	(54,019,495)
Total transactions with owners, recognised directly in equity	23,596,322	(3,437,123)	(55,517,087)	(35,357,888)	–	(35,357,888)
Capital injection from non-controlling shareholders of new subsidiaries	–	–	–	–	3,887,153	3,887,153
Total transactions with owners	23,596,322	(3,437,123)	(55,517,087)	(35,357,888)	3,887,153	(31,470,735)
Balance at 31 December 2014	1,658,187,323	51,761,281	41,679,117	1,751,627,721	43,300,306	1,794,928,027

	Attributable to owners of the Company					
	Share capital	Other reserves (*Note 15*)	Retained earnings	Total	Non-controlling interests	Total equity
	HK$	HK$	HK$	HK$	HK$	HK$
For the year ended 31 December 2013						
Balance at 1 January 2013	671,891,801	50,496,932	330,214,537	1,052,603,270	38,234,999	1,090,838,269
Comprehensive income						
Profit for the year	–	–	196,600,131	196,600,131	13,906,016	210,506,147
Other comprehensive income						
Currency translation differences	–	36,613,318	–	36,613,318	1,043,318	37,656,636
Total comprehensive income for the year	–	36,613,318	196,600,131	233,213,449	14,949,334	248,162,783
Total transactions with owners, recognised directly in equity:						
Capitalisation issue (*Note 14*)	100	–	–	100	–	100
Issuance of shares (*Note 14*)	896,863,578	–	–	896,863,578	–	896,863,578
Issuance of ordinary shares related to acquisition of non-controlling interest of a subsidiary (*Note 14*)	37,570,000	–	–	37,570,000	–	37,570,000
Transfer to statutory reserve	–	6,536,981	(6,536,981)	–	–	–
Exercise of share options	28,265,522	(8,337,328)	–	19,928,194	–	19,928,194
Total transactions with owners, recognised directly in equity	962,699,200	(1,800,347)	(6,536,981)	954,361,872	–	954,361,872
Changes in ownership interests in subsidiaries without change in control (*Note 33*)	–	(49,135,402)	–	(49,135,402)	(18,660,659)	(67,796,061)
Total transactions with owners	962,699,200	(50,935,749)	(6,536,981)	905,226,470	(18,660,659)	886,565,811
Balance at 31 December 2013	1,634,591,001	36,174,501	520,277,687	2,191,043,189	34,523,674	2,225,566,863

The notes on pages 66 to 160 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2014	2013
	Note	**HK$**	HK$
Cash flows from operating activities			
Cash used in operations	*30*	**(20,440,798)**	(290,092,108)
Interest paid	*30*	**(29,608,497)**	(11,044,915)
Income tax paid		**(35,198,698)**	(57,233,202)
Net cash used in operating activities		**(85,247,993)**	(358,370,225)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(531,671,352)**	(140,962,375)
Purchases of intangible assets		**(537,376)**	(3,311,730)
Proceeds from disposal of property, plant and equipment	*30*	**87,399**	834,435
Prepayment and purchases of land use rights		**(22,114,930)**	–
Prepayment for property, plant and equipment		**(91,463,108)**	–
Increase in pledged bank deposits		**(35,659,616)**	(121,788,294)
Interest received		**4,468,297**	5,270,885
Net cash used in investing activities		**(676,890,686)**	(259,957,079)

	Note	Year ended 31 December 2014 HK$	2013 HK$
Cash flows from financing activities			
Acquisition of non-controlling interest in a subsidiary	33	**(18,600,000)**	(12,400,000)
Capital injection from non-controlling shareholders of subsidiaries		**3,887,153**	–
Proceeds from bank borrowings	30	**937,172,190**	513,250,790
Repayments of bank borrowings	30	**(419,838,346)**	(473,129,768)
Advance received from related parties	35	**22,907,922**	3,029,684
Advance to a related party	35	**(5,704,200)**	–
Repayment of advance from related parties	35	**(2,600,931)**	(2,514,468)
Net proceeds from issuance of ordinary shares		**11,937,731**	962,928,294
Loans from a related party	30	**126,760,000**	–
Repayment of loans from a related party	30	**(126,760,000)**	–
Dividend paid		**(54,019,495)**	(120,000,000)
Share issuance costs		**–**	(46,136,422)
Net cash generated from financing activities		**475,142,024**	825,028,110
Net (decrease)/increase in cash and cash equivalents		**(286,996,655)**	206,700,806
Cash and cash equivalents at beginning of year		**343,920,842**	136,810,868
Exchange (losses)/gains on cash and cash equivalents		**(1,585,594)**	409,168
Cash and cash equivalents at end of year	13	**55,338,593**	343,920,842

The notes on pages 66 to 160 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

The Company's consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Company's consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and comparative period.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Venezuela as a hyperinflationary economy

A Venezuelan subsidiary incorporated on 17 September 2012 continued its operations in the current year. To date, a number of factors arose in the Venezuelan economy that triggers the adoption of the adjustments required by IAS 29 'Financial Reporting in Hyperinflationary Economies'. Within these factors it is worth highlighting the significance of the cumulative inflation rate of 100% over the past years, the restrictions to the official foreign exchange market and the devaluation of the Bolivar fuerte ("**Bs**") on 8 February 2013.

Pursuant to the requirements of IAS 29, the Venezuelan subsidiary which reports its financial statements in Bolivar Fuerte, i.e. currency of a hyperinflationary economy, should be stated in terms of the measuring unit current on the date of the financial statements. All balances that are not stated in terms of the measuring unit current on the date of the financial statements must be restated by applying a general price index. All statement of comprehensive income components must be stated in terms of the measuring unit current on the date of the financial statements, applying the change in the general price index that occurred since the date when revenues and expenses were originally recognised in the financial statements. The restatement of the current financial statement amounts was carried out using Venezuela's consumer price index (INPC). In December 2014, the index was 839.5 (2013: 498.1) and the year-over-year change in the index was 68.5%.

Pursuant to this standard, the Venezuelan subsidiary is required to adjust the historical cost of non-monetary assets and liabilities, and the statement of comprehensive income to reflect the changes in purchasing power of the currency caused by inflation.

In preparing the Group's consolidated financial statements, all components of the financial statements of the Venezuelan subsidiary were translated at the official exchange rate, which at 31 December 2014 was 6.30 Bolivares Fuertes per U.S. dollar (or 1.23 H.K. dollars per Bolivar Fuerte).

As at 31 December 2014, the Group has revaluated the non-monetary assets and liabilities, and the gain derived from the revaluation is reflected as finance income on the consolidated statement of comprehensive income of HK$14,699,143 (Dec 2013: HK$7,473,618). The deferred tax liabilities on temporary difference associated with reinstatement of the non-monetary assets and liabilities as at 31 December 2014 amounted to HK$8,033,037 (Dec 2013: HK$2,538,251).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going Concern

During the year ended 31 December 2014, the Group reported net loss attributable to owners of approximately HK$423,081,000 and operating cash outflow of approximately HK$85,248,000 due to the sluggish global oil and gas market that caused significant decline in new oilfield service orders and delay in realising trade receivables. As at 31 December 2014, the Group had total bank borrowings of approximately HK$749,000,000, of which approximately HK$712,699,000 will be due in the coming twelve months. As at 31 December 2014, the Group had cash and cash equivalents and pledged bank deposits of approximately HK$55,339,000 and HK$200,154,000, respectively.

Pursuant to the requirements set out in a term loan agreement dated 25 September 2014, the Group is obliged to comply with restrictive financial covenants and certain undertakings, including not to incur additional financial indebtedness by the Group in relation to the relevant term loan (the "**Term Loan**"). As at 31 December 2014, the Term Loan amounted to US$40,000,000 (equivalent to HK$312,000,000), which has scheduled repayment dates from 2015 to 2017. The Group is required to file a compliance certificate and to supply to the financiers audited financial statements for the year ended 31 December 2014. Based on the Group's financial statements for the year ended 31 December 2014, the Group has breached certain of these financial covenants. On 12 March 2015, the Group entered into a placing agreement (the "**Placing Agreement**") with a placing agent for the proposed issuance of convertible bonds, which is conditional upon, amongst others, the waiver obtained from the bank. The breach of the restrictive financial covenants constituted events of default under the Term Loan agreement, which may cause the relevant Term Loan of HK$312,000,000 to become immediately repayable. In this connection, the Group has classified the entire HK$312,000,000 outstanding balance of the Term Loan under current liabilities (see Note 17). This has increased the Group's total borrowings due within a year to approximately HK$712,699,000 as at 31 December 2014 and the Group did not have any committed long-term financing to fund the repayment of such borrowings at year end.

All of the above conditions indicate the existence of material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going Concern (Continued)

In view of such circumstances, the directors of the Company and the Group's management have given careful consideration to the future liquidity and performance of the Group and its available sources of financing to assess whether the Group will have sufficient working capital to fulfill its financial obligations as a going concern. The Group has implemented a number of measures to improve its financial position and alleviate its liquidity pressure, including:

(i) The Group has been actively seeking new sources of long-term financing to refinance the Group's borrowings due within a year. On 4 February 2015, the Group completed the rights issue of 154,341,411 ordinary shares of the Company at HK$0.98 per rights share and obtained net proceeds of HK$147,930,000 (Note 37(a)).

(ii) On 25 March 2015, the Group has obtained waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached and the compliance of incurrence of additional financial indebtedness arising from the proposed issuance of the Convertible Bonds. Under the terms of the waiver, the Group is required and has agreed to apply the net proceeds from the expected issuance of the convertible bonds to partial repay the Term Loan no later than 30 April 2015. The financiers have agreed to defer the due date of the remaining outstanding principal of the Term Loan of US$20,000,000 (equivalent to approximately HK$156,000,000) to 31 January 2016.

(iii) On 30 March 2015, the Group has satisfied all the conditions set out in the Placing Agreement and obtained the necessary regulatory approvals for the issuance of certain three-year 5% convertible bonds ("**Convertible Bonds**") to raise HK$153,000,000. The final issuance of the Convertible Bonds is subject to the completion of certain administrative procedures. The net proceeds from the issuance of Convertible Bonds will be used for partial repayment of the Term Loan (Note 37(c)).

(iv) The Group is in advance discussions with a financier to obtain a long-term borrowing facility of up to HK$150,000,000 to be secured by the Group's certain property, plant and equipment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going Concern (Continued)

(v) The Group has engaged in on-going discussions with its financiers to renew its short-term bank borrowings and borrowing facilities. As at the date of this report, the Group has approximately HK$342,252,000 unutilised uncommitted borrowing facilities. The Group's management will continue to negotiate with the financiers to renew the Group's short-term bank borrowings as and when they fall due in the coming twelve months.

(vi) The Group has intensified its efforts to collect outstanding trade receivables from its customers to reduce the Group's working capital requirements. It is also continuing its efforts to increase its income from overseas operations, in particular in the Middle East, to reduce its reliance on certain major customers in the People's Republic of China (the "**PRC**") and South America. At the same time, the Group is implementing measures to contain its operating and capital expenditures with an aim to enhance the Group's liquidity and profitability in the long run.

The directors of the Company have reviewed the Group's cash flow projections prepared by management, which cover a period of twelve months from 31 December 2014. In the opinion of the directors, in light of the above, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2014. Accordingly, the directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate operating and financing cash flows through (i) successful renewal of its bank loans upon expiry, securing new bank loans and continuous compliance with the relevant covenants and undertaking requirements to maintain these financings; (ii) successful issuance of the Convertible Bonds; (iii) generating adequate operating cash inflows by collecting long-aged receivables from its major customers and realising cash from new sales or service contracts; and (iv) successful implementation of the operational plans and measures to control costs and generate adequate cash flows. Should the Group be unable to operate as a going concern, adjustment would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have been adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IFRS 10, IFRS 12 and IAS 27 (2011) Amendment	Investment Entities	1 January 2014
IAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 Amendment	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39 Amendment	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC 21	Levies	1 January 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

(b) 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, new interpretations and amendments to standards and interpretations have been issued but not effective for the financial year end beginning 1 January 2014, and have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IAS 19 (2011) Amendment	Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements Project	Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2011-2013 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2012-2014 Cycle	1 January 2016
IAS 1	Presentation of Financial Statements	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment Entities	1 January 2016
IFRS 10 and IAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 16 and IAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16 and IAS 41 Amendment	Agriculture: Bearer Plants	1 January 2016
IAS 27 Amendment	Equity Method in Separate Financial Statements	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9	Financial Instruments	1 January 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

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

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the consolidated financial statements of the Group in the initial application and does not anticipate that the adoption will result in any material impact on the Group's operating results or financial position.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant to the presentation and disclosure of information in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income (Note 2.6).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions - that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial information exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("**CODM**") is responsible for allocating resources and assessing performance of the operating segments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the '**functional currency**'). The consolidated financial statements are presented in HK$, which is the Company's functional currency and the Company's and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to bank borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income and costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/(losses)'.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment are calculated using the straight-line method to allocate their cost to their residual value over its estimated useful lives, as follows:

Leasehold improvements	Shorter of lease term or useful life of 5 years
Building	Shorter of lease term or useful life of 20 years
Plant and machineries	3-10 years
Motor vehicles	5-10 years
Computer equipment	3-5 years
Furniture and fixtures	3-5 years

The assets' residual values and useful lives are revised and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses, if any. No depreciation is made on assets under construction in progress until such time as the relevant assets are completed and available for their intended use.

Gains and losses on disposal are determined by comparing the proceeds with carrying amounts and are recognised within 'other gains/(losses)' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Intangible assets and Land use rights

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the reportable segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the contractual customer relationships of approximately 0.5-1.5 years.

(c) Computer software

Intangible assets comprised acquired computer software licenses which are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Intangible assets and Land use rights (Continued)

(d) Land use rights

Land use rights acquired in a business combination are recognised at fair value at the acquisition date. The land use rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the land use rights of approximately 50 years.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life for example, goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in 'current assets', except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as 'non-current assets'. The Group's loans and receivables comprise 'trade and other receivables' (Note 2.11), and 'cash and cash equivalents' (Note 2.12) and 'pledged bank deposits' (Note 2.13) in the consolidated balance sheet.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with bank, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts, if any. In consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

2.13 Pledged bank deposits

Pledged bank deposits represent the amounts of cash pledged as collateral to the banks for project bidding, issuing performance bonds or providing additional financing.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its group companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Pension and employee social security and benefits obligations

(i) Hong Kong

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for the employees in Hong Kong, the assets of which are generally held in separate trustee-administered funds. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong.

The Group pays fixed contributions into a trustee-administered fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to the plan on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expense when they are due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(a) Pension and employee social security and benefits obligations (Continued)

(ii) Mainland China

The Group companies in the Mainland China participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employees in the Mainland China. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Singapore

The Group's company in Singapore participates in Central Provident Fund ("**CPF**"), which is a defined contribution pension scheme. Contributions to CPF schemes are recognised as an expense in the period in which the related service is performed.

(iv) Venezuela

The Group's company in Venezuela participates in the social security plan and unemployment insurance plan of the Venezuelan Social Security Institute ("**IVSS**"). Contributions to the plans are recognized as an expense in the period in which the related service is performed.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share-based payment

Equity-settled share-based payment transactions

The Group operates equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

– including any market performance conditions (for example, an entity's share price); and

– excluding the impact of any service and non-market performance vesting conditions (for example, profitability, remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the activity have been resolved.

(a) Provision of oilfield project services

The Group provides services on oilfield project in a wide range of areas at various stage in the life of an oilfield principally in drilling, well completion and production enhancement to its customers. The services mainly consist of providing oilfield development plan, procurement advice services and installation of tools and equipment and on-site project management.

Revenue from provisions of oilfield projects services are recognised in the accounting period in which the services have been performed and accepted by the customers and collectability of the related receivables is reasonably assured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Revenue recognition (Continued)

(b) Provision of consultancy services

The Group provides consultancy services consisting of integrated project management services and supervisory services.

Integrated project management services comprise of engineering and designing overall development plan for an oilfield project, assisting and providing advice on sourcing, by way of invitation or open tender, oilfield project management services in different technical areas including drilling, well completion, downhole operation, oilfield equipment installation and production enhancement and providing on-site operational management, supervision, support and advice.

Supervisory services include management, supervision and technical support in specific technical areas in various stages of the oilfield project. Supervisory services mainly serve to ensure the operation in the specific technical areas of the project works in accordance with the execution plan approved by the customers. While some of the contracts for supervisory services require the Group to provide services to customers for a definite term, others require the Group to provide services for a specific operation within a project.

Revenue from provision for integrated project management services is recognised in the accounting period in which the services have been performed and are accepted by the customers and collectability of the related receivables is reasonably assured.

Revenue from provision for supervisory services is recognised in accounting period in which the services rendered and assessed on the basis of actual services provided.

(c) Manufacturing and sales of tools and equipment

Revenue from manufacturing and sales of tools and equipment is recognised on the transfer of risks and rewards of ownership of tools and equipment, which generally coincides with the time when the customer receives and accepts the goods.

(d) Agency fee income

Agency fee income is recognised in the accounting period upon the provision of services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under the direction of the directors and the major shareholders. Management has identified and evaluated financial risks in close cooperation with the major shareholders. Management reviews and approves principles for overall risk management, as well as policies and procedures covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. These policies and procedures enable management to make strategic and inform decision with regard to the operations of the Group.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("**US$**"), the Renminbi ("**RMB**") and Bs. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currency that is not the entity's functional currency.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group mitigates the risk by maintaining US$, RMB and Bs bank accounts to pay for the transactions denominated in these currencies. The amounts of assets and liabilities denominated in each currency can be seen in the relevant notes.

At 31 December 2014, if HK$ had weakened/strengthened by 1% against the US$ with all other variables held constant, net post-tax profit for the year would have been approximately HK$1,174,000 higher/lower (2013: HK$2,533,000 higher/lower), mainly as a result of foreign exchange differences on translation of US$ denominated trade and other receivables, cash and cash equivalents, trade and other payables, and bank borrowings.

At 31 December 2014, if HK$ had weakened/strengthened by 5% against RMB with all other variables held constant, net post-tax profit for the year would have been approximately HK$10,271,000 higher/lower (2013: HK$5,830,000 higher/lower), mainly as a result of foreign exchange differences on translation of RMB denominated trade and other receivables, cash and cash equivalents, trade and other payables, and bank borrowings.

At 31 December 2014, if HK$ had weakened/strengthened by 5% against Bs with all other variables held constant, net post-tax profit for the year would have been approximately HK$2,455,000 lower/higher (2013: 1,293,000 lower/higher), mainly as a result of foreign exchange differences on translation of Bs denominated trade and other receivables, pledged bank deposits, restricted bank balance, cash and cash equivalents, and trade and other payables.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings, pledged bank deposits and cash and cash equivalents. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group currently does not hedge its exposure to cash flow and fair value interest rate risk. The Group analyses its interest rate exposure on a regular basis and will consider the interest rate exposure when enter into any financing, renewal of existing positions and alternative financing transactions.

The Group's practice is to manage its interest income/cost through monitoring and reviewing interest rate changes in the market and its impact to the Group's financial performance. During 2014 and 2013, the Group's borrowings at variable rates were denominated in HK$, US$, RMB and Singaporean dollar ("**SGD**").

At 31 December 2014, if interest rate on borrowings and pledged bank deposits held at variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax results for the year would have been approximately HK$4,693,000 (2013: HK$616,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

As at 31 December 2014, majority cash and cash equivalents, restricted bank balance, and pledged bank deposits, were deposited with major financial institutions in the Mainland China and Hong Kong, which are of good credit quality. The table below shows the cash and cash equivalents, restricted bank balance, and pledged bank deposits as at 31 December 2014 and 2013.

	2014	2013
	HK$	HK$
PRC state-owned listed banks	**17,113,330**	53,581,001
Other listed banks	**244,131,828**	447,122,485
Others	**585,089**	5,442,969
Total	**261,830,247**	506,146,455

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement at year end. Considered certain customers of the Group faced deterioration in the credit ratings and worse off in the market parameters 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 related company.

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 capacity. As at 31 December 2014, management has determined to record provision for doubtful receivable of HK$297,600,261 (2013: HK$7,124,977) which represents the impairment and discounting effect of total receivable due from the Group's certain debtors.

(c) Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

During the year ended 31 December 2014, the Group reported net loss attributable to owners of approximately HK$423,081,000 and operating cash outflow of approximately HK$85,248,000 due to the sluggish global oil and gas market that caused significant decline in new oilfield service orders and delay in realising trade receivables. As at 31 December 2014, the Group had total bank borrowings of approximately HK$749,000,000, of which approximately HK$712,699,000 will be due in the coming twelve months. As at 31 December 2014, the Group had cash and cash equivalents and pledged bank deposits of approximately HK$55,339,000, and HK$200,154,000, respectively.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Pursuant to the requirements of the Term Loan, the Group is obliged to comply with restrictive financial covenants and certain undertakings, including not to incur additional financial indebtedness by the Group. As at 31 December 2014, the Term Loan amounted to US$40,000,000 (equivalent to HK$312,000,000), which has scheduled repayment dates from 2015 to 2017. The Group is required to file a compliance certificate and to supply to the financiers financial statements for the year ended 31 December 2014. Based on the Group's financial statements for the year ended 31 December 2014, the Group has breached certain of these financial covenants. On 12 March 2015, the Group entered into the Placing Agreement with a placing agent for the proposed issuance of convertible bonds, which is conditional upon, amongst others, the waiver obtained from the bank. The breach of the restrictive financial covenants constituted events of default under the Term Loan agreement, which may cause the relevant Term Loan of HK$312,000,000 to become immediately repayable. In this connection, the Group has classified the entire HK$312,000,000 outstanding balance of the Term Loan under current liabilities (see Note 17). This has increased the Group's total borrowings due within a year to approximately HK$712,699,000 as at 31 December 2014 and the Group did not have any committed long-term financing to fund the repayment of such borrowings at year end.

In view of such circumstances, the directors of the Company and the Group's management have given careful consideration to the future liquidity and performance of the Group and its available sources of financing to assess whether the Group will have sufficient working capital to fulfill its financial obligations as a going concern. The Group has implemented a number of measures to improve its financial position and alleviate its liquidity pressure, including:

(i) The Group has been actively seeking new sources of long-term financing to refinance the Group's borrowings due within a year. On 4 February 2015, the Group completed the rights issue of 154,341,411 ordinary shares of the Company at HK$0.98 per rights share and obtained net proceeds of HK$147,930,000 (Note 37(a)).

(ii) On 25 March 2015, the Group has obtained waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached and the compliance of incurrence of additional financial indebtedness arising from the proposed issuance of the Convertible Bonds. Under the terms of the waiver, the Group is required and has agreed to apply the net proceeds from the expected issuance of the convertible bonds to partial repay the Term Loan no later than 30 April 2015. The financiers have agreed to defer the due date of the remaining outstanding principal of the Term Loan of US$20,000,000 (equivalent to approximately HK$156,000,000) to 31 January 2016.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(iii) On 30 March 2015, the Group has satisfied all the conditions set out in the Placing Agreement and obtained the necessary regulatory approvals for the issuance of Convertible Bonds to raise HK$153,000,000. The final issuance of the Convertible Bonds is subject to the completion of certain administrative procedures. The net proceeds from the issuance of Convertible Bonds will be used for partial repayment of the Term Loan (Note 37(c)).

(iv) The Group is in advance discussions with a financier to obtain a long-term borrowing facility of up to HK$150,000,000 to be secured by the Group's certain property, plant and equipment.

(v) The Group has engaged in on-going discussions with its financiers to renew its short-term bank borrowings and borrowing facilities. As at the date of this report, the Group has approximately HK$342,252,000 unutilised uncommitted borrowing facilities. The Group's management will continue to negotiate with the financiers to renew the Group's short-term bank borrowings as and when they fall due in the coming twelve months.

(vi) The Group has intensified its efforts to collect outstanding trade receivables from its customers to reduce the Group's working capital requirements. It is also continuing its efforts to increase its income from overseas operations, in particular in the Middle East, to reduce its reliance on certain major customers in the PRC and South America. At the same time, the Group is implementing measures to contain its operating and capital expenditures with an aim to enhance the Group's liquidity and profitability in the long run.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Fair values of balances due on demand or less than 1 year appropriate their carrying balances as the impact of discounting is not significant.

	On demand or less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$	Over 5 years HK$	Total HK$
Group					
At 31 December 2014					
Trade payables	**312,042,125**	**–**	**–**	**–**	**312,042,125**
Other payables	**168,827,979**	**–**	**–**	**–**	**168,827,979**
Bank borrowings	**718,338,632**	**2,703,862**	**9,248,198**	**44,956,520**	**775,247,212**
At 31 December 2013					
Trade payables	243,373,379	–	–	–	243,373,379
Other payables	53,642,583	–	–	–	53,642,583
Bank borrowings	236,347,236	–	–	–	236,347,236
Company					
At 31 December 2014					
Other payables	**5,194,112**	**–**	**–**	**–**	**5,194,112**
At 31 December 2013					
Other payables	3,008,753	–	–	–	3,008,753

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for 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 price their services adequately in accordance with their pricing policy, secure access to financing at reasonable costs, obtain borrowings from financial institutions or related parties, and issue new shares or sell assets.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents.

Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. Accordingly, the gearing ratios at 31 December 2014 and 2013 were as follows:

	2014 **HK$**	2013 HK$
Bank borrowings *(Note 17)*	**749,482,894**	233,423,200
Less:		
Pledged bank deposits *(Note 12)*	**(200,153,654)**	(160,699,613)
Cash and cash equivalents *(Note 13)*	**(55,338,593)**	(343,920,842)
Restricted bank balance *(Note 13)*	**(6,338,000)**	(1,526,000)
Net debt/(cash)	**487,652,647**	(272,723,255)
Total equity	**1,794,928,027**	2,225,566,863
Total capital	**2,282,580,674**	1,952,843,608
Gearing ratio	**21%**	N/A

The increase in gearing ratio for the year ended 31 December 2014 resulted primarily from increase in bank borrowings (Note 17).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Estimated impairment of non-financial assets

The Group follows the guidance of IAS 36 "Impairment of Assets" to determine when assets for example goodwill, are impaired, which requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the recoverable amount of assets is less than their carrying balance, including factors such as the industry performance and changes in operational and financing cash flows. The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

There will not be any impairment charges in 2014 against goodwill in any of the CGUs if the discount rate for the Group had been 2 percentage points higher than the management's estimates or the revenue for the Group had been 10 percentage points lower than management's estimates.

(b) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgements in applying the Group's accounting policies

(a) Provision for impairment of trade receivables

Provision for impairment of trade receivables is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, and in making this judgment, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each customer and the current market conditions (Note 11).

(b) Provision for impairment of inventories

Provision for impairment of inventories is determined based on an assessment of the realisability of inventories. Provision for impairment of inventories are recorded where events or changes in circumstances that the balances may not be realised. The identification of provision requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and provision for impairment of inventories in the period which estimate has been changed.

(c) Provision for warranty

The tools and equipment sold by the Group are covered by warranty for one year from the date of delivery. The Group does not make any provision for warranty according to their historical records and practice of the industry.

(d) Recognition of deferred tax assets

At 31 December 2014 a deferred tax asset of HK$8,052,118 (2013: Nil) in relation to unused tax losses (Note 18) was recognised in the consolidated financial statements. Estimating the deferred tax asset to be recognised requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing the ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. The current financial models indicate that the tax losses can be utilised in the foreseeable future. Management believes that any reasonable changes in the model assumptions would not affect management's view. However, any unexpected changes in assumptions and estimates in tax regulations could affect the recoverability of this deferred tax asset in future.

5 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 year ended 31 December 2014 and 2013 is as follows:

	2014 **HK$**	2013 HK$
Oilfield project services		
– Drilling	**179,160,479**	66,450,793
– Well completion	**28,554,457**	253,495,133
– Production enhancement	**225,510,124**	419,304,895
Total oilfield project services	**433,225,060**	739,250,821
Consultancy services	**89,075,551**	40,483,583
Manufacturing and sales of tools and equipment	**182,871,320**	280,700,397
Total revenue	**705,171,931**	1,060,434,801

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

The segment information for the year ended 31 December 2014 and 2013 are as follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
Year ended 31 December 2014				
Total segment revenue	433,225,060	89,075,551	236,539,172	758,839,783
Inter-segment revenue	–	–	(53,667,852)	(53,667,852)
Revenue from external customers	433,225,060	89,075,551	182,871,320	705,171,931
Segment results	(179,295,216)	52,356,596	21,764,006	(105,174,614)
Net unallocated expenses				(311,658,689)
Loss before income tax				(416,833,303)
Other information:				
Amortisation	(1,117,483)	–	–	(1,117,483)
Depreciation	(47,427,654)	–	(7,641,986)	(55,069,640)
Provision for impairment of trade receivables	(266,215,565)	(10,419,289)	(3,661,376)	(280,296,230)
Income tax expenses	–	–	(2,930,245)	(2,930,245)

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

The segment information for the year ended 31 December 2014 and 2013 are as follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
Year ended 31 December 2013				
Total segment revenue	739,250,821	40,483,583	399,943,930	1,179,678,334
Inter-segment revenue	–	–	(119,243,533)	(119,243,533)
Revenue from external customers	739,250,821	40,483,583	280,700,397	1,060,434,801
Segment results	428,276,019	23,125,795	68,443,894	519,845,708
Net unallocated expenses				(260,385,082)
Profit before income tax				259,460,626
Other information:				
Amortisation	(909,707)	–	(7,478,993)	(8,388,700)
Depreciation	(11,478,190)	–	(4,152,621)	(15,630,811)
Trade receivables written off during the year as uncollectible	(2,000,277)	–	–	(2,000,277)
Income tax expenses	–	–	(8,781,774)	(8,781,774)

The measurement of profit and loss and assets of the operating segments are the same as those described in the summary of significant accounting policies. The CODM evaluates the performance of the reportable segments based on a measure of revenue and revenue less all directly attributable costs.

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

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

	2014	2013
	HK$	HK$
Segment results	**(105,174,614)**	519,845,708
Other income	**416,356**	2,406,217
Material costs	**(3,850,416)**	(15,789,007)
Depreciation of property, plant and equipment	**(6,163,103)**	(3,984,555)
Amortisation of intangible assets	**(522,954)**	(60,175)
Operating lease rental	**(11,390,586)**	(10,592,589)
Employee benefit expenses	**(135,014,608)**	(106,296,425)
Distribution expenses	**(21,131,992)**	(18,263,978)
Research and development expenses	**(23,822,727)**	(14,422,525)
Entertainment and marketing expenses	**(19,514,612)**	(24,379,276)
Other expenses	**(77,535,827)**	(79,775,451)
Other (losses)/gains	**(7,811,493)**	1,292,248
Finance income	**19,167,440**	12,667,121
Finance costs	**(24,484,167)**	(3,186,687)
(Loss)/profit before income tax	**(416,833,303)**	259,460,626

5 SEGMENT INFORMATION (Continued)

(b) Assets

The segment assets as at 31 December 2014 are as follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
As at 31 December 2014				
Segment assets	**2,025,872,905**	**187,922,752**	**618,787,126**	**2,832,582,783**
Unallocated assets				**329,511,812**
Total assets				**3,162,094,595**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**542,423,387**	**–**	**133,168,841**	**675,592,228**

The segment assets as at 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 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

5 SEGMENT INFORMATION (Continued)

(b) Assets (Continued)

The segment results included the material costs, technical service fees, depreciation, amortisation, distribution expenses, operating lease rental, employee benefit expenses, research and development expenses, entertainment and marketing expenses, provision for impairment of trade receivables, other expenses, other (losses)/gains and finance income and 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 information. 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 rights, intangible assets, deferred tax assets, inventories, trade and other receivables and prepayments, pledged bank deposits, cash and cash equivalents and restricted bank balance.

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

	2014	2013
	HK$	HK$
Segment assets for reportable segments	**2,832,582,783**	2,358,569,781
Unallocated assets		
– Unallocated property, plant and equipment	**20,024,511**	16,173,637
– Unallocated intangible assets	**1,452,353**	1,266,060
– Unallocated other receivables and prepayments	**40,534,950**	27,631,986
– Unallocated deferred tax assets	**8,052,118**	–
– Unallocated current income tax recoverable	**19,092,871**	–
– Unallocated pledged bank deposits	**192,470,062**	146,974,437
– Unallocated restricted bank balance	**6,338,000**	–
– Unallocated cash and cash equivalents	**41,546,947**	298,550,495
	329,511,812	490,596,615
Total assets per consolidated balance sheet	**3,162,094,595**	2,849,166,396

5 SEGMENT INFORMATION (Continued)

(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:

	2014 HK$	2013 HK$
Mainland China	465,357,984	625,793,940
South America	71,737,301	358,422,172
Middle East	146,336,206	54,965,453
Others	21,740,440	21,253,236
	705,171,931	1,060,434,801

The following table shows the non-current assets other than deferred tax assets by geographical segment according to the location where the assets are located:

	2014 HK$	2013 HK$
Mainland China	1,275,593,663	688,174,574
South America	135,869,292	137,754,332
Singapore	97,473,921	49,566,998
Middle East	43,577,658	–
Australia	140,963	–
	1,552,655,497	875,495,904

(d) Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group are as follows:

	2014 HK$	2013 HK$
Customer 1	71,737,301	358,422,172
Customer 2	135,653,884	332,983,567
Customer 3	101,170,795	–
	308,561,980	691,405,739

6 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in progress HK$	Building HK$	Leasehold improvements HK$	Plant and machineries HK$	Motor vehicles HK$	Computer equipment HK$	Furniture and fixtures HK$	Total HK$
At 1 January 2013								
Cost	–	3,401,371	2,406,328	150,044,102	10,602,942	5,306,701	1,789,168	173,550,612
Accumulated depreciation	–	–	(2,007,429)	(7,836,644)	(2,969,199)	(2,575,360)	(1,069,276)	(16,457,908)
Net book amount	–	3,401,371	398,899	142,207,458	7,633,743	2,731,341	719,892	157,092,704
Year ended 31 December 2013								
Opening net book amount	–	3,401,371	398,899	142,207,458	7,633,743	2,731,341	719,892	157,092,704
Additions	57,071,877	58,496	407,248	86,698,004	3,650,200	2,540,681	1,851,974	152,278,480
Depreciation	–	(627,890)	(598,184)	(15,002,921)	(1,889,324)	(1,090,475)	(406,572)	(19,615,366)
Monetary correction for hyperinflation	2,855,781	–	–	163,375	252,226	62,317	166,314	3,500,013
Disposals	–	–	–	(172,278)	(583,382)	(146,168)	–	(901,828)
Exchange differences	–	113,136	5,777	427,582	256,063	136,068	74,999	1,013,625
Closing net book amount	59,927,658	2,945,113	213,740	214,321,220	9,319,526	4,233,764	2,406,607	293,367,628
At 31 December 2013								
Cost	59,927,658	3,581,971	2,740,276	237,775,610	14,270,859	8,211,253	3,810,351	330,317,978
Accumulated depreciation	–	(636,858)	(2,526,536)	(23,454,390)	(4,951,333)	(3,977,489)	(1,403,744)	(36,950,350)
Net book amount	59,927,658	2,945,113	213,740	214,321,220	9,319,526	4,233,764	2,406,607	293,367,628
Year ended 31 December 2014								
Opening net book amount	**59,927,658**	**2,945,113**	**213,740**	**214,321,220**	**9,319,526**	**4,233,764**	**2,406,607**	**293,367,628**
Additions	**114,753,024**	**–**	**92,160**	**454,687,251**	**4,482,814**	**1,109,471**	**297,638**	**575,422,358**
Depreciation	**–**	**(2,250,259)**	**(91,394)**	**(52,923,176)**	**(3,209,231)**	**(1,340,695)**	**(1,417,988)**	**(61,232,743)**
Monetary correction for hyperinflation	**(2,741,854)**	**8,750,425**	**–**	**1,945,858**	**805,897**	**195,189**	**241,928**	**9,197,443**
Transferred in/(out)	**(120,068,003)**	**108,064,233**	**–**	**3,274,422**	**–**	**–**	**8,729,348**	**–**
Disposals	**–**	**–**	**–**	**(720,516)**	**–**	**(75,050)**	**(539)**	**(796,105)**
Exchange differences	**(124,478)**	**(15,824)**	**(1,050)**	**(637,907)**	**(40,747)**	**(18,293)**	**(12,217)**	**(850,516)**
Closing net book amount	**51,746,347**	**117,493,688**	**213,456**	**619,947,152**	**11,358,259**	**4,104,386**	**10,244,777**	**815,108,065**
At 31 December 2014								
Cost	**51,746,347**	**120,386,203**	**2,824,458**	**695,712,363**	**19,516,814**	**8,813,046**	**12,629,835**	**911,629,066**
Accumulated depreciation	**–**	**(2,892,515)**	**(2,611,002)**	**(75,765,211)**	**(8,158,555)**	**(4,708,660)**	**(2,385,058)**	**(96,521,001)**
Net book amount	**51,746,347**	**117,493,688**	**213,456**	**619,947,152**	**11,358,259**	**4,104,386**	**10,244,777**	**815,108,065**

6 PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

Construction in progress as at 31 December 2014 mainly comprises new factory building and new fracturing base being constructed in Singapore and Venezuela respectively.

During the year, the Group has capitalised borrowing costs amounting to HK$2,865,500 (2013: Nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of the Group's general borrowings of 4.92%.

Bank borrowings are secured by the buildings under construction in progress for the value of HK$50,245,768 (2013: Nil) (Note 17).

7 INTANGIBLE ASSETS – GROUP

	Goodwill HK$	Contractual customer relationships HK$	Computer software HK$	Total HK$
At 1 January 2013				
Cost	566,620,551	44,832,095	894,527	612,347,173
Accumulated amortisation and impairment	(2,763,894)	(37,353,102)	(610,185)	(40,727,181)
Net book amount	563,856,657	7,478,993	284,342	571,619,992
Year ended 31 December 2013				
Opening net book amount	563,856,657	7,478,993	284,342	571,619,992
Additions	–	–	6,802,629	6,802,629
Amortisation	–	(7,478,993)	(969,882)	(8,448,875)
Exchange differences	64,641	–	47,645	112,286
Closing net book amount	563,921,298	–	6,164,734	570,086,032
At 31 December 2013				
Cost	566,620,551	44,832,095	7,747,093	619,199,739
Accumulated amortisation and impairment	(2,699,253)	(44,832,095)	(1,582,359)	(49,113,707)
Net book amount	563,921,298	–	6,164,734	570,086,032

7 INTANGIBLE ASSETS – GROUP (Continued)

	Goodwill HK$	Contractual customer relationships HK$	Computer software HK$	Total HK$
Year ended 31 December 2014				
Opening net book amount	563,921,298	–	6,164,734	570,086,032
Additions	–	–	537,375	537,375
Amortisation	–	–	(1,520,447)	(1,520,447)
Exchange differences	(1,786,214)	–	(4,365)	(1,790,579)
Closing net book amount	562,135,084	–	5,177,297	567,312,381
At 31 December 2014				
Cost	566,620,551	44,832,095	8,284,469	619,737,115
Accumulated amortisation and impairment	(4,485,467)	(44,832,095)	(3,107,172)	(52,424,734)
Net book amount	562,135,084	–	5,177,297	567,312,381

Impairment test of goodwill

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

	Opening HK$	Exchange differences HK$	Closing HK$
Year ended 31 December 2014			
Oilfield project services	381,823,242	–	381,823,242
Consultancy services	95,455,810	–	95,455,810
Manufacturing and sales of tools and equipment	86,642,246	(1,786,214)	84,856,032
	563,921,298	(1,786,214)	562,135,084
Year ended 31 December 2013			
Oilfield project services	381,823,242	–	381,823,242
Consultancy services	95,455,810	–	95,455,810
Manufacturing and sales of tools and equipment	86,577,605	64,641	86,642,246
	563,856,657	64,641	563,921,298

7 INTANGIBLE ASSETS – GROUP (Continued)

Impairment test of goodwill (Continued)

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

Management consider their experience and expertise knowledge in the oilfield industry to be of an optimal standard, and provided also its relatively stable position compared with other industries, a cash flow period of ten years is reasonable.

For each of the CGUs with significant amount of goodwill, the key assumptions, average annual growth rate and pre-tax discount rate used in the value-in-use calculations in 2014 and 2013 are as follows:

Year ended 31 December 2014

	Oilfield project services	**Consultancy services**	**Manufacturing and sales of tools and equipment**
Average annual growth rate	**12%**	**12%**	**12%**
Pre-tax discount rate	**18%**	**18%**	**18%**
Long term growth rate over 5 years	**3%**	**3%**	**3%**

Year ended 31 December 2013

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment
Average annual growth rate	8.0%	9.0%	7.7%
Pre-tax discount rate	20.9%	20.9%	20.0%
Long term growth rate over 5 years	2%	2%	2%

7 INTANGIBLE ASSETS – GROUP (Continued)

Impairment test of goodwill (Continued)

These assumptions have been used for the analysis of each CGU within the operating segment.

The average annual growth rate used is based on past performance and is consistent with the management's expectations of the market development.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

8 LAND USE RIGHTS – GROUP

	2014 HK$	2013 HK$
At 31 December		
Cost	**28,193,535**	12,288,004
Accumulated amortisation	**(569,374)**	(245,760)
Net book amount	**27,624,161**	12,042,244
For the year ended 31 December		
Opening net book amount	**12,042,244**	–
Additions	**15,941,718**	11,325,756
Amortisation	**(119,990)**	–
Capitalisation in construction in progress	**(203,254)**	(242,300)
Exchange differences	**(36,557)**	958,788
Closing net book amount	**27,624,161**	12,042,244
In the PRC, held on:		
Leases for 50 years	**27,624,161**	12,042,244

9 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

The accounting policies for financial instruments have been applied to the line items below:

(a) Group

	2014 **HK$**	2013 HK$
Assets as per consolidated balance sheet		
Loans and receivables		
Trade receivables *(Note 11)*	**778,448,845**	1,004,403,841
Other receivables	**30,662,680**	18,532,190
Pledged bank deposits *(Note 12)*	**200,153,654**	160,699,613
Restricted bank balance *(Note 13)*	**6,338,000**	1,526,000
Cash and cash equivalents *(Note 13)*	**55,338,593**	343,920,842
Total	**1,070,941,772**	1,529,082,486
Liabilities as per consolidated balance sheet		
Other financial liabilities at amortised costs		
Trade payables	**312,042,125**	243,373,379
Other payables	**168,827,979**	53,642,583
Bank borrowings *(Note 17)*	**749,482,894**	233,423,200
Total	**1,230,352,998**	530,439,162

9 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (Continued)

(b) Company

	2014 HK$	2013 HK$
Assets as per balance sheet		
Loans and receivables		
Advances to subsidiaries *(Note 11)*	**504,395,617**	465,388,305
Dividend receivable *(Note 11)*	**–**	100,000,000
	504,395,617	565,388,305
Liabilities as per balance sheet		
Other financial liabilities at amortised costs		
Other payables	**5,147,574**	3,008,753
Advance from a subsidiary *(Note 16)*	**46,538**	–
	5,194,112	3,008,753

10 INVENTORIES – GROUP

	2014 HK$	2013 HK$
Raw materials	**15,757,377**	22,778,229
Assembling materials	**326,613,052**	250,222,195
Work in progress	**8,098,985**	12,021,780
Finished goods	**17,497,715**	13,573,272
	367,967,129	298,595,476

For the year ended 31 December 2014, the cost of inventories recognised as expense and included in 'material costs' amounted to HK$220,280,044 (2013: HK$314,913,278).

For the year ended 31 December 2014, inventories with cost of HK$11,467,087 (2013: HK$2,181,827) were considered as obsolete and recorded a provision for impairment. The amount has been included in 'other expenses' (Note 21).

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY

(a) Trade receivables – Group

	2014 HK$	2013 HK$
Trade receivables	**1,076,049,106**	1,011,528,818
Less: provision for impairment of trade receivables	**(297,600,261)**	(7,124,977)
Trade receivables – net	**778,448,845**	1,004,403,841

Ageing analysis of gross trade receivables by services completion and delivery date at the respective balance sheet dates is as follows:

	2014 HK$	2013 HK$
Up to 3 months	**270,129,437**	464,795,740
3 to 6 months	**148,956,358**	50,871,773
6 to 12 months	**155,869,570**	297,194,761
Over 12 months	**501,093,741**	198,666,544
Trade receivables	**1,076,049,106**	1,011,528,818
Less: provision for impairment of trade receivables	**(297,600,261)**	(7,124,977)
Trade receivables – net	**778,448,845**	1,004,403,841

As at 31 December 2014, trade receivables of HK$505,855,179 (2013: HK$550,260,441) were past due but not impaired. The ageing analysis of these trade receivables by due date is as follows:

	2014 HK$	2013 HK$
Up to 3 months	**92,354,726**	67,210,433
3 to 6 months	**177,009,115**	302,976,819
6 to 12 months	**91,501,649**	162,451,248
Over 12 months	**144,989,689**	17,621,941
	505,855,179	550,260,441

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY (Continued)

(a) Trade receivables – Group (Continued)

Long aged receivables that were past due but not impaired relate to customers that have good trade records without default history. Based on past experience and the credit quality of the counterparties, there is no evidence of impairment in respect of these balances and the balances are considered fully recoverable.

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.

As at 31 December 2014, bank borrowings are secured by certain trade receivables with an aggregate carrying value of HK$641,387,391 (2013: Nil) (Note 17).

The fair values of trade receivables approximate to their carrying values.

The carrying amounts of trade receivables are denominated in the following currencies:

	2014 **HK$**	2013 HK$
US$	**379,890,982**	572,360,056
RMB	**382,397,964**	384,934,376
EURO	**7,073,281**	37,552,923
Bs	**9,086,618**	9,556,486
	778,448,845	1,004,403,841

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' expected pattern of settlement at each year end.

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY (Continued)

(a) Trade receivables – Group (Continued)

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 year end, management has determined to record a provision for doubtful receivable as at 31 December 2014 amounted to HK$297,600,261 (2013: HK$7,124,977) which represents the impairment and discounting effect of total receivable due from the Group's certain debtors. The aging of these receivables is as follows:

	2014 **HK$**	2013 HK$
6 to 12 months	**13,743,702**	–
Over 12 months	**283,856,559**	7,124,977
	297,600,261	7,124,977

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

	2014 **HK$**	2013 HK$
At 1 January	**7,124,977**	–
Provisions for receivables impairment	**290,475,284**	9,125,254
Trade receivables written off during the year as uncollectible	**–**	(2,000,277)
As at 31 December	**297,600,261**	7,124,977

The recognition of provisions for receivables impairment has been included in 'provision for impairment of trade receivables' of HK$280,296,230 (2013: HK$2,000,277) and 'finance costs' of HK$10,179,054 (2013: HK$7,124,977).

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY (Continued)

(b) Other receivables, deposits and prepayments – Group

	2014 HK$	2013 HK$
Deposits – third parties	**10,977,563**	9,100,977
Receivables on land bidding in the PRC	**5,070,400**	5,085,200
Value-added tax recoverables	**97,343,868**	35,545,654
Rental deposits	**2,462,637**	1,575,681
Cash advances to staff	**11,325,954**	7,220,540
Loans to staff *(Note (i))*	**6,447,880**	–
Loans to a senior management *(Note 35)*	**5,704,200**	–
Prepayments for materials	**66,355,293**	80,260,536
Prepayments for rents and others	**7,572,270**	7,314,684
Prepayment for land use right	**6,173,212**	–
Deposits for purchase of factory	**–**	2,770,332
Prepayment for property, plant and equipment	**94,166,662**	12,713,000
	313,599,939	161,586,604
Less:		
Non-current value-added tax recoverables	**(42,271,016)**	–
Non-current prepayment for land use right	**(6,173,212)**	–
Non-current deposit for purchase of factory	**–**	(2,770,332)
Non-current prepayment for property, plant and equipment	**(94,166,662)**	(12,713,000)
Non-current portion	**(142,610,890)**	(15,483,332)
Current portion	**170,989,049**	146,103,272

Note (i):

The loans are interest-free, unsecured, repayable in 1 year and approximate to their fair values.

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY (Continued)

(b) Other receivables, deposits and prepayments – Group (Continued)

The carrying amounts of other receivables, deposits and prepayments are denominated in the following currencies:

	2014 HK$	2013 HK$
US$	**115,036,582**	6,023,338
HK$	**4,359,156**	2,272,213
RMB	**182,869,113**	144,499,075
Pound Sterling ("GBP")	**260,643**	276,958
SGD	**1,387,645**	4,385,988
Bs	**6,257,735**	4,129,032
Australian Dollar ("AUD")	**1,524,135**	–
Indonesian Rupiah ("IDR")	**1,333,866**	–
United Arab Emirates Dirham ("AED")	**571,064**	–
	313,599,939	161,586,604

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY (Continued)

(c) Other receivables, deposits and prepayments – Company

	2014 **HK$**	2013 HK$
Advances to subsidiaries	**504,395,617**	465,388,305
Dividend receivable	**–**	100,000,000
Other receivables	**2,300,000**	22
	506,695,617	565,388,327

The carrying amounts of other receivables and prepayments are denominated in the following currencies:

	2014 **HK$**	2013 HK$
US$	**1,506,192**	51,118,168
HK$	**443,551,550**	483,982,944
RMB	**61,637,875**	30,287,215
	506,695,617	565,388,327

12 PLEDGED BANK DEPOSITS – GROUP

Pledged bank deposits are pledged as security for the Group's borrowings, bidding and performance bonds.

	2014 **HK$**	2013 HK$
Pledged bank deposits		
– Borrowings	**192,470,062**	146,974,437
– Bidding	**7,683,592**	11,675,840
– Performance bonds	**–**	2,049,336
	200,153,654	160,699,613

The carrying amounts of the Group's pledged bank deposits are denominated in the following currencies:

	2014 **HK$**	2013 HK$
US$	**6,500,650**	6,233,140
RMB	**193,653,004**	154,466,473
	200,153,654	160,699,613

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rates ranging from 0.02% to 2.8% (2013: 0.01% to 3.2%) for the year per annum; these deposits have an average maturity of 3.26 months (2013: 5.33 months) for the year.

13 CASH AND BANK BALANCE (INCLUDING RESTRICTED BANK BALANCES) – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	HK$	HK$	**HK$**	HK$
Restricted bank balance *(Note (i))*	**6,338,000**	1,526,000	**–**	–
Cash at bank	**55,026,613**	340,959,774	**98,245**	8,156,777
Cash on hand	**311,980**	2,961,068	**22**	–
	61,676,593	345,446,842	**98,267**	8,156,777

The carrying amounts of the Group's cash and bank balance are denominated in the following currencies:

	Group		Company	
	2014	2013	**2014**	2013
	HK$	HK$	**HK$**	HK$
US$	**27,884,261**	38,177,093	**6,600**	178,545
HK$	**497,495**	182,876,516	**87,537**	6,963,526
RMB	**28,866,310**	120,445,382	**4,130**	1,014,706
EURO	**58,495**	2,976	**–**	–
SGD	**2,107,188**	1,974,475	**–**	–
Bs	**1,439,265**	1,970,400	**–**	–
IDR	**760,563**	–	**–**	–
AED	**18,191**	–	**–**	–
AUD	**44,825**	–	**–**	–
	61,676,593	345,446,842	**98,267**	8,156,777

As at 31 December 2014, Group has cash at bank and cash on hand amounting to HK$35,532,448 (2013: HK$113,091,746) which are denominated in RMB, US$, EURO and HK$ and held in the Mainland China. These cash and bank balances are subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

As at 31 December 2014, Group has cash at bank and cash on hand amounting to HK$1,439,265 (2013: HK$2,431,631) which are denominated in Bs and held in the Venezuela. These cash and bank balances are subject to rules and regulations of foreign exchange control promulgated by the Venezuelan Government.

Note (i):

As at 31 December 2014, HK$6,338,000 are restricted deposits held at bank as reserve under litigation claim (Note 31).

As at 31 December 2013, HK$1,526,000 are restricted deposits held at bank as reserve for purchase of raw materials.

14 SHARE CAPITAL – GROUP AND COMPANY

	No. of Shares	Total HK$
Issued and fully paid:		
At 1 January 2013	10,102	671,891,801
Capitalisation issue *(Note (i))*	749,989,898	100
Issuance of shares for Global Offering *(Note (ii))*	250,000,000	820,000,000
Issuance of shares of the over-allotment option in the Global Offering *(Note (iii))*	37,500,000	123,000,000
Issuance of ordinary shares for acquisition of non-controlling interest of a subsidiary *(Note 33)*	8,880,680	37,570,000
Issuance of ordinary shares for share options exercise *(Note 24)*	21,719,757	28,265,522
Share issuance costs	–	(46,136,422)
At 31 December 2013 and 1 January 2014	1,068,100,437	1,634,591,001
Issuance of ordinary shares for share options exercise *(Note 24)*	12,289,446	23,596,322
At 31 December 2014	**1,080,389,883**	**1,658,187,323**

As at 31 December 2014, the total authorised number of ordinary share of the Company is 10,000,000,000 (2013: 10,000,000,000) shares with no par value.

Note (i):

Subsequent to the Global Offering taken place on 6 March 2013, the Company capitalised an amount of HK$100 from the amount standing to the credit of share capital account of the Company and that the said sum be applied in paying up in full 749,989,898 shares.

Note (ii):

On 6 March 2013, the Company issued 250,000,000 new shares of HK$3.28 each in relation to the Global Offering. The gross proceeds received by the Company from the Global Offering amounted to approximately HK$820,000,000.

Note (iii):

Pursuant to full exercise of the over-allotment option granted by the Company in the Global Offering, a total of 37,500,000 new shares of the Company were allotted and issued by the Company on 28 March 2013. The gross proceeds received by the company from the over-allotment option amounted to approximately HK$123,000,000.

15 OTHER RESERVES – GROUP AND COMPANY

(a) Group

	Translation reserve	Statutory reserve *(Note (i))*	Share-based payment reserve	Capital reserve	Total
	HK$	HK$	HK$	HK$	HK$
Balance at 1 January 2013	15,552,849	13,598,518	21,345,565	–	50,496,932
Other comprehensive income					
Currency translation differences	36,613,318	–	–	–	36,613,318
Total other comprehensive income for the year	36,613,318	–	–	–	36,613,318
Total contributions by and distributions to owners of the Company recognised directly in equity					
Transfer from retained earnings to statutory reserve	–	6,536,981	–	–	6,536,981
Exercise of share options	–	–	(8,337,328)	–	(8,337,328)
Total contributions by and distributions to owners of the Company	–	6,536,981	(8,337,328)	–	(1,800,347)
Changes in ownership interests in subsidiaries without change in control *(Note 33)*	–	–	–	(49,135,402)	(49,135,402)
Total transactions with owners	–	6,536,981	(8,337,328)	(49,135,402)	(50,935,749)
Balance at 31 December 2013	52,166,167	20,135,499	13,008,237	(49,135,402)	36,174,501

15 OTHER RESERVES – GROUP AND COMPANY (Continued)

(a) Group (Continued)

	Translation reserve HK$	Statutory reserve *(Note (i))* HK$	Share-based payment reserve HK$	Capital reserve HK$	Total HK$
Balance at 1 January 2014	52,166,167	20,135,499	13,008,237	(49,135,402)	36,174,501
Other comprehensive income					
Currency translation differences	19,023,903	–	–	–	19,023,903
Total other comprehensive income for the year	19,023,903	–	–	–	19,023,903
Total contributions by and distributions to owners of the Company recognised directly in equity					
Transfer from retained earnings to statutory reserve	–	1,497,592	–	–	1,497,592
Exercise of share options	–	–	(11,658,591)	–	(11,658,591)
Recognition of share-based payment	–	–	6,723,876	–	6,723,876
Total contributions by and distributions to owners of the Company	–	1,497,592	(4,934,715)	–	(3,437,123)
Balance at 31 December 2014	71,190,070	21,633,091	8,073,522	(49,135,402)	51,761,281

Note (i): Statutory reserve

In accordance with the relevant laws and regulations in the People's Republic of China ("**the PRC**") and Articles of Association of the companies incorporated in the Mainland China now comprising the Group, it is required to allocate at least 10% of their after-tax profit according to PRC accounting standard and regulations to the statutory reserve until such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the respective board of directors of the subsidiaries. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into registered capital in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

15 OTHER RESERVES – GROUP AND COMPANY (Continued)

(b) Company

	Share-based payment reserve HK$
Balance at 1 January 2013	21,345,565
Total contributions by and distributions to owners of the Company recognised directly in equity	
– Exercise of share options	(8,337,328)
Total contributions by and distributions to owners of the Company	(8,337,328)
Balance at 31 December 2013	13,008,237
Total contributions by and distributions to owners of the Company recognised directly in equity	
– Exercise of share options	(11,658,591)
– Recognition of share-based payment	6,723,876
Total contributions by and distributions to owners of the Company	(4,934,715)
Balance at 31 December 2014	8,073,522

16 TRADE, OTHER PAYABLES AND ACCRUALS – GROUP AND COMPANY

(a) Trade payables – Group

	2014 HK$	2013 HK$
Trade payables	**312,042,125**	243,373,379

Ageing analysis of the trade payables based on invoice date was as follows:

	2014 HK$	2013 HK$
Up to 1 month	**59,147,041**	86,151,776
1 to 2 months	**43,110,598**	59,739,419
2 to 3 months	**31,438,622**	3,508,166
Over 3 months	**178,345,864**	93,974,018
	312,042,125	243,373,379

The carrying amounts of trade payables are denominated in the following currencies:

	2014 HK$	2013 HK$
US$	**89,431,143**	152,603,934
RMB	**215,966,516**	84,415,584
SGD	**6,512,160**	5,756,141
Others	**132,306**	597,720
	312,042,125	243,373,379

16 TRADE, OTHER PAYABLES AND ACCRUALS – GROUP AND COMPANY (Continued)

(b) Other payables and accruals – Group

	2014 HK$	2013 HK$
Consideration payable for further acquisition of interest in a subsidiary *(Note 33)*	–	18,600,000
Other payables		
– Third parties	**147,980,692**	33,951,521
– Related parties *(Note 35)*	**20,847,287**	540,296
Receipt in advance	**49,080,454**	5,504,472
Accrued expenses		
– Payroll and welfare	**33,376,974**	19,376,031
– Others	–	550,766
Value-added tax payable	**10,882,119**	20,165,809
Other tax and surcharge payables	**12,625,824**	10,775,442
	274,793,350	109,464,337

The carrying amounts of other payables and accruals are denominated in the following currencies:

	2014 HK$	2013 HK$
US$	**62,182,785**	28,551,803
HK$	**29,677,136**	19,280,942
RMB	**172,271,935**	59,739,072
SGD	**2,347,192**	1,465,556
Bs	**7,238,725**	426,964
AUD	**1,075,577**	–
	274,793,350	109,464,337

16 TRADE, OTHER PAYABLES AND ACCRUALS – GROUP AND COMPANY (Continued)

(c) Other payables and accruals – Company

	2014 HK$	2013 HK$
Accrued expenses	**10,505,446**	8,366,625
Advances from a subsidiary	**46,538**	–
	10,551,984	8,366,625

The carrying amounts of other payables are denominated in the following currencies:

	2014 HK$	2013 HK$
US$	**46,538**	5,357,872
HK$	**10,505,446**	3,008,753
	10,551,984	8,366,625

17 BANK BORROWINGS – GROUP

	2014 HK$	2013 HK$
Non-current		
Bank borrowings	**36,784,340**	–
Current		
Bank borrowings	**400,637,878**	233,423,200
Non-current borrowings reclassified as current *(Note)*	**312,060,676**	–
	749,482,894	233,423,200

Bank borrowings bear average coupon rate of 4.2% (2013: 4.4%) as at 31 December 2014.

17 BANK BORROWINGS – GROUP (Continued)

Note: Pursuant to the requirements of the Term Loan, the Group is obliged to comply with restrictive financial covenants and certain undertakings, including not to incur additional financial indebtedness by the Group. As at 31 December 2014, the Term Loan amounted to US$40,000,000 (equivalent to HK$312,000,000), which has scheduled repayment dates from 2015 to 2017. The Group is required to file a compliance certificate and to supply to the financiers financial statements for the year ended 31 December 2014. Based on the Group's financial statements for the year ended 31 December 2014, the Group has breached certain of these financial covenants. On 12 March 2015, the Group entered into the Placing Agreement with a placing agent for the proposed issuance of Convertible Bonds, which is conditional upon, amongst others, the waiver obtained from the bank. The breach of the restrictive financial covenants constituted events of default under the Term Loan agreement, which may cause the relevant Term Loan of HK$312,000,000 to become immediately repayable. In this connection, the Group has classified the entire HK$312,000,000 outstanding balance of the Term Loan under current liabilities. This has increased the Group's total borrowings due within a year to approximately HK$712,699,000 as at 31 December 2014 and the Group did not have any committed long-term financing to fund the repayment of such borrowings at year end.

On 25 March 2015, the Group has obtained waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached and the breach of incurrence of additional financial indebtedness arising from the proposed issuance of the Convertible Bonds. Under the terms of the waiver, the Group is required and has agreed to apply the net proceeds from the expected issuance of the convertible bonds to partial repay the Term Loan no later than 30 April 2015. The financiers have agreed to defer the due date of the remaining outstanding principal of the Term Loan of US$20,000,000 (equivalent to approximately HK$156,000,000) to 31 January 2016.

The maturities of bank borrowings with reference to the schedule of repayment set out in the loan agreements regardless of breach of covenants are as follows:

	2014	2013
	HK$	HK$
Within 1 year	**469,200,099**	233,423,200
Between 1 and 2 years	**122,018,238**	–
Between 2 and 5 years	**126,898,216**	–
Over 5 years	**31,366,341**	–
Total bank borrowings	**749,482,894**	233,423,200

17 BANK BORROWINGS – GROUP (Continued)

The Group's bank borrowings were under floating interest rates.

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2014 HK$	2013 HK$
6 months or less	700,955,566	190,234,542
6 – 12 months	48,527,328	43,188,658
	749,482,894	233,423,200

The carrying amounts of bank borrowings approximate to their fair values.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2014 HK$	2013 HK$
HK$	71,000,000	71,000,000
US$	342,654,948	18,094,962
RMB	297,441,418	144,328,238
SGD	38,386,528	–
	749,482,894	233,423,200

17 BANK BORROWINGS – GROUP (Continued)

The Group's bank borrowings were secured and unsecured as follows:

	2014	2013
	HK$	HK$
Secured	**574,554,094**	152,659,962
Unsecured	**174,928,800**	80,763,238
	749,482,894	233,423,200

As at 31 December 2014, banking facilities of approximately HK$1,028 million (2013: HK$1,088 million) were granted by banks to the Company and its subsidiaries, of which approximately HK$749 million (2013: HK$233 million) have been utilised by the Company and its subsidiaries. The facilities are secured by:

(a) certain pledged bank deposits (Note 12);

(b) corporate guarantees given by certain Group companies;

(c) floating charge on all trade receivables of certain subsidiaries of the Company of approximately HK$641 million (2013: Nil) (Note 11); and

(d) a building under construction of the Group (Note 6).

The Group has the following undrawn borrowing facilities:

	2014	2013
	HK$	HK$
Floating rate		
– Expiring within one year	**63,380,000**	744,287,038
– Expiring beyond one year	**215,492,000**	109,931,762
	278,872,000	854,218,800

18 DEFERRED INCOME TAX – GROUP

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2014 **HK$**	2013 HK$
Deferred tax assets:		
– Deferred tax assets to be recovered within 12 months	**(11,110,957)**	(2,938,116)
	(11,110,957)	(2,938,116)
Deferred tax liabilities:		
– Deferred tax liabilities to be realised after more than 12 months	**18,673,478**	14,589,423
	18,673,478	14,589,423
Deferred tax liabilities, net	**7,562,521**	11,651,307

The net movement on the deferred income tax account is as follows:

	2014 **HK$**	2013 HK$
At 1 January	**11,651,307**	10,230,621
Exchange difference	**(22,334)**	(78,151)
(Credited)/charged to consolidated statement of comprehensive income *(Note 26)*	**(4,066,452)**	1,498,837
At 31 December	**7,562,521**	11,651,307

18 DEFERRED INCOME TAX – GROUP (Continued)

The movement in deferred income tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax liabilities				Deferred tax assets		
	Undistributed profits of a subsidiary established in the PRC *(Note (i))* HK$	Intangible assets HK$	Temporary difference on reinstatement HK$	Decelerated tax depreciation HK$	Tax losses *(Note (ii))* HK$	Unrealised profit on inventory HK$	Total HK$
At 1 January 2013	9,955,587	1,041,609	–	810,927	(141,890)	(1,435,612)	10,230,621
Exchange difference	–	(72,800)	–	(7,919)	2,568	–	(78,151)
Charged/(credited) to consolidated statement of comprehensive income	–	(968,809)	2,538,251	1,292,577	139,322	(1,502,504)	1,498,837
At 31 December 2013	9,955,587	–	2,538,251	2,095,585	–	(2,938,116)	11,651,307
Exchange difference	–	–	–	(22,334)	–	–	(22,334)
Charged/(credited) to consolidated statement of comprehensive income	–	–	5,494,786	(1,388,397)	(8,052,118)	(120,723)	(4,066,452)
At 31 December 2014	**9,955,587**	**–**	**8,033,037**	**684,854**	**(8,052,118)**	**(3,058,839)**	**7,562,521**

Note (i):

According to the new Enterprise Income Tax ("**EIT**") Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

During the years ended 31 December 2014 and 2013, deferred income tax liabilities of HK$1,497,592 and HK$5,899,128 have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries in the PRC based on the profits in 2014 and 2013. The unremitted earnings are to be used for long-term future development. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax liabilities on temporary differences associated with 10% of undistributed profits of a subsidiary established in the PRC derived on or after 1 January 2008 as at 31 December 2014 amounting to HK$9,955,587 (2013: HK$9,955,587).

18 DEFERRED INCOME TAX – GROUP (Continued)

Note (ii):

Deferred income tax assets are recognised for tax-loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The following deferred tax assets had not been recognised in respect of the unused tax losses of certain Group companies, as it was uncertain whether sufficient taxable profits would be available to allow utilisation of the carried forward tax losses, the amounts of the unused tax losses and the relevant deferred tax assets not recognised are as follows:

	2014 **HK$**	2013 HK$
Unused tax losses	**199,833,820**	12,316,678
Deferred income tax assets not recognised	**37,161,229**	2,995,641

The expiry date for the unused tax losses is as follows:

	2014 **HK$**	2013 HK$
Within 1 year	**668,447**	8,464,472
Within 2 years	**887,643**	668,447
Within 3 years	**6,610,456**	887,643
Within 4 years	**1,058,348**	193,668
Within 5 years	**33,054,168**	1,058,348
Without expiry date	**157,554,758**	1,044,100
	199,833,820	12,316,678

19 OTHER INCOME – GROUP

	2014 **HK$**	2013 HK$
Agency fee income *(Note (i))*	**–**	1,859,788
Others	**416,356**	546,429
	416,356	2,406,217

Note (i):

This amount represents commission received from other oilfield services providers for introducing product suppliers to them and commission received from suppliers for introduction of their products to the customers.

20 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) – GROUP

	2014 **HK$**	2013 HK$
Wages, salaries and bonus	**192,849,138**	155,914,190
Pension costs	**13,647,331**	9,838,475
Share options granted to directors, senior management, and employees	**6,723,876**	–
Other staff benefits	**14,934,967**	11,686,002
Less: employee benefit expenses attributable for research and development	**(13,253,514)**	(9,053,357)
	214,901,798	168,385,310

Note:

As at 31 December 2014, there are no forfeited contributions available to offset future retirement benefit obligations of the Group (2013: Nil).

21 OTHER EXPENSES – GROUP

	2014 **HK$**	2013 HK$
Communications	**2,940,485**	2,154,306
Professional service fees, including listing costs	**11,486,081**	13,371,287
Auditor's remuneration	**3,085,378**	2,762,709
Motor vehicle expenses	**8,355,698**	5,104,514
Travelling	**40,259,537**	27,464,227
Insurance	**3,471,975**	1,934,679
Office utilities	**23,577,394**	15,603,515
Other tax-related expenses and custom duties *(Note (i))*	**12,083,408**	16,336,766
Bank charges	**2,091,722**	1,208,858
Agency fee *(Note (ii))*	**18,908,920**	–
Trade receivables written off during the year as uncollectible *(Note 11(a))*	**–**	2,000,277
Provision for impairment of inventories *(Note 10)*	**11,467,087**	2,181,827
Write off of other receivables	**1,256,687**	–
Others	**8,884,150**	4,611,877
	147,868,522	94,734,842

Note:

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

(ii) Agency fee refers to the engagement of an agent for collection of trade receivables from the Group's certain debtors.

22 OTHER (LOSSES)/GAINS – GROUP

	2014 HK$	2013 HK$
Foreign exchange losses *(Note 27)*	**(7,425,986)**	(109,270)
Loss on disposals of property, plant and equipment *(Note 30(b))*	**(708,706)**	(67,393)
Fair value change on forward share exchange contract	**–**	561,246
Government grants	**353,276**	2,632,599
Others	**(30,077)**	246,246
	(7,811,493)	3,263,428

23 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – GROUP

(a) Directors' and chief executive emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2014 is set out below:

Name	Fee HK$	Salary HK$	Bonus HK$	Other benefit HK$	Employer's contribution to pension scheme HK$	Share-based payment HK$	Total HK$
Executive director and chief executive							
Wang JinLong	–	1,492,168	–	–	47,523	34,021	1,573,712
Executive director							
Zhao Jindong	–	853,748	–	–	41,686	34,021	929,455
Non-executive director							
Lee Tommy	–	180,000	–	–	–	34,021	214,021
Ma Hua	–	180,000	–	–	–	34,021	214,021
Ko Po Ming	–	300,000	–	–	–	34,021	334,021
Independent non-executive director							
Tong Hin Wor	–	180,000	–	–	–	34,021	214,021
Wong Lap Tat Arthur	–	300,000	–	–	–	34,021	334,021
He Shenghou	–	180,000	–	–	–	34,021	214,021
	–	3,665,916	–	–	89,209	272,168	4,027,293

23 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – GROUP (Continued)

(a) Directors' and chief executive emoluments (Continued)

The remuneration of every director and the chief executive for the year ended 31 December 2013 is set out below:

Name	Fee	Salary	Bonus	Other benefit	Employer's contribution to pension scheme	Share-based payment	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Executive director and chief executive							
Wang JinLong	–	1,468,536	–	–	45,088	–	1,513,624
Executive director							
Zhao Jindong	–	1,017,312	–	–	40,310	–	1,057,622
Non-executive director							
Lee Tommy	–	165,000	–	–	–	–	165,000
Ma Hua	–	165,000	–	–	–	–	165,000
Ko Po Ming *(Note (i))*	-	275,000	–	–	–	–	275,000
Independent non-executive director							
Tong Hin Wor *(Note (i))*	–	165,000	–	–	–	–	165,000
Wong Lap Tat Arthur *(Note (i))*	–	275,000	–	–	–	–	275,000
He Shenghou *(Note (i))*	–	165,000	–	–	–	–	165,000
	–	3,695,848	–	–	85,398	–	3,781,246

Note:

(i) Appointed on 18 February 2013

23 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – GROUP (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2013: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2013: three) individuals during the year are as follows:

	2014	2013
	HK$	HK$
Salary	**2,869,003**	2,802,602
Bonus	**–**	–
Employer's contribution to pension scheme	**47,523**	70,222
Share-based payment	**4,116,525**	–
	7,033,051	2,872,824

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emoluments band		
Nil to HK$1,000,000	**2**	2
HK$1,000,001 – HK$1,500,000	**1**	1
	3	3

24 SHARE-BASED PAYMENTS – GROUP

The Company adopted two Share Option Schemes (the "**Schemes**"). A pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") was approved and adopted by shareholders of the Company on 20 December 2010. The Group adopted another share option scheme (the "**Post-IPO Share Option Scheme**"), the granted share option was approved on 29 April 2014. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Post-IPO Share Option Scheme.

Pre-IPO Share Option

The Company adopted the Pre-IPO Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group and any entity in which any member of the Group holds any equity interest. Share options are granted to all directors and selected employees with a contractual option term of five years. The Pre-IPO Share Option Scheme was supplemented and amended by an addendum on 25 September 2012, where the Company shall issue the relevant number of ordinary shares instead of non-voting shares at the revised exercise price on or after the listing of the Company. All the outstanding options are exercisable and will be expired in 2015.

The fair value of each option granted as at 20 December 2010 as determined by using the Binomial model ranges from HK$24,411 to HK$34,141 (after capitalisation issue: from HK$0.33 to HK$0.46), average exercise price of HK$65,649 (after capitalisation issue: HK$0.8756), volatility of 47%, expected option life of 5 years, dividend yield of 1% and annual risk-free interest rate of 3.497%. Expected volatility is assumed to be based on historical volatility of the comparable companies.

Details in the number of share options outstanding and their exercise prices as at 31 December 2014 are as follows:

		Number of share options			
	Exercise price per share HK$	As at 1 Jan 2014	Forfeited during the year	Exercised during the year	As at 31 Dec 2014
Group of participant *(Note)*					
A	0.7783	7,151,554	–	(5,227,281)	1,924,273
B	0.9339	2,969,708	–	(2,969,708)	–
C	1.09	371,214	–	–	371,214
D	1.2452	4,092,457	–	(4,092,457)	–
Total		14,584,933	–	(12,289,446)	2,295,487

24 SHARE-BASED PAYMENTS – GROUP (Continued)

Details in the number of share options outstanding and their exercise prices as at 31 December 2013 are as follows:

		Number of share options			
	Exercise price per share HK$	As at 1 Jan 2013	Forfeited during the year	Exercised during the year	As at 31 Dec 2013
Group of participant *(Note)*					
A	0.7783	27,098,594	(5,196,991)	(14,750,049)	7,151,554
B	0.9339	3,712,135	(742,427)	–	2,969,708
C	1.09	1,856,068	–	(1,484,854)	371,214
D	1.2452	9,577,311	–	(5,484,854)	4,092,457
Total		42,244,108	(5,939,418)	(21,719,757)	14,584,933

Note: The participant of the Pre-IPO Share Option Scheme is divided into 4 groups based on the date of joining the Group.

Post-IPO Share Option

The Company adopted the Post-IPO Share Option Scheme 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 are granted to all directors, selected senior managements and employees. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the scheme for directors, selected senior management and employees are 800,000, 12,100,000 and 7,100,000 respectively. The exercise price is HK$2.606 per ordinary share. Options have a contractual option term of five years which will expire on 28 April 2019. Vesting period of the Post-IPO Share Option Scheme ranges over one to three years. All the options are conditional in which only one third and two third are vested and exercisable after one and two years from the grant date respectively. The remaining options are vested and exercisable after three years from the grant date. The Group does not have a legal or constructive obligation to repurchase or settle the options in cash. As at 31 December 2014, all the share options are not exercisable and will be expired in 2019.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of services received is measured based on the Binomial model. The contractual life of the options is used as input into this model.

The fair value Post-IPO Share Option Scheme as determined by using the Binomial model ranges from HK$2.615 to HK$2.653, average exercise price of HK$2.606, volatility of 49.72%, expected option life of 5 years, dividend yield of 1.15% and annual risk-free interest rate of 1.418%. Expected volatility is assumed to be based on historical volatility of the comparable companies.

24 SHARE-BASED PAYMENTS – GROUP (Continued)

	Average exercise price per share HK$	Number of share options
As at 1 January 2014	–	–
Granted	2.61	20,000,000
Forfeited	2.61	(500,000)
As at 31 December 2014	2.61	19,500,000

25 FINANCE INCOME AND COSTS – GROUP

	2014 HK$	2013 HK$
Interest expenses:		
– Bank borrowings	**(26,532,539)**	(11,044,915)
– Provision for impairment of trade receivables *(Note 11)*	**(10,179,054)**	(7,124,977)
– Net foreign exchange (losses)/gains on financing activities *(Note 27)*	**(1,078,716)**	5,181,157
– Loans from a related party *(Note 35)*	**(3,075,958)**	–
Less: amounts capitalised on qualifying assets *(Note 6)*	**2,865,500**	–
Finance costs	**(38,000,767)**	(12,988,735)
Finance income:		
– Interest income on short-term bank deposits	**4,468,297**	5,270,885
– Gain on net monetary position	**14,699,143**	7,473,618
Finance income	**19,167,440**	12,744,503
Net finance costs	**(18,833,327)**	(244,232)

26 INCOME TAX EXPENSE – GROUP

	2014 HK$	2013 HK$
Current tax		
– Hong Kong profits tax	**–**	17,298,690
– PRC enterprise income tax	**4,885,229**	28,612,077
– Other tax	**227,859**	1,550,020
	5,113,088	47,460,787
Under/(over) provision in prior years		
– Hong Kong profits tax	**267,608**	(5,145)
Deferred tax	**(4,066,452)**	1,498,837
Income tax expense	**1,314,244**	48,954,479

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2013: 16.5%) during the year.

(ii) PRC Enterprise Income Tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "**CIT Law**"). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law, the Enterprise Income Tax rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards.

As at 31 December 2014, Petro-king Oilfield Technology Limited and Shenzhen Fluid Science & Technology Co., Limited were approved by relevant local tax bureau authorities as the High and New Technological Enterprise, and were both entitled to a preferential EIT rate of 15% (2013: 25% and 15%) during the year.

The High and New Technological Enterprise qualification is subjected to be renewed every 3 years. Companies are required to meet certain criteria such as qualified research & development expenses reaching a designated percentage of total revenue, employing certain number of scientific technology and research and development personnel and having certain percentage of income from sale of new/high technology products etc.

26 INCOME TAX EXPENSE – GROUP (Continued)

(iii) Singapore corporate tax

Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% for the year ended 31 December 2014 (2013: 17%).

(iv) Venezuela corporate tax

Subsidiary established in Venezuela is subject to Venezuelan corporate tax at a rate of 34% (2013: 34%) for the year ended 31 December 2014.

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profits of the Group entities as follows:

	2014 **HK$**	2013 HK$
(Loss)/profit before income tax	**(416,833,303)**	259,460,626
Tax calculated at domestic tax rates applicable to (losses)/profits in the respective entities	**(77,816,166)**	47,902,042
– Under/(over) – provision of taxation for prior years	**267,608**	(5,145)
– Income not subject to tax	**(452,785)**	(708,065)
– Expenses not deductible for tax purposes	**43,033,881**	1,764,380
– Tax losses for which no deferred tax assets was recognised	**36,281,706**	1,267
Income tax expense	**1,314,244**	48,954,479

The weighted average applicable tax rate was 19% (2013: 19%).

27 NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2014 HK$	2013 HK$
Net foreign exchange (losses)/gains taken to:		
Other losses *(Note 22)*	**(7,425,986)**	(109,270)
Net finance costs *(Note 25)*	**(1,078,716)**	5,181,157
	(8,504,702)	5,071,887

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

	2014 HK$	2013 HK$ (As restated)
(Loss)/profit attributable to owners of the Company	**(423,081,483)**	196,600,131
Weighted average number of ordinary shares in issue (number of shares)	**1,110,295,719**	1,019,153,913
Incremental shares from assumed exercise of share options granted	**–**	11,547,663
Diluted weighted average number of shares	**1,110,295,719**	1,030,701,576
Basic (losses)/earnings per share (HK$ cents)	**(38)**	19
Diluted (losses)/earnings per share (HK$ cents)	**(38)**	19

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

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase losses per share.

Diluted losses per share for the year ended 31 December 2014 was the same as basic losses per share since all potential ordinary shares are anti-dilutive.

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

For the years ended 31 December 2014 and 2013, the Company had 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 average annual market share price of the Company's share) 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.

On 4 February 2015, the Group completed rights issue of 154,341,411 rights shares at HK$0.98 per rights share on the basis of one rights share for every seven existing shares held on 12 January 2015 (Note 37(a)). The basic and diluted earnings per share for the year ended 31 December 2014 and 2013 have been adjusted and restated respectively to take into account the rights issue in which the right shares are issued at a discount on market price subsequent to the year ended 31 December 2014. The weighted average number of shares outstanding was retrospectively increased to reflect the discount in the rights issue. For the year ended 31 December 2013, the weighted average of number of ordinary shares in issue and the incremental shares from assumed exercise of share options granted were 989,292,933 and 11,209,319 respectively before reinstatement.

29 DIVIDEND

The Board of Company does not recommend the payment of final dividend for the year ended 31 December 2014. A dividend of HK$0.05 per share with total amount of HK$53,405,022 was declared and paid in respect of the year ended 31 December 2013.

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordinance.

Shareholders whose names appear on the register of members of the Company on record date are entitled to payment of a final dividend. The total payment of final dividend can be different from total proposed dividend as determined at year end, when there is change in outstanding number of ordinary shares during the period.

30 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS – GROUP

(a) Cash generated from operations

	2014	2013
	HK$	HK$
(Loss)/profit before income tax	**(416,833,303)**	259,460,626
Adjustments for:		
– Depreciation *(Note 6)*	**61,232,743**	19,615,366
– Amortisation *(Note 7)*	**1,640,437**	8,448,875
– Share-based payment *(Note 20)*	**6,723,876**	–
– Gain on net monetary assets *(Note 25)*	**(14,699,143)**	(7,473,618)
– Provision for impairment of trade receivables	**280,296,230**	–
– Trade receivables written off during the year as uncollectible *(Note 21)*	**–**	2,000,277
– Provision for impairment inventories *(Note 21)*	**11,467,087**	2,181,827
– Write off of other receivables *(Note 21)*	**1,256,687**	–
– Loss on disposal of property, plant and equipment *(Note b)*	**708,706**	67,393
– Net finance costs	**32,453,754**	10,360,010
– Foreign exchange loss	**3,841,670**	1,298,286
– Fair value change on forward share exchange contract *(Note 22)*	**–**	(561,246)
	(31,911,256)	295,397,796
Changes in working capital:		
Inventories	**(66,899,287)**	(125,962,199)
Trade and other receivables, deposits and prepayments	**(113,099,207)**	(388,549,310)
Trade and other payables	**196,280,952**	(69,452,395)
Restricted bank balance	**(4,812,000)**	(1,526,000)
Cash used in operations	**(20,440,798)**	(290,092,108)

30 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS – GROUP (Continued)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2014	2013
	HK$	HK$
Net book amount *(Note 6)*	**796,105**	901,828
Loss on disposal of property, plant and equipment *(Note 22)*	**(708,706)**	(67,393)
Proceeds from disposal of property, plant and equipment	**87,399**	834,435

(c) Financing activities

	2014	2013
	HK$	HK$
Borrowings at beginning of year	**233,423,200**	198,689,503
Proceeds from bank borrowings	**937,172,190**	513,250,790
Repayments of bank borrowings	**(419,838,346)**	(473,129,768)
Loans from a related party *(Note 35)*	**126,760,000**	–
Repayment of loans from a related party *(Note 35)*	**(126,760,000)**	–
Interest expense	**29,608,497**	11,044,915
Interest paid	**(29,608,497)**	(11,044,915)
Exchange differences	**(1,274,150)**	(5,387,325)
Borrowings at end of year	**749,482,894**	233,423,200

(d) Non-cash transactions

During year ended 31 December 2013, the principal non-cash transaction was the issuance of 8,880,680 shares as the consideration of step acquisition of Sheraton for the second tranche completion (Note 33).

31 CONTINGENCIES – GROUP

	2014 HK$	2013 HK$
Performance bonds *(Note 1)*	–	2,049,336
Litigation claim *(Note 2)*	**30,630,000**	–

Note 1:

Performance bonds related to the guarantees provided by the banks to the Group's customers in respect of the sales of tools and equipment in an overseas project. 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 2:

As at 31 December 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 (equivalent to approximately HK$30,630,000). No provision in relation to this claim has been recognised, as the advice from the Group's legal counsel indicates that there is an outflow of resources embodying economics benefits will be required to settle any obligation. As at 31 December 2014, restricted deposits of HK$6,338,000 are held at bank as reserve under litigation claim (Note 13).

32 COMMITMENTS – GROUP

(a) Capital commitments

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

	2014 HK$	2013 HK$
Land use right		
Contracted but not provided for	**14,412,612**	–
Property, plant and equipment		
Contracted but not provided for	**127,143,030**	403,109,369

32 COMMITMENTS – GROUP (Continued)

(b) Operating lease commitments – group as lessee

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

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

	2014	2013
	HK$	HK$
No later than 1 year	**12,136,031**	11,817,710
Later than 1 year and no later than 5 years	**14,673,765**	12,375,950
Later than 5 years	**21,653,918**	5,177,653
	48,463,714	29,371,313

33 TRANSACTION WITH NON-CONTROLLING INTEREST

Acquisition of additional interests in Sheraton Investment Worldwide Ltd. ("Sheraton")

On 25 November 2013, Hero Gain acquired 4% equity interest in Sheraton in consideration of issuance of 1,552,075 shares of the Company to the seller at the issue price of HK$4.23, for the total consideration of approximately HK$6,565,000.

Pursuant to the acquisition agreement dated on 2 December 2013, Hero Gain Investment Limited ("**Hero Gain**") acquired the additional 45% equity interest in Sheraton with a cash consideration of US$1,600,000 (equivalent to approximately HK$12,400,000), US$4,000,000 (equivalent to approximately HK$31,000,000) by allotment and issue of 7,328,605 shares of the Company at issue price HK$4.23, and a contingent cash consideration of US$2,400,000 (equivalent to approximately HK$18,600,000).

With regards to the contingent consideration payable of US$2,400,000, in the event that the adjusted 2013 net profit of Sheraton falls short of US$2,250,000 (equivalent to approximately HK$17,437,000), Hero Gain shall be entitled to a consideration adjustment. The consideration adjustment is calculated based on the guaranteed profit of US$2.5 million less adjusted net profit of Sheraton in 2013, multiplied by 0.96 (consideration of US$2.4 million divided by guaranteed profit of US$2.5 million).

33 TRANSACTION WITH NON-CONTROLLING INTEREST (Continued)

As a result of the above transactions, Sheraton became a wholly-owned subsidiary of the Group. The following table summarises the consideration paid and payable for Sheraton:

	2013 HK$
Shares issued in exchange	37,570,000
Forward contract for acquisition of additional equity interest	(773,939)
Cash payment	12,400,000
Consideration payable	18,600,000
	67,796,061

The carrying amount of the non-controlling interests in Sheraton Group on the date of acquisition was HK$18,660,659. The Group recognised a decrease in non-controlling interests of HK$18,660,659 and a decrease in equity attributable to owners of the Company of HK$49,135,402.

34 RETAINED EARNINGS – COMPANY

	2014 **HK$**	2013 HK$
At beginning of year	**71,113,974**	(17,388,327)
(Loss)/profit for the year	**(12,836,724)**	88,502,301
Dividend	**(54,019,495)**	–
At end of year	**4,257,755**	71,113,974

35 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY

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 years ended 31 December 2014 and 2013, and balances arising from related party transactions as at 31 December 2014 and 2013.

Name	Relationships
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Mr. Lee Lap	Substantial shareholder
Ms. Zhou Xiaojun	Director's spouse
Ms. Sun Jinxia	Senior management
Mr. Pan Yuxin	Senior management

(a) Interest expenses from loans from a related party

	2014 **HK$**	2013 HK$
Interest expenses from loans from a related party	**3,075,958**	–

The loans are unsecured, interest bearing of 6.16% per annum and approximate to their fair value. It primarily represents cash advanced from the Group's substantial shareholder, Mr. Lee Lap. The amount has been fully repaid as at 31 December 2014.

(b) Key management compensation

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

	2014 **HK$**	2013 HK$
Salaries and other short-term employee benefits	**9,726,649**	6,493,369
Share-based payments	**4,388,693**	–
	14,115,342	6,493,369

35 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY (Continued)

(c) Amounts due from/(to) related parties

Group

	2014	2013
	HK$	HK$
Amounts due from/(to) related parties:		
At 1 January	**(540,296)**	(25,080)
Advance to a related party *(Note (i))*	**5,704,200**	–
Advance from related parties *(Note (i))*	**(19,014,000)**	–
Expenses paid on behalf of the Group during the year *(Note (i))*	**(3,893,922)**	(3,029,684)
Reimbursement to related parties	**2,600,931**	2,514,468
Loans from a related party *(Note (ii))*	**(126,760,000)**	–
Repayment of loans from a related party *(Note (ii))*	**126,760,000**	–
At 31 December	**(15,143,087)**	(540,296)
Amount due to shareholders:		
At 1 January	**–**	(120,000,000)
Dividend paid	**54,019,495**	120,000,000
Dividend payable	**(54,019,495)**	–
At 31 December	**–**	–

As at 31 December 2014 and 2013, the balances are interest-free, unsecured, receivable/repayable on demand and approximate to their fair values.

Note (i): The balances mainly comprise of expenses paid on behalf by the Directors, and advances from Director's spouse and a senior management.

Note (ii): The loans are unsecured, interest bearing of 6.16% per annum and approximate to their fair value. It represents cash advanced from the Group's substantial shareholder, Mr. Lee Lap. The amount was fully repaid as at 31 December 2014.

35 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY (Continued)

(c) Amounts due from/(to) related parties (Continued)

Group (Continued)

The carrying amount of the amounts due from/to related parties is denominated in the following currencies:

	2014 HK$	2013 HK$
RMB	**14,065,723**	536,796
HK$	**1,077,364**	3,500
	15,143,087	540,296

Company

	2014 HK$	2013 HK$
Amounts due from/(to) subsidiaries		
At 1 January	**565,388,305**	517,748,540
Dividend receivable	**–**	100,000,000
Dividend received	**(100,000,000)**	–
Advance to subsidiaries	**63,495,598**	92,541,537
Repayment received	**(24,534,824)**	(144,901,772)
At 31 December	**504,349,079**	565,388,305
Amounts due to shareholders		
At 1 January	**–**	(120,000,000)
Dividend paid	**54,019,495**	120,000,000
Dividend payable	**(54,019,495)**	–
At 31 December	**–**	–

As at 31 December 2014 and 2013, the balances are interest-free, unsecured, and receivable/repayable on demand and approximate their fair values.

35 RELATED PARTY TRANSACTIONS – GROUP AND COMPANY (Continued)

(c) Amounts due from/(to) related parties (Continued)

Company (Continued)

The carrying amount of the amounts due from/to subsidiaries is denominated in the following currencies:

	2014 **HK$**	2013 HK$
US$	**1,459,654**	51,118,168
RMB	**61,637,875**	30,287,215
HK$	**441,251,550**	483,982,922
	504,349,079	565,388,305

The carrying amount of the amounts due to shareholders are denominated HK$.

36 INVESTMENTS IN SUBSIDIARIES – COMPANY

(a) Investment in subsidiaries

	2014 **HK$**	2013 HK$
Unlisted shares, at cost	**284,300,993**	284,300,993
Equity instrument to a subsidiary *(Note (i))*	**887,833,740**	869,233,740
Capital contribution of share-based payment *(Note (ii))*	**2,141,967**	–
	1,174,276,700	1,153,534,733

Note (i): This represents loan to subsidiaries which are unsecured and non-interest bearing. These loans have no pre-determined terms of repayment and are regarded as quasi equity contributions to the subsidiaries.

Note (ii): The capital contribution of share-based payment relates to the portion of Post-IPO share options granted by the Company to employees which deemed services provided to the subsidiaries of the Group (Note 24).

36 INVESTMENTS IN SUBSIDIARIES – COMPANY (Continued)

As at 31 December 2014, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of Incorporation and kind of legal entity/date of incorporation	Particulars of issued share capital/ registered capital
Petro-king Holding Limited	100%	–	Investment holding in Hong Kong	Hong Kong, Limited liability company 13 September 2007	HK$10,000 issued share capital
Petro-king International Company Limited	–	100%	Trading of tools and equipment and provision for consultancy service in the PRC, Venezuela, Russia and Gabonese Republic, etc.	Hong Kong, Limited liability company 14 July 2003	HK$5,000,000 issued share capital
深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited) *(Note (a))*	–	100%	Trading of tools and equipment and provision for consultancy service in the PRC and Iraq, etc.	The PRC, Limited liability company (wholly foreign owned enterprise) 26 April 2002	Registered capital of RMB76,000,000
德州嘉誠石油裝備有限公司 (Dezhou Jiacheng Oil Tools Co., Limited)	–	100%	Trading of tools and equipment and provision for consultancy service in the PRC	The PRC, Limited liability company 3 April 2007	Registered capital of RMB10,000,000
Wellsharp Group Limited	–	100%	Dormant in BVI	BVI, Limited liability company 11 April 2008	100 ordinary shares at no par value for 1 US$ each
深圳市弗賽特檢測設備有限公司 (Shenzhen Fluid Science & Technology Co., Limited)	–	60%	Manufacturing and trading of tools and equipment in the PRC	The PRC, Limited liability company 20 January 2006	Registered capital of RMB10,000,000
Hero Gain Investment Limited	–	100%	Investment holding in BVI	BVI, Limited liability company 1 July 2010	1 ordinary share at no par value for 1 US$ each
Turbodrill Technology Pte. Limited	–	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 1 September 2011	1 ordinary share of 1 US$ each

36 INVESTMENTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of Incorporation and kind of legal entity/date of incorporation	Particulars of issued share capital/ registered capital
Petro-king Oilfield Technology (South America) Holdings Limited	–	100%	Provision of oilfield technology and services in Venezuela	BVI, Limited liability company 16 March 2012	1,000,000 ordinary shares of 1 US$ each
Sheraton Investment Worldwide Ltd	–	100%	Investment holding in BVI	BVI, Limited liability company 9 June 2010	1,000 ordinary shares at no par value for 1 SGD each
星油能源科技(深圳)有限公司 (Sun Oil Technology Co., Ltd)	–	100%	Manufacturing and trading of oilfield tools and equipment in the PRC	The PRC, Limited liability company 8 April 2011	Registered capital of US$1,000,000
H-Star Petrotech Company Limited	–	100%	Investment holding in Hong Kong	Hong Kong, Limited liability company 10 December 2010	HK$10,000 issued share capital
Star Petrotech Pte Ltd.	–	100%	Manufacturing and repairing of other oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 4 February 2009	400,000 ordinary shares at no par value for 1 SGD each
惠州市弗賽特石油設備有限公司	–	60%	Sales and lease of equipment and provision of drilling and well completion services in the PRC	The PRC, Limited liability company 14 August 2012	Registered capital of RMB10,000,000
Petro-king Oilfield Technology Holdings Limited De Venezuela, C.A.	–	100%	Provision of oilfield technology and services in Venezuela	Venezuela, Limited liability company 17 September 2012	1,000,000 ordinary share of Bs4.3 each
百勤石油技術(惠州)有限公司	–	100%	Provision of oilfield tools and equipment technology services and research and development in the PRC	The PRC, Limited liability company (wholly foreign owned enterprise) 21 September 2012	Registered capital of US$5,000,000

36 INVESTMENTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of Incorporation and kind of legal entity/date of incorporation	Particulars of issued share capital/ registered capital
江蘇百勤完井技術有限公司	–	100%	Manufacturing and repairing of other oilfield and gasfield machinery and equipment in the PRC	The PRC, Limited liability company 19 March 2013	Registered capital of RMB5,000,000
北京百勤油服科技有限公司	–	100%	Oilfield technology promotion and provision for consultancy services in the PRC	The PRC, Limited liability company 26 June 2013	Registered capital of RMB500,000
百勤(重慶)油氣工程技術服務有限公司	–	100%	Trading of tools and equipment and provision for consultancy service in the PRC	The PRC, Limited liability company (wholly foreign owned enterprise) 28 August 2013	Registered capital of RMB20,000,000
Turbodynamics Pte. Ltd.	–	86%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 1 August 2013	Registered capital of 100 ordinary shares of SGD1 each
Petro-king International Holdings Limited	–	100%	Dormant in Hong Kong	Hong Kong, Limited liability company 13 May 2013	HK$10,000 issued share capital
百勤石油(深圳)有限公司	–	100%	Dormant in the PRC	The PRC, Limited liability company 8 November 2013	Registered capital of RMB10,000,000
Petro-king Group Middle East Corporation FZE	–	100%	Trading of oilfield tools and equipment in the Middle East	Dubai, Limited liability company, 9 June 2014	100 shares of AED1,000 each
Petro-king International Australia PTY. LTD.	–	100%	Trading of oilfield tools and equipment in the Australia	Australia, Limited liability company 6 January 2014	1 ordinary shares of AUD1 each

36 INVESTMENTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of Incorporation and kind of legal entity/date of incorporation	Particulars of issued share capital/ registered capital
百勤鑽井技術(惠州)有限公司	–	86%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling and well completion equipment	The PRC, Limited liability company 7 January 2014	Registered capital of US$1,000,000
Russia Petro-king Oilfield Services Ltd,	–	100%	Services for production (extraction) of oil and natural gas	Russia, Limited liability company 14 November 2014	Registered capital of RUB10,000
PT. Petro Synergy Industry	–	51%	Manufacture, assembly, maintenance, repair and inspection of oil and gas tools and equipment; Oilfield Services; and oilfield material & equipment supply and/or rental	Indonesia, Limited liability company 8 October 2014	Registered capital of IDR46,044,000,000
星油能源科技(惠州)有限公司 (惠州)	–	100%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling, well completion equipment and Petroleum engineering equipment. Imports, exports, wholesale and deputize Petroleum engineering equipment	The PRC, Limited liability company 25 August 2014	Registered capital of USD$1, 000,000
深圳市弗賽特軟件技術有限公司	–	60%	Design and develop of industrial control and detection software, trading, supply service of software control and detection technology	The PRC, Limited liability company 5 May 2014	Registered capital of RMB500,000

Note a: On 25 June 2013, the registered capital of Petro-King Oilfield Technology Limited increased from RMB20,000,000 (equivalent to approximately HK$22,405,000) to RMB76,000,000 (equivalent to approximately HK$92,686,000), where the additional capital was contributed by Petro-king Holding Limited.

37 EVENT AFTER THE BALANCE SHEET DATE

(a) Rights issue

On 4 February 2015, the Group completed rights issue of 154,341,411 rights shares at HK$0.98 per rights share on the basis of one rights share for every seven existing shares held on 12 January 2015. As a result of the rights issue, adjustments are required to be made to the exercise prices of and the number of the shares falling to be issued under the outstanding share options in accordance with the terms of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme and the supplementary guidance issued by the Hong Kong Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules.

(b) Exchange rates in Venezuela

As at 31 December 2014, there are three official exchange rates in Venzuela, which are Cencoex, Sicad I and Sicad II. On 12 February 2015, Venezuela foreign currency legislation modified the exchange mechanisms by unifying Sicad I and Sicad II (Sicad) and introduced a new legal exchange rate (known as SIMADI) which permits foreign exchange barter and cash transactions.

In preparing the Group's consolidated financial statements for the year ended 31 December 2014, all components of the financial statements were translated at Cencoex (the official exchange rate of 6.3 Bolivares Furetes per U.S. dollar). The Group will continue to apply Cencoex in preparing consolidated financial statements.

(c) Convertible Bonds

On 30 March 2015, the Group has satisfied all the conditions set out in the Placing Agreement and obtained the necessary regulatory approvals for the issuance of certain three-year 5% convertible bonds to raise HK$153,000,000. The final issuance of the Convertible Bonds is subject to the completion of certain administrative procedures. The net proceeds from the issuance of Convertible Bonds will be used for partial repayment of the Term Loan.

(d) Waivers obtained for the Term Loan

On 25 March 2015, the Group has obtained waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group has breached and the compliance of incurrence of additional financial indebtedness arising from the proposed issuance of the Convertible Bonds. Under the terms of the waiver, the Group is required and has agreed to apply the net proceeds from the expected issuance of the convertible bonds to partial repay the Term Loan no later than 30 April 2015. The financiers have agreed to defer the due date of the remaining outstanding principal of the Term Loan of US$20,000,000 (equivalent to approximately HK$156,000,000) to 31 January 2016.