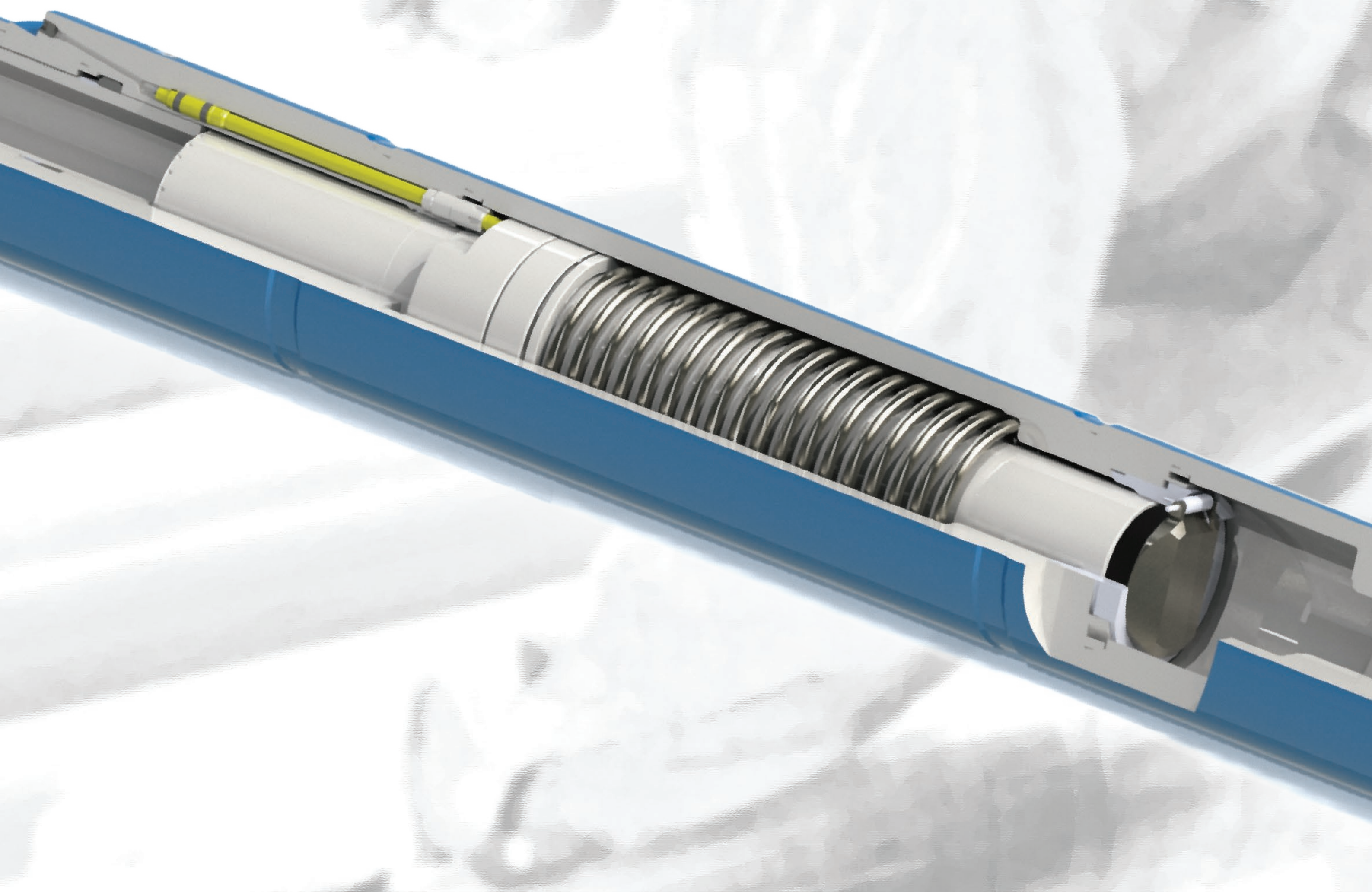
Petro-king | 百勤油服

2015 Annual Report

PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178



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FINANCIAL HIGHLIGHT

Operating Figures

For the year ended 31 December	2015 HK$'000	2014 HK$'000	Change	2013 HK$'000	2012 HK$'000	2011 HK$'000
Revenue	**631,014**	705,172	-11%	1,060,435	1,106,333	559,491
Operating (loss)/profits	**(344,188)**	(398,000)	-14%	259,705	194,084	116,074
(Loss)/profit for the year	**(391,759)**	(418,148)	-6%	210,506	184,691	92,093
(Loss)/earnings per share						
Basic (HK$ cents)	**(31)**	(38)	-18%	20	23	12
Diluted (HK$ cents)	**(31)**	(38)	-18%	20	23	11

Consolidated Balance Sheet

As at 31 December	2015 HK$'000	2014 HK$'000	Change	2013 HK$'000	2012 HK$'000	2011 HK$'000
Total assets	**2,500,519**	3,162,095	-21%	2,849,166	1,832,336	1,234,526
Non-current assets	**1,497,705**	1,563,766	-4%	893,917	741,629	549,393
Current assets	**1,002,814**	1,598,529	-37%	1,955,249	1,090,707	685,133
Total liabilities	**921,215**	1,367,167	-33%	623,600	741,498	231,531
Non-current liabilities	**185,992**	55,458	235%	14,589	11,821	12,874
Current liabilities	**735,223**	1,311,709	-44%	609,010	729,676	218,657
Net current assets	**267,591**	286,619	-7%	1,346,239	361,030	466,476
Net assets	**1,579,304**	1,794,928	-12%	2,225,567	1,090,838	1,002,995

Financial Indicators

For the year ended 31 December	2015	2014	2013	2012	2011
Trade receivables turnover days	**279**	329	285	165	263
Inventory turnover days	**505**	552	268	90	107
Trade payables turnover days	**347**	334	225	86	131
Current ratio	**1.36**	1.22	3.21	1.49	3.13
Gearing ratio *(Note 1)*	**10%**	21%	N/A	5%	3%
Return on Equity *(Note 2)*	**-23%**	-23%	13%	18%	10%

Note 1: Based on total borrowings plus convertible bonds payable and finance lease payable less 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.

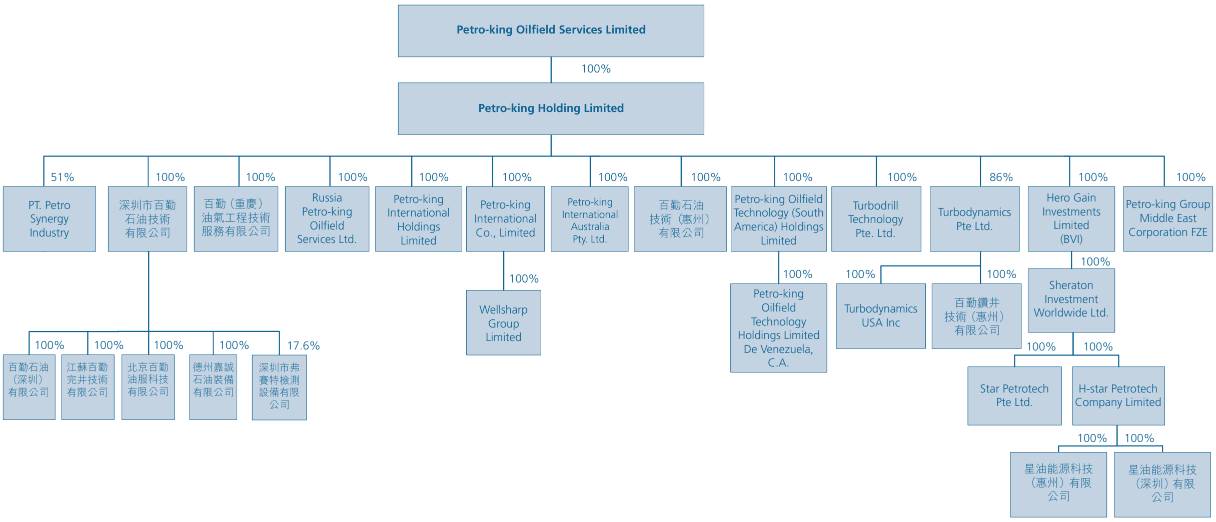
CORPORATE PROFILE

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, Canada, South America, Singapore, Indonesia, Taiwan, Kazakhstan, Kyrgyzstan, 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 2015.

RESULTS

In 2015, the Group recorded a revenue of HK$631.0 million, representing a decrease of HK$74.2 million or 11% from HK$705.2 million in 2014. The Group's net loss attributable to the owners of the Company was HK$384.3 million, narrowed by HK$38.8 million or 9% as compared to that of HK$423.1 million in 2014.

Year 2015 was the most challenging year for the Group in the past decade. The slow-down in growth of China's economy and the weak international oil price led to stringent capital expenditure and cost cutting plans for most of the Group's customers in China and thus resulted in a slow-down in overall exploration and production ("**E&P**") activities in the China market.

Although the Group has achieved significant business development and revenue growth from the overseas market in 2015, the weakened international crude oil price remained a major uncertainty for international oil companies ("**IOCs**"). We estimate that most of the IOCs will remain cautious in capital expenditure planning as well as the operating expenses of their E&P activities in 2016.

In order to get through this extraordinary tough time during the industry downturn of the oilfield service sector, the Group had conducted a special risk management plan to cope with the industry downturn and implemented certain risk mitigation measures in 2015:

- Streamlined the cost structure of all major service lines and reduced headcount by approximately 44% to 553 employees as at 31 December 2015, from 989 employees as at 31 December 2014.

- Downsized the business operations of a Venezuelan subsidiary to a minimal level.

- Adjusted compensation structure of the Group's management team by having a substantial cut in basic salary, compensated by performance-based bonus and share option incentive schemes.

- Implemented a more stringent credit control policy and intensified management effort in collecting outstanding trade receivables.

- Raised capital of about HK$375.6 million from rights issue, issuance of three-year convertible bonds and placement of new shares.

- The aforementioned effort funded a net repayment of bank borrowings of about HK$490.7 million to minimise the risk of financial distress.

As a result, the Group's financial position was enhanced in 2015; gearing ratio was substantially improved; burden of operating expenses and finance expenses was reduced; operating loss was narrowed and the Group's overall operations started to turn around in the second half of 2015.

- Operating cashflow turned positive and was approximately HK$64.0 million in 2015, compared to that of HK$85.2 million outflow in 2014.

- Cashflow from investing activities turned positive and was approximately HK$44.0 million in 2015, compared to that of HK$676.9 million outflow in 2014.

- Net debts were reduced to HK$184.0 million as at 31 December 2015, decreased by HK$303.7 million or 62%, from HK$487.7 million as at 31 December 2014. Gearing ratio was improved from 21% as at 31 December 2014 to 10% as at 31 December 2015.

THE CHINA MARKET

During the year, the slow-down in growth of the China economy and the weak international crude oil price have generally led to fewer capital investment plans and thus a slow-down in E&P activities of the Group's major national oil companies ("**NOCs**") customers in the China market. As a result, the Group experienced a further decline in business volume and revenue in various areas in the domestic market in 2015, including a decline in production enhancement services in the Ordos Basin, and a decline in drilling and mud-drilling services in the Sichuan Basin and the Tarim Basin. The Group's service capacity (including technical staff and service equipment) for the China market was in a relatively low utilisation rate during the year. In order to improve the utilisation rate of the Group's oilfield service capacity, we have shifted a certain part of our service capacity to the Middle East and Central Asia, and spared a certain part of service capacity to non-NOCs customers in China, including certain oilfield service companies and shale gas investors.

In order to raise the operating efficiency of the Group's various service lines, the Group's management reviewed the cost structure and assessed the adequacy of the staff structure of each service line. In 2015, the Group adjusted its staff structure through internal transfer of talents among the various service lines, implemented a staff redundancy plan and adjusted the compensation package of the management team (e.g. basic salary cut shall be compensated by performance based bonus and share option incentives).

Notwithstanding the slow-down in business activities with NOCs customers in 2015, the Group continued to seek diversification of its customer base through a series of marketing and promotion activities (such as participating in industry exhibitions and holding technical seminars). In addition, due to the high quality drilling, well completion and production enhancement projects led by the integrated project management ("**IPM**") team provided to certain non-NOCs shale gas investors in 2014, the Group's capability in handling highly complicated oilfield projects are well recognised in the China market. During the year, the Group's drilling, well completion and production enhancement projects led by the IPM team has completed several service contracts for non-NOCs shale gas customers, our excellence in the high-end oilfield services are well recognised by these new customers again in 2015. By leveraging on the market reputation earned, the Group has been continuously promoting its high-end oilfield services to some other non-NOCs oil and gas companies and has achieved encouraging progress in reaching cooperation agreements for the provision of well construction, well completion and production enhancement services led by the Group's IPM team to these potential new customers.

Due to the weak market environment, delay in project execution and delay in settlement of services fees and trade receivables became a common issue of the oilfield service sector in China. In 2015, the Group has implemented several measures (including bonus and incentives to collection team) to expedite project execution and collection of outstanding trade receivables. In addition, the Group has tightened credit terms in accepting new contracts and rejected certain potential projects which might further tighten up the Group's working capital. During the year, the Group has collected a considerable amount of approximately HK$339.3 million of trade receivables from customers in China, including some long aged accounts receivable.

THE OVERSEAS MARKET

The Group's business development in the overseas market continued to progress in 2015, our capability of provision of high-end oilfield services with self-developed tools and technology have gained further market recognition in the overseas market. During the year, we have gained new overseas customers and won service contracts in various regions including the Middle East, Central Asia, South East Asia, Australia, North America and South America.

Revenue from the overseas market recorded a growth of about 34% in 2015, which was mainly attributable to the revenue growth from the Middle East. While continuing the execution of directional drilling services, production enhancement services and well completion services for our customers in Southern Iraq, the Group started to execute contracts of provision of surface engineering services and production management services in the region in 2015. During the year, the Group's technical capability and professional services have gained further recognition in the region, and we have gained new customers in the Middle East.

During the year, the Group shifted part of its oilfield service capacity to Central Asia and started to generate revenue in 2015. Currently, we are targeting a few customers in the region (such as Kazakhstan and Kyrgyzstan) for the provision of drilling and production enhancement services.

Subsequent to the signing of a memorandum of understanding with National Oilwell DHT, LP ("**NOV**") in February 2015 (the "**MOU**"), the Group started to provide its self-developed turbine drilling technology and services ("**Turbodrill**") in the overseas market, and completed 3 turbine drilling service jobs in Canada in 2015. We considered that the business cooperation represents a great achievement of the Group's research and development team and has once again reinforced the Group's determination to become a leading high-end oilfield service enterprise.

Collection of the trade receivables from a major customer in Venezuela remained slow in 2015. The Group has been actively chasing the customer for settlement of the long outstanding trade receivables during the year, and we have collected approximately HK$7.8 million in 2015. As the weak oil price has jeopardised the customer's capability in settling all of our trade receivables in a short time, we believe it is not easy to collect all of the trade receivables in the near future. As part of the special risk management action plan, the Group downsized the business operations of our Venezuelan subsidiary to a minimal level. As at 31 December 2015, the Group made full provision on all trade receivables from the Venezuelan customer, totalling HK$297.5 million.

The slump in international crude oil price has forced major oil companies to implement certain cost saving measures and to consider other oilfield service providers which are technically competent but could offer them much more cost effective E&P proposals. By leveraging on the Group's reputable team of professional engineers, excellent track record in handling complicated oilfield projects in the Middle East, and self-developed technology and tools, we have been actively seeking new business opportunities in certain major oilfield service markets in the Middle East (such as Saudi Arabia and Oman), South America, South Asia, Australia and Russia. During the year, the Group's business development in some of these new overseas markets namely Australia, Indonesia and Argentina has received encouraging progress. Products and services were provided to new customers in these three countries and started to contribute revenue in 2015.

OUTLOOK

Following the slump in crude oil price in 2014, the international crude oil price (WTI) dropped further from US$53/bbl at the beginning of year to US$37/bbl at the end of the year. It appears that the market is still bearish about the crude oil price and it is widely believed that the international crude oil price will stay low in 2016. Most of the IOCs as well as the NOCs announced that they will continue to exercise a cautious approach in capital investment plans of their E&P activities.

The Group has launched various cost control measures in 2015 including downsizing of its Venezuela operations, downsizing its production enhancement service line and drilling service line and adjusted compensation package of its management team. The Group also conducted a deleverage plan in 2015 and has repaid most of its bank borrowings by January 2016 to mitigate the financial distress risk and reduce interest expenses. Through rights issue, issuance of three-year convertible bonds and placement of new shares, the Group raised HK$375.6 million in 2015 for the purpose of repaying bank borrowings and enhancing financial strength.

In the China market, most of the NOCs announced further capital expenditure cut in E&P activities in 2016, we estimate that the Group's oilfield service business activities with the NOCs are likely to remain low in 2016. Nevertheless, E&P activities from non-NOCs oil and gas companies show an encouraging growing trend recently. We believe our business cooperations with these non-NOCs customers can expand the Group's customer base and is likely to benefit the Group's business development in the foreseeable future.

For the overseas market, the Group will continue its marketing and new business development in the Middle East. Further to the success in business development in Iraq, the Group is proactively promoting its oilfield services and products in various countries in the region (such as Saudi Arabia and Oman). Following the lifting of sanctions on Iran by the United States and the European Union, the Group is considering seeking business co-operation opportunities in Iran. In addition, our production enhancement services in Central Asia and the Middle East, turbine drilling services in North America, well completion services in South East Asia and Australia that the Group started to provide in 2015 have received high recognition from IOCs customers and are progressing well recently. However, as most of the IOCs are having a budget cut or delaying their E&P activities in 2016, we believe that this may temporarily limit the Group's business growth in 2016.

Due to the low oil price, IOCs and certain international oilfield service companies are now much more cost cautious about the selecting tools suppliers and service providers in order to save operating costs and improve project profitability. By taking advantages of being a high-end oilfield service provider with self-developed tools and technology, the Group will put more marketing effort on certain potential IOCs customers in the Middle East and provide them with cost competitive service proposals in order to achieve a further market penetration in the region.

Looking ahead to 2016, we believe that the operating environment will continue to be a challenging year for the oilfield service sector, especially for the young and growing independent oilfield service companies in China. As the current market environments in China and overseas are still associated with uncertainties, the Group will continue to exercise a cautious approach while seeking business development in 2016.

APPRECIATION

On behalf of the Board, I would like to express my sincere thanks to the Shareholders, customers and business partners of the Company 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, 23 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2015, the Group recorded a revenue of HK$631.0 million, representing a decrease of HK$74.2 million or 11% from HK$705.2 million in 2014. The Group's operating costs for 2015 amounted to HK$975.8 million, representing a decrease of HK$127.8 million or 12% from that of HK$1,103.6 million in 2014. As a result, the Group recorded an operating loss of HK$344.2 million in 2015, representing a decrease of HK$53.8 million as compared to the operating loss of HK$398.0 million in 2014. The operating loss margin was 55% in 2015, narrowed by 1 percentage point as compared to that of 56% in 2014. In 2015, the Group's net finance costs increased by approximately 156% to HK$48.1 million, from that of HK$18.8 million in 2014. The Group's net loss attributable to the owners of the Company was HK$384.3 million, narrowed by HK$38.8 million or 9% as compared to that of HK$423.1 million in 2014. Included in the operating costs, the Group's net provision for impairment of trade receivables amounted to HK$182.1 million in 2015, decreased by HK$98.2 million or 35% as compared to that of HK$280.3 million in 2014. The significant amounts of provision for impairment of trade receivables in 2014 and 2015 were mainly due to the slow progress in collection of trade receivables from a major customer in Venezuela.

GEOGRAPHICAL MARKET ANALYSIS

Set out below is the revenue analysis by geographical area:

	2015 **(HK$ million)**	2014 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2015** **(%)**	Approximate percentage of total revenue in 2014 *(%)*
China market	**309.2**	465.4	-34%	**49%**	66%
Overseas market	**321.8**	239.8	34%	**51%**	34%
Total	**631.0**	705.2	-11%	**100%**	100%

The Group's revenue from the China market dropped by HK$156.2 million or approximately 34% to HK$309.2 million in 2015 from HK$465.4 million in 2014. The decline in revenue from the China market was mainly due to a decrease in production enhancement services in the Ordos Basin and the drilling business in Northwestern and Southwestern China.

The Group's revenue from the overseas market increased by HK$82.0 million or approximately 34% to HK$321.8 million in 2015 from HK$239.8 million in 2014. The increase was mainly attributable to the growth of business in the Middle East, Kyrgyzstan and South East Asia. In particular, the development of the Group's business in the Middle East and Kyrgyzstan recorded sound growth momentum. Despite getting a new customer from Argentina, the Group's revenue from South America recorded a decline in 2015 as a result of the downsizing of the business operations of the Group's Venezuelan subsidiary.

REVENUE FROM THE CHINA MARKET

Set out below is the breakdown of the revenue from the China Market by region:

	2015 **(HK$ million)**	2014 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2015 (%)**	Approximate percentage of total revenue in 2014 (%)
Northern China	**73.7**	165.5	-55%	**24%**	36%
Northwestern China	**4.4**	76.0	-94%	**1%**	16%
Southwestern China	**72.4**	56.0	29%	**24%**	12%
Other regions in China	**158.7**	167.9	-5%	**51%**	36%
Total	**309.2**	465.4	-34%	**100%**	100%

In 2015, the Group's revenue from Northern China amounted to HK$73.7 million, dropped by HK$91.8 million or approximately 55% from HK$165.5 million in 2014. The decrease in revenue was mainly due to the decline in production enhancement services in the Ordos Basin. On one hand, the Group's customers in that area cut capital expenditure due to the general slow-down in business; on the other hand, the average price of the services per well dropped as compared to last year.

The revenue from Northwestern China amounted to HK$4.4 million in 2015, dropped by HK$71.6 million or approximately 94% from HK$76.0 million in 2014. The decrease in revenue was mainly due to the significant decline in drilling activities of NOCs.

The revenue from Southwestern China amounted to HK$72.4 million in 2015, increased by HK$16.4 million or approximately 29% from HK$56.0 million in 2014. The increase of revenue in this area was mainly due to the general growth of business in production enhancement projects at Jiaoshiba, which has increased by HK$17.5 million from HK$20.7 million in 2014.

The revenue from other regions in China amounted to HK$158.7 million, which has dropped by HK$9.2 million or approximately 5% from HK$167.9 million in 2014. The decrease in revenue was mainly due to the decline in sales of tools and equipment led by the general slow-down in business in these regions.

REVENUE FROM THE OVERSEAS MARKET

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

	2015 (HK$ million)	2014 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2015 (%)**	Approximate percentage of total revenue in 2014 (%)
South America	**9.7**	71.7	-86%	**3%**	30%
The Middle East *(Note 1)*	**259.1**	146.3	77%	**81%**	61%
Central Asia *(Note 2)*	**21.1**	Nil	Nil	**7%**	Nil
Other overseas market *(Note 3)*	**31.9**	21.8	46%	**9%**	9%
Total	**321.8**	239.8	34%	**100%**	100%

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

Note 2: The Central Asia region refers to Kyrgyzstan.

Note 3: Other overseas regions include Singapore, Indonesia, Uganda, etc.

The Group's revenue from South America amounted to HK$9.7 million, dropped by HK$62.0 million or approximately 86% from HK$71.7 million in 2014. This change was mainly due to the decline of business in Venezuela and the devaluation of the Bolivar fuerte was adopted as a hyperinflationary economy. While the revenue from Argentina in this area contributed a revenue amounted to HK$7.5 million, this increase was mainly attributable to the Group's efforts in getting services contracts from a Chinese oil and gas company in Argentina for the provision of high quality well completion tools and project management services. The revenue from the Middle East amounted to HK$259.1 million, increased by HK$112.8 million or approximately 77% from HK$146.3 million in 2014. The increase was mainly led by the rapid growth in sales of completion tools growing rapidly in the Middle East. The Group has excellent completion engineers team and self-developed completion tools. With all these strengths, the Group gained high recognition from customers and the Group believes that the business growth in the Middle East will continue its momentum in 2016. The Group's revenue from Central Asia amounted to HK$21.1 million in 2015 (2014: Nil). As a leading high-end oilfield service provider, the Group is committed to looking for new opportunities in the international market. The significant growth of revenue in this area was mainly due to the Group expanding its production enhancement services in Kyrgyzstan. The production enhancement projects in Kyrgyzstan contributed HK$21.1 million in revenue to the Group in 2015. Meanwhile, the Group's revenue from other overseas market amounted to HK$31.9 million, increased by HK$10.1 million or approximately 46% from HK$21.8 million in 2014. The increase of revenue in this area was mainly attributable to the business growth in Sheraton Investment Worldwide Ltd., one of the Group's subsidiaries, which contributed HK$15.2 million revenue to the Group in 2015.

BUSINESS SEGMENT ANALYSIS

Set out below is the revenue analysis by business segment:

	2015 (HK$ million)	2014 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2015 (%)**	Approximate percentage of total revenue in 2014 (%)
Oilfield project services	**350.3**	433.2	-19%	**56%**	61%
Consultancy services	**45.5**	89.1	-49%	**7%**	13%
Manufacturing and sales of tools and equipment	**235.2**	182.9	29%	**37%**	26%
Total	**631.0**	705.2	-11%	**100%**	100%

In 2015, the Group's revenue from oilfield project services amounted to HK$350.3 million, which has decreased by HK$82.9 million or approximately 19% from HK$433.2 million in 2014. The decrease was mainly due to the decline in revenue from Venezuela and the decline in revenue of production enhancement services from the Ordos Basin. However, the revenue from production enhancement services in Kyrgyzstan was increased by approximately HK$21.0 million in 2015.

The Group's revenue from consultancy services amounted to HK$45.5 million in 2015, which has decreased by HK$43.6 million or approximately 49% from HK$89.1 million in 2014. This decline of revenue was mainly caused by general decline in business activities of the Group's major customers in 2015.

The Group's revenue from manufacturing and sales of tools and equipment amounted to HK$235.2 million in 2015, which has increased by HK$52.3 million or approximately 29% from HK$182.9 million in 2014. This increase was mainly due to the sales of completion tools to oilfield service traders and service companies.

Oilfield Project Services

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

	2015 (HK$ million)	2014 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2015 (%)**	Approximate percentage of total revenue in 2014 (%)
Drilling	**175.2**	179.1	-2%	**50%**	41%
Well completion	**58.4**	28.6	104%	**17%**	7%
Production enhancement	**116.7**	225.5	-48%	**33%**	52%
Total	**350.3**	433.2	-19%	**100%**	100%

Drilling Services

The Group's revenue from drilling services amounted to HK$175.2 million in 2015, which has slightly dropped by HK$3.9 million or approximately 2% from HK$179.1 million in 2014. This decrease was mainly caused by the decline of drilling business in Southwestern and Northwestern China. However, the growth of revenue from drilling services in the Middle East has compensated for the decrease in the domestic market.

In 2015, the drilling department of the Group made remarkable achievement by providing and completing several complicated drilling services, particularly providing Rotary Steering and Nonrotating Drillpipe Casing Protectors ("**NRP**") technical services for several wells. Meanwhile, the drilling department of the Group won several contracts from China National Petroleum Corporation ("**CNPC**") in the Tarim area and Sinopec in Southwestern China. The drilling department also made great efforts to promote its drilling equipment and expand the domestic and international market. For instance, the Group provided turbine drilling services for 2 wells in Canada in 2015, this move marked a new phase in the Group's development as a high-end oilfield service provider to enter the international oilfield service market.

In 2015, the Group provided directional drilling or turbine drilling services for 15 wells, all of which were completed before 31 December 2015. Out of the completed wells, 7 wells were in the China market and 8 wells were in the overseas market.

Well Completion Services

In 2015, the Group's revenue from well completion services amounted to HK$58.4 million, which has increased by HK$29.8 million or approximately 104% from HK$28.6 million in 2014. The significant increase was mainly attributable to the rapid business growth in the Middle East by providing high-end well completion services and selling high quality well completion tools.

In 2015, the Group provided well completion services for 31 wells, of which 28 wells were completed before 31 December 2015 and the works at 3 wells were still in progress as at 31 December 2015. Out of the above mentioned wells, 20 wells were in the China market and 11 wells were in the overseas market. Meanwhile, the well completion department has finished several sales contracts on time in 2015, and greatly improved the Group's reputation as a leading high-end oilfield services provider.

In 2015, the well completion department made new strategic objectives and plans, and continued to focus on expanding the Middle East market. It aims to retain the existing customers and attract potential new customers.

Production Enhancement Services

In 2015, the Group's revenue from production enhancement services amounted to HK$116.7 million, which has decreased by HK$108.8 million or approximately 48% from HK$225.5 million in 2014. This decrease was mainly due to the downsizing of the operation in Venezuela and decline in the revenue from the production enhancement projects in the Ordos Basin.

Although the revenue from production enhancement services has dropped, the production enhancement department was still committed to retaining existing customers and looking for new opportunities to expand the domestic and international market.

In 2015, the Group provided production enhancement services for 124 wells, of which 118 wells were completed before 31 December 2015 and the works at 6 wells were still in progress as at 31 December 2015. Out of the above mentioned wells, 80 wells were in the China market and 44 wells were in the overseas market and the Group provided multistage fracturing services at 72 wells.

CUSTOMER ANALYSIS

Customer	**2015** **(HK$ million)**	2014 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2015** **(%)**	Approximate percentage of total revenue in 2014 (%)
Customer 1	**148.5**	101.2	47%	**23%**	14%
Customer 2	**113.3**	0.9	12,489%	**18%**	1%
Customer 3	**77.1**	135.7	-43%	**12%**	19%
Customer 4	**2.3**	71.7	-97%	**1%**	10%
Other Customers	**289.8**	395.7	-27%	**46%**	56%
Total	**631.0**	705.2	-11%	**100%**	100%

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 amounted to HK$148.5 million in 2015, which has increased by HK$47.3 million or approximately 47% from HK$101.2 million in 2014. This increase was mainly due to the rapid business growth in the Middle East. The revenue from customer 2 increased by HK$112.4 million or approximately 12,489%, from HK$0.9 million in 2014 to HK$113.3 million in 2015. This significant increase was mainly attributable to the completed sales contracts of well completion tools for the oilfield service trader. The revenue from customer 3 amounted to HK$77.1 million in 2015, which has dropped by HK$58.6 million or approximately 43% from HK$135.7 million in 2014. This drop was mainly affected by the reduction of production enhancement projects in the Ordos Basin. The revenue from customer 4 amounted to HK$2.3 million in 2015, which has decreased by HK$69.4 million or approximately 97% from HK$71.7 million in 2014. This drop was mainly affected by the downsizing of the Group's operations in Venezuela. The revenue from other customers amounted to HK$289.8 million in 2015, which has dropped by HK$105.9 million or approximately 27% from HK$395.7 million in 2014. There are more than 40 customers in this category, and the average revenue per customer amounted to HK$6.6 million in 2015.

RESEARCH AND DEVELOPMENT ("R&D")

As a high-end integrated comprehensive oilfield services provider, the Group values the importance of technology and prides itself in 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 2015, even under the industry downturn, the Group continued to seek advancement in technology and introduced new products to the market. As a substantial part of the R&D activities for Turbodrill was finished in 2014, the Group's spending on R&D decreased in 2015. The R&D expenses decreased to HK$19.3 million in 2015 from HK$24.6 million in 2014.

During the year, the Group's new products and technology have received further recognition by customers at home and abroad: (i) subsequent to the entering of the MOU with NOV by Turbodynamics, the Group successfully completed directional drilling in British Colombia, Canada with Steerable TurboDynamics Turbodrill, which has proved the performance of our Turbodrill in hard and abrasive formations; (ii) after completion of field and surface tests of down-hole tools manufactured by Star Petrotech Pte. Ltd. ("**Star**"), a wholly-owned subsidiary of the Group, Star has successfully entered into the vendor list of TOTAL E&P Indonesie in 2015; (iii) completed the third stage of KingFrac™ coiled tubing, sand-jet perforating and casing fracturing operation at Well No. 2, Qi Mei, SongZao Orefield, Chongqing. The coiled tubing with bottom sealing fracturing tools of the Company applied successfully for the first time.

In addition, the Group continued to develop and introduce to the market new technology and tools in 2015 such as the following:

- Filed patent applications for KingFrac™ and Queen Sleeve™ and have developed a few more prototypes in various sizes of the KingFrac™ and Queen Sleeve™ series products for marketing purpose;

- Developed a new series of safety valves (including a wireline safety valve and a back pressure valve) and upgraded the American Petroleum Institute ("**API**") license of the packer group from API 11D1 Grade V6 to Grade V3;

- Developed Phantom™ Ball, a degradable ball of high pressure rating and low density for multistage fracturing;

- Developed Dual Ball-Activated Frac Sleeve, Hydro-Activated Frac Sleeve and Ball Seat Circulation Valve 2 in 1 at the request of a potential Australian customer, we expect that these technologies could largely increase the success rate in fracturing jobs of coal bed methane ("**CBM**") projects; and

- Developed a new generation of inflow control device – SAICD, which was designed to optimise the production output of oil wells.

At the same time, the Group has been active in technology innovation and patent application. The Group was holding 2 invention patents and 18 utility model patents as at 31 December 2015 and 10 invention patents and 4 utility model patents were under application as at 31 December 2015. In 2015, the Group successfully applied for 5 utility model patents, 3 of which are in the field of drilling such as the following:

- A kind of self-lubricating sleeve spiral stabilizer, which can solve the problem of vertical drilling equipment and MWD/LWD failure in existing technology, caused by poor effect in plastic formation and oversize vibration.

- A device for running casing from automatic power, which can only rotate the bottom of string and ream down instead of rotating the whole working string, when running completion pipe string.

- A drilling rod subassembly for filtering drilling fluid, which can significantly reduce the interrupted time of the change filter and improve economic benefits.

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

HUMAN RESOURCES

It has always been the Group's belief that its employees are its most valuable asset 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 an in-house technical training system to train our young engineers with advanced oilfield technology and technical know-how and provide customised business management courses to our managerial personnel. We are eager to improve the Group's employees' professional knowledge and enhance their technical capability.

In respect to the downturn of the industry, the Group implemented cost-saving measures and optimised the human resources by cherry-picking the best employees since January 2015. As at 31 December 2015, the Group had 553 employees, representing a decrease of 44% from 989 employees as at 31 December 2014. The number of oilfield service engineers or technical personnel as at 31 December 2015 was 231, which accounted for about 45% of headcount.

FINANCIAL REVIEW

Revenue

During the year, the Group's revenue amounted to HK$631.0 million, which has dropped by 11% as compared to that of HK$705.2 million in 2014, representing a decrease of approximately HK$74.2 million. The decrease in revenue was mainly due to the decline of business in Northern China and Venezuela.

Material Costs

During the year, the Group's material costs were HK$215.9 million, which has decreased by HK$4.4 million or 2% as compared to that of HK$220.3 million in 2014. The decrease of material costs was mainly due to the drop of revenue in 2015.

Depreciation of Property, Plant and Equipment

During the year, the depreciation of property, plant and equipment amounted to HK$86.3 million, which has increased by HK$25.1 million or 41% as compared to that of HK$61.2 million in 2014, primarily resulted from the increase in depreciation of buildings at the Huizhou base; and the depreciation of fracturing equipment was recorded throughout the whole reporting period in 2015, which led to a major increase in depreciation.

Employee Benefit Expenses

During the year, the Group's employee benefit expenses were HK$168.3 million, which has dropped by HK$46.6 million or 22% as compared to that of HK$214.9 million in 2014. This change was mainly because of the Group's cost control measures implemented in 2015. Among others, significant adjustments to the staff structure and change in compensation package of the Group's management team contributed the most to savings in employee benefit expenses in 2015.

Distribution Expenses

During the year, the Group's distribution expenses amounted to HK$14.7 million, which has decreased by HK$7.5 million or approximately 34% from HK$22.2 million in 2014. It was mainly driven by a better management of the logistics department through reasonable resources allocation, and less transportation of tools and equipment to long distant areas.

Technical Service Fees

During the year, the Group's technical service fees amounted to HK$111.7 million, which has increased by HK$37.0 million or approximately 50% from HK$74.7 million in 2014. The increase in technical service fees was mainly related to oilfield service projects in the Middle East area.

Provision for Impairment of Trade Receivables, Net

During the year, the provision for impairment of trade receivables net of reversal amounted to HK$182.1 million, which has dropped by HK$98.2 million or approximately 35% from HK$280.3 million in 2014. It was mainly due to the provision for impairment of trade receivables from a major customer in Venezuela to HK$127.1 million and a major customer in the domestic market to HK$33.1 million in 2015.

Other Expenses

During the year, the Group's other expenses were HK$78.5 million, which has dropped by HK$69.4 million or approximately 47% from HK$147.9 million in 2014. It was mainly attributable to the decrease of agency fee, stamp duty and business tax, motor vehicle, travelling and office utilities expenses as a result of the Group's cost control measures implemented in 2015.

Foreign Exchange Losses

During the year, the foreign exchange losses amounted to HK$86.1 million, which has increased by HK$78.7 million or approximately 11 times as compared to that of HK$7.4 million in 2014. The amount of foreign exchange losses affected by the exchange-rate swings in Venezuela was HK$65.7 million.

Operating Loss

As a result of the foregoing, the Group's operating loss in the year amounted to HK$344.2 million, which has dropped by HK$53.8 million or approximately 14% as compared to the operating loss of HK$398.0 million in 2014.

Net Finance Costs

During the year, the Group's net finance costs amounted to HK$48.1 million, which has increased by HK$29.3 million or approximately 156% as compared to that of HK$18.8 million in 2014. The significant increase in finance costs was mainly due to the increase in interest expenses, primarily in the breeding of bank loans and convertible bonds.

Income Tax Credit

During the year, the Group's income tax credit amounted to HK$0.5 million, while the Group recorded a total of HK$1.3 million income tax expense in 2014. This change was mainly due to changes in the profitability of the subsidiaries in the respective jurisdiction in the year.

Loss for the Year

As a result of the foregoing, the Group's loss amounted to HK$391.8 million in 2015, which has decreased by HK$26.3 million or approximately 6% as compared to HK$418.1 million in 2014.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the company in 2015 was HK$384.3 million, which has narrowed by HK$38.8 million as compared to that of HK$423.1 million in 2014.

Property, Plant and Equipment

Property, plant and equipment 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 2015, the Group's property, plant and equipment amounted to HK$757.9 million, which has decreased by HK$57.2 million or approximately 7% from HK$815.1 million as at 31 December 2014. The decrease was mainly due to the devaluation of fixed assets in Venezuela and the depreciation of the property, plant and equipment.

Intangible Assets

As at 31 December 2015, the Group's intangible assets amounted to HK$520.5 million, representing a decrease of approximately HK$46.8 million as compared to last year. The decrease was mainly due to the disposal of one of the Group's subsidiaries in 2015.

Inventories

As at 31 December 2015, the Group's inventories amounted to HK$242.7 million, representing a drop of HK$125.3 million or approximately 34% as compared to that of HK$368.0 million as at 31 December 2014. The average turnover days of inventories decreased from 552 days in 2014 to 505 days in 2015. The decrease of inventories was mainly due to the utilisation of long-aging inventories in 2015 and quicker delivery of tools and materials by the Group to customers.

Trade Receivables

As at 31 December 2015, the Group's trade receivables amounted to HK$467.1 million, representing a decrease of HK$311.3 million or approximately 40% as compared to that of HK$778.4 million as at 31 December 2014. The average turnover days of trade receivables were 279 days in 2015, which has excluded the Group's customer in Venezuela and the trade receivables in a subsidiary that was disposed in August 2015, representing a decrease of 50 days as compared to 329 days in 2014. The decrease of turnover days of trade receivables was mainly due to the intensified management effort in collecting trade receivables during the year.

Trade Payables

As at 31 December 2015, the Group's trade payables were HK$311.0 million, which nearly remained constant as compared to that of HK$312.0 million as at 31 December 2014.

Liquidity and Capital Resources

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

As at 31 December 2015, the Group's cash and cash equivalent amounted to HK$46.6 million, representing a decrease of HK$8.7 million as compared to HK$55.3 million as at 31 December 2014. The cash and cash equivalents held are mainly denominated in HK$, RMB and US$.

As at 31 December 2015, HK$6.0 million are restricted deposits held at bank as reserve under litigation claim.

As at 31 December 2015, the Group's current ratio was approximately 1.36. The current ratio is a financial ratio that measures short-term financial strength. The ratio is calculated as current assets divided by current liabilities.

Gearing ratio

As at 31 December 2015, the Group's gearing ratio was approximately 10%. Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. The 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) plus convertible bonds payable and finance lease payable less cash and cash equivalents, pledged bank deposits and restricted bank balance. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

Contractual Obligations

The Group's contractual obligations include the capital commitments and the payment obligations under operating lease arrangements. The capital commitments mainly represent land use right and property, plant and equipment contracted but not provided for, which amounted to HK$16.3 million as at 31 December 2015. 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$33.3 million as at 31 December 2015.

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 and RMB. Foreign exchange risk mainly arises from trade and other receivables, cash and cash equivalents, trade and other payables and bank borrowings in foreign currencies.

Contingent Liabilities

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

Off-balance Sheet Arrangements

As at 31 December 2015, the Group did not have any off-balance sheet arrangements.

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

The Board has adopted the code provisions of the Corporate Governance Code (the "**Code Provisions**") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. During the year ended 31 December 2015, the Company has complied with the Code Provisions save as disclosed in the paragraph headed "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of conduct for carrying out transactions in the Company's securities by the Directors. After specific enquiry with the Directors, the Company confirms that all Directors have fully complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2015.

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

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 that 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 having received the written annual confirmations of independence 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 2015, 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 2014, approval of the interim results of the Group for the 6 months ended 30 June 2015, review of the management accounts of the Group, grant of share options, approval of a rights issue, issuance of convertible bonds, disposal of one of the Group's subsidiaries and subscriptions of new shares of the Company.

Details of the attendance of the Directors in the board meetings, board committee meetings and general meetings held during 2015 are as follows:

	Meetings attended/Meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Sanction Oversight Committee	General Meetings
Executive Directors						
Wang Jinlong	26/26	–	1/1	1/1	2/2	4/4
Zhao Jindong	23/26	–	–	–	–	3/4
Non-executive Directors						
Ko Po Ming	21/26	–	–	–	–	1/4
Lee Tommy	21/26	–	1/1	1/1	–	3/4
Ma Hua	20/26	–	–	–	–	–
Independent non-executive Directors						
He Shenghou	24/26	2/2	1/1	1/1	2/2	2/4
Tong Hin Wor	25/26	2/2	1/1	1/1	–	3/4
Wong Lap Tat Arthur	26/26	2/2	1/1	1/1	2/2	2/4

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

The initial 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 2015, two meetings of the Audit Committee were held on 30 March 2015 and 27 August 2015 to review and consider, among others, the financial statements of the Company for the year ended 31 December 2014 and for the six months ended 30 June 2015, respectively. All members of the Audit Committee attended the meetings.

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 2015.

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 2015, a meeting of the Remuneration Committee was held on 30 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. All members of the Remuneration Committee attended the meeting.

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 2015 is set out below:

Emolument band	**Number of individuals**
Nil to HK$1,000,000	3
HK$1,000,001 – HK$1,500,000	3
Over HK$1,500,000	2

Further particulars regarding Directors' and chief executive's emoluments and the five highest paid employees are set out in note 24 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 2015, a meeting of the Nomination Committee was held on 30 March 2015 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. All members of the Nomination Committee attended the meeting.

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 measureable 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 in compliance with the CG Code. 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 2015, two meetings of the Sanction Committee were held on 30 March 2015 and 27 August 2015 respectively to review and discuss issues according to the working plan prepared by the Company. All members of the Sanction Committee attended the meetings.

EXTERNAL AUDITORS' REMUNERATION

The amount of fees charged by the Company's external auditors, PricewaterhouseCoopers, in respect of their audit and non-audit services for the year ended 31 December 2015 amounted to HK$2,799,000 and HK$662,000, respectively.

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 2015, 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 2015.

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 2015, 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 50, 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 52, 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 ConocoPhillips 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 39, 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 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 40, 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 Hua 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 57, 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 30 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 was a consultant of China Minsheng Banking Corp., Ltd Hong Kong Branch from October 2012 till March 2015. 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 the Chief Executive Officer and a director of CMBC International Holdings Limited (a wholly owned subsidiary of China Minsheng Banking Corp., Limited), 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 69, 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 70, 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 30 years of working experience in financial management. He was appointed as an independent non-executive director of Termbray Industries International (Holdings) Limited 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 56, 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 30 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 ("**Deloitte**") 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 was an independent non-executive director and the chair of the audit committee of Besunyen Holdings Company Limited (stock code: 926) and You On Demand Holdings, Inc. (NASDAQ: YOD) until 23 April 2014 and 11 April 2016 respectively. 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) and Daqo New Energy Corp. (NYSE: DQ), as well as an independent director and the chairman of the compensation committee of Xueda Education Group (NYSE: XUE).

SENIOR MANAGEMENT

Ms. Sun Jinxia (孫金霞) ("**Ms. Sun**"), aged 41, 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, purchase department, HR & Admin department, Venezuelan Market, HSE department, and quality assurance department. She joined our Group in 2003 as an assistant to general manager. She has over 15 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 52, 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 25 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 43, 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.

Mr. Xie Qingfan (謝慶繁) ("**Mr. Xie**"), aged 52, 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 30 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 46, is our vice president. He joined our Group in 2013 and he is primarily responsible for the management of some international projects, ISPM engineering department, unconventionality oil & gas services, oilfield surface engineering business department, exploration & production department, and several other departments. Mr. Yuan has over 20 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 and obtained a master degree (EMBA) from Hong Kong University of Science and Technology in 2014.

Mr. Pan Yuxin (潘玉新) ("**Mr. Pan**"), aged 39, 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 42, is our vice president. Mr. Lin Jingyu 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 20 years of experience in the exploration and development technology of oilfields. From July 2006 to August 2008, Mr. Lin Jingyu 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 Jingyu 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 Jingyu participated in international investment and project management for oil and gas exploration and development in Imperial College London during September 2005 to March 2006.

Mr. Ren Wensheng (任文生) ("**Mr. Ren**"), aged 47, is our vice president. He joined our Group in May 2015 and he is primarily responsible for the business development and growth in Middle East and Africa. Mr. Ren has over 20 years of experience in oil and gas service industry. He has worked as Production Operation,Technology Transfer & HR Superintendent for ConocoPhillips China. He has worked as Chief Commercial Representative & HR Manager for Statoil Orient Inc. He has worked as Vice President for CNOOC Iran Ltd./North Pars Project. He has worked as CNOOC Global Account Manager for Halliburton China Energy Service Ltd. He has worked as District Manager of South China, Sales and Marketing Director for Weatherford China Ltd. Mr. Ren graduated from the Jianghan Petroleum University with a Bachelor of Engineering degree, majoring in Petroleum Engineering and completed his Executive Master of Business Administration at the University of Texas, Arlington in 2008.

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗) ("**Mr. Tung**"), aged 53, 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 20 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.

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)

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Guangdong
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

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HONG KONG SHARE REGISTRAR

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China Merchants Building, Shekou
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Hang Seng Bank Limited
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China Construction Bank Corporation
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Industrial and Commercial Bank of China Limited
Clearing Centre the Second Floor
North Block Financial Center
Shennan Road East
Shenzhen
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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 2015.

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 and was further changed to "**Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司)**" on 9 August 2012 and was further changed to "**Petro-king Oilfield Services Limited (百勤油田服務有限公司)**" on 30 May 2014. 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.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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. Further discussion and analysis of these activities and a business review as required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the Management Discussion and Analysis set out on pages 10 to 20 of this annual report. This discussion forms part of this report of the directors.

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 2015 are set out in the consolidated statement of comprehensive income on pages 64 to 65.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2015. No dividends were declared or paid in respect of the year ended 31 December 2014.

USE OF PROCEEDS

(i) Use of proceeds from the 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 2015, HK$766.74 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 equipment, HK$173.51 million was used in the construction of the Huizhou base, HK$136.9 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.

(ii) Use of proceeds from a rights issue

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. The Company used 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, as to approximately HK$30.0 million for settlement of purchase of tools and materials and the remaining for daily operation.

(iii) Use of proceeds from issuance of convertible bonds

On 30 March 2015, the Company issued 3-year 5% convertible bonds in the aggregate principal amount of HK$157,000,000. The net proceeds from issuance of the convertible bonds is HK$153,860,000 and were used for partial repayment of the Term Loan.

(iv) Use of proceeds from disposal of 40.1% equity interest in a subsidiary

On 3 August 2015, 深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited*) ("**Petro-king Shenzhen**"), an indirectly wholly-owned subsidiary of the Company, entered into disposal agreements with 長安財富資產管理有限公司, He Jianhui and Chen Liquan in relation to the disposal (the "**Disposal**") of an aggregate of 40.1% equity interest in 深圳市弗賽特檢測設備有限公司 (Shenzhen Fluid Science & Technology Co., Ltd*) (the "**Target Company**"). The net proceeds from the Disposal were RMB59,500,000 (equivalent to approximately HK$74,375,000) and were used for repayment of part of its outstanding bank borrowings and for general working capital of the Group.

(v) Use of proceeds from subscriptions of new shares of the Company

On 30 December 2015, the Company completed the subscriptions (the "**Subscriptions**") of an aggregate of 93,480,000 new ordinary shares of the Company (each a "**Subscription Share**", collectively, the "**Subscription Shares**") at the price of HK$0.79 per Subscription Share by Termbray Natural Resources Company Limited, Jade Win Investment Limited and Jereh International (Hong Kong) Co., Limited respectively. The net proceeds from the Subscriptions are HK$72,600,000 and were used for repayment of bank borrowings and general working capital.

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.

SHARES ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2015 are set out in notes 15 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 2015, the Company does not have reserves available for cash distribution and/or distribution, as computed in accordance with the BVI Business Companies Act 2004 (and any amendments thereto).

EQUITY LINKED AGREEMENTS

(a) Convertible bonds

The Company issued convertible bonds at a par value of HK$157 million on 30 March 2015. The bonds mature three years from the issue date at their nominal value of HK$157 million or can be converted into shares at the holder's option at the conversion price of HK$1.39 per conversion share at any period commencing from 6 months after the date of issuance of the convertible bonds and up to the close of business on the maturity date. The net proceeds received from the issuance of convertible bonds was HK$154 million. The Group will not receive further consideration when the holders determines to convert the bonds into ordinary shares of the Company. The net proceeds from the issuance of the convertible bonds was used for partial repayment of the term loan.

(b) Share options granted to directors and selected employees

Details of the share options granted in prior years and current year is set out in Note 25 of the consolidated financial statements, "Pre-IPO share option scheme" and "Share option scheme" section contained in this report of the directors. For the share options granted during the year ended 31 December 2015, no shares were issued during the year.

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 69% of the Group's total revenue. The amount of revenue to the Group's largest customer represented approximately 24% of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 44% of the Group's total purchases. The amount of purchases to the Group's largest supplier represented approximately 21% 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 share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report 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. Wang Jinlong, Mr. Ko Po Ming and Mr. He Shenghou 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$850,000 as Director and chief executive officer
Mr. Zhao Jindong	HK$743,000 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$135,000
Ms. Ma Hua	HK$135,000
Mr. Ko Po Ming	HK$225,000

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$153,000
Mr. Tong Hin Wor	HK$153,000
Mr. Wong Lap Tat Arthur	HK$255,000

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' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries was a party and in which a director of the Company 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 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 INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2015, 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 for Securities Transactions by the Directors of Listed Issuers 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)	28.32%
	Beneficial owner *(Note 4)*	102,173 (L)	0.008%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	404,754,104 (L)	30.47%
	Beneficial owner *(Note 4)*	102,173 (L)	0.008%
Mr. Ko Po Ming	Beneficial owner *(Note 4)*	1,245,030 (L)	0.09%
Mr. Zhao Jindong	Beneficial owner *(Notes 4 and 5)*	2,602,173 (L)	0.20%
Ms. Ma Hua	Beneficial owner *(Note 4)*	102,173 (L)	0.008%
Mr. He Shenghou	Beneficial owner *(Note 4)*	102,173 (L)	0.008%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	102,173 (L)	0.008%
Mr. Wong Lap Tat Arthur	Beneficial owner *(Note 4)*	402,173 (L)	0.03%

Notes:

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

2. Mr. Wang holds approximately 45.24% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 28.32% of the total number of issued shares of the Company. Therefore, Mr. Wang is taken to be interested in the number of Shares held by King Shine pursuant to Part XV of the SFO.

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.

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

5. 2,500,000 share options were conditionally granted to Mr. Zhao Jindong on 29 May 2015 and became unconditional on 7 September 2015. Therefore under Part XV of the SFO, Mr. Zhao Jindong is taken to be interested in the underlying shares that he is entitled to subscribe for subject to the exercise of the share options granted.

Save as disclosed above, as at 31 December 2015, 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 our 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 for Securities Transactions by the Directors of Listed Issuers and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, 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 interested *(Note 1)*	Approximate percentage of the issued share capital of the Company
Mr. Lee Lap	Settlor of a discretionary trust *(Note 2)*	404,754,104(L)	30.47%
HSBC International Trustee Limited	Trustee *(Note 2)*	404,754,104(L)	30.47%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 2)*	404,754,104(L)	30.47%
Lee & Leung (B.V.I.) Limited	Interest in a controlled corporation *(Note 2)*	404,754,104(L)	30.47%
Termbray Industries	Interest in a controlled corporation *(Note 2)*	404,754,104(L)	30.47%
Termbray Electronics (BVI)	Interest in a controlled corporation *(Note 2)*	404,754,104(L)	30.47%
Termbray Natural Resources	Beneficial owner	404,754,104(L)	30.47%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	104,848,827(L)	7.80%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	104,848,827(L)	7.80%
Exceltop Holdings Limited	Interest in a controlled corporation *(Note 3)*	104,848,827(L)	7.80%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	104,848,827(L)	7.80%
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner	104,848,827(L)	7.80%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	376,194,587(L)	28.32%
King Shine	Beneficial owner	376,092,414(L)	28.32%
UBS Group AG	Person having a security interest in shares *(Note 5)*	70,093,285(L)	5.73%
	Interest in a controlled corporation *(Note 5)*	670,857(L) 670,857(S)	0.05% 0.05%
UBS AG	Beneficial owner *(Note 6)*	670,857(L) 670,857(S)	0.05% 0.05%
	Person having a security interest in shares *(Note 6)*	70,093,285 (L)	5.73%
Greenwoods Asset Management Holdings Limited	Interest in a controlled corporation	62,824,713(L)	5.08%
Greenwoods Asset Management Limited	Interest in a controlled corporation	62,824,713(L)	5.08%
Jiang Jinzhi	Interest in a controlled corporation	62,824,713(L)	5.08%
Unique Element Corp.	Interest in a controlled corporation	62,824,713(L)	5.08%

Notes:

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

2. 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, 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.

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

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

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

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

Save as disclosed above, as at 31 December 2015, 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 our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such shares.

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 2015, all share options granted but not exercised under the Pre-IPO Share Option Scheme have been lapsed.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme as at 31 December 2015:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2015	Options granted since 1 January 2015	Options exercised since 1 January 2015	Options lapsed/ cancelled since 1 January 2015	Options outstanding as at 31 December 2015
Employees and senior management *(Note 1)*								
Group A	20 December 2010 (as supplemented and amended on 25 September 2012)	0.7617 *(Note 2)*	N/A	1,924,273	–	–	1,966,100 *(Note 2)*	–
Group C	20 December 2010 (as supplemented and amended on 25 September 2012)	1.0668 *(Note 2)*	N/A	371,214	–	–	379,283 *(Note 2)*	–
Total				2,295,487	–	–	2,345,383 *(Note 2)*	–

Note:

1. The grantees are divided into different groups according to the date of joining the Group.

2. The exercise price and number of outstanding share options were adjusted after the completion of the rights issue of the Company on 4 February 2015. Please refer to the section headed "Adjustment to the share options under the Pre-IPO Share Option Scheme and the Share Option Scheme" of this report.

(1) Purpose

The purpose of the Pre-IPO Share Options Scheme is to attract, retain and motivate full-time employees and the Directors to contribute to the listing of the Shares on the Stock Exchange and/or strive for future developments and expansion of the Group. The Pre-IPO 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.

(2) Eligible participants

Our Board may, in its discretion, select any full-time employee and director of the Group, to participate in the Pre-IPO Share Option Scheme. The participants are divided into different groups according to the date of joining of the Group.

(3) Total number of shares available for issue

The total number of Shares which may be issued upon exercise of all options to be granted under the Pre-IPO 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 7.53% of the issued Shares as at the date of this report.

(4) The maximum entitlement of each eligible participant

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.

The Board was entitled at any time after the Adoption Date but in any event on or prior to 31 December 2010 to make an offer of the grant of an option to any participant and the Board may in its absolute discretion impose any conditions, restrictions or limitations in relation to the options, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the Pre-IPO Share Option Scheme.

(5) Option period

The share options shall be exercised within 5 years from the date on which the offer of the grant of an option is made provided that the grantee has been a participant on the date of exercise.

(6) Minimum period for which an option must be held before it is vested

There is no vesting period for options granted under the Pre-IPO Share Option Scheme.

(7) Payment on acceptance of the option

The Pre-IPO Share Option Scheme does not specify any consideration which is payable on the acceptance of an option and the Board may in its absolute discretion impose any conditions, restrictions or limitations in relation to the options, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the Pre-IPO Share Option Scheme.

(8) Basis of determining the exercise price

The exercise price (as adjusted after the completion of the rights issue of the Company dated 4 February 2015) shall be determined by the Board on the basis that (i) HK$0.7617 per Share for Group A Participants and (ii) HK$1.0668 per Share for Group C Participants.

(9) The remaining life of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further options will be granted but in respect of all options which have been granted prior to the end of such period, the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect.

The Directors consider that the values of the share options under the Pre-IPO Share Option Scheme are subject to a number of assumptions and the limitation of the models.

Details of the Pre-IPO Share Option Scheme are stated in note 25 to the consolidated financial statements.

SHARE OPTION SCHEME

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant (HK$)	Options outstanding as at 1 January 2015	Options granted since 1 January 2015	Options exercised since 1 January 2015	Options lapsed/ cancelled since 1 January 2015	Options outstanding as at 31 December 2015
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Zhao Jindong	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
	29 May 2015 *(Note 3)*	1.3	1.28	–	2,500,000 *(Note 3)*	–	–	2,500,000
Ko Po Ming	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Lee Tommy	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Ma Hua	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
He Shenghou	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Tong Hin Wor	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Wong Lap Tat Arthur	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
Employees and senior managements	29 April 2014	2.5506 *(Note 2)*	2.44	18,600,000	–	– *(Note 1)*	306,521	18,697,779 *(Note 2)*
	29 May 2015 *(Note 3)*	1.3	1.28	–	57,100,000 *(Note 3)*	– *(Note 4)*	500,000	56,600,000
Others	29 April 2014	2.5506 *(Note 2)*	2.44	100,000	–	– *(Note 1)*	–	102,173 *(Note 2)*
	29 May 2015	1.3	1.28	–	100,000	– *(Note 4)*	–	100,000
Total				19,500,000	59,700,000	–	806,521	78,817,336 *(Note 3)*

Notes:

1. 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.

2. For details of the pro-rata adjustment to the exercise price and number of the Shares falling to be issued under the outstanding share options of the Share Option Scheme, please refer to the section headed "Adjustment to the share options under the Pre-IPO Share Option Scheme and the Share Option Scheme" of this annual report.

3. On 29 May 2015, the Group granted an aggregate of 59,700,000 share options under the Share Option Scheme, of which the grant of 17,500,000 share options to Zhao Jindong and certain senior managements is beyond the scheme mandate limit of the Share Option Scheme and is conditional on, inter alia, the approval of the shareholders of the Company in the general meeting. The share options have a validity period of 7 years from 29 May 2015 to 28 May 2022, subject to the vesting conditions as stated in the note 4 below and the provisions for early termination contained in the Share Option Scheme. For further details, please refer to the announcement of the Company dated 29 May 2015.

4. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 29 May 2016 to 28 May 2022, both dates inclusive.

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

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

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

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

Save as disclosed above, at no time during the year ended 31 December 2015 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.

(1) Purpose

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.

(2) Eligible participants

The Board may, at its discretion, invite:

(i) any executive or non-executive Director including any independent non-executive Director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of the Group;

(iii) any adviser or consultant (in the areas of legal, technical, financial or corporate management) to the Group;

(iv) any provider of goods and/or services to the Group; or

(v) any other person who the Board considers, in its sole discretion, has contributed to the Group to take up the share options.

In determining the basis of eligibility of each participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(3) Total number of shares available for issue

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 7.53% of the issued Shares as at the date of this report.

(4) The maximum entitlement of each eligible participant

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.

(5) Option period

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.

(6) Minimum period for which an option must be held before it is vested

Unless otherwise determined by the Board and specified in the offer letter at the time of the offer of the share option, there are neither any performance targets that need to be achieved by the grantee before a share option can be exercised nor any minimum period for which a share option must be held before the share 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 share options impose any conditions, restrictions or limitations in relation to the share option as it may at its absolute discretion think fit.

(7) Payment on acceptance of the option

Offer of a share option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the share option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company within 28 days from the date of the offer.

(8) Basis of determining the exercise price

The exercise price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the participant and shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which a share option is granted, and (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date on which a share option is granted.

(9) The remaining life of the Share Option Scheme

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further share options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

The Directors consider that the values of the share options are subject to a number of assumptions and the limitation of the models.

Details of Share Option Scheme are stated in note 25 to the consolidated financial statements.

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 Rights 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 (Granted on 29 April 2014)	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 2015, none of the Directors or any of their respective close 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, inter alia, (i) Termbray Industries International (Holdings) Limited, Termbray Electronics (B.V.I.) Limited, Termbray Natural Resources Company Limited, Mr. Lee Lap, Mr. Lee Tommy and Lee & Leung (B.V.I.) 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 2015.

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 2015.

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 2015.

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 2015.

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 then 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.

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. The Term Loan was fully repaid on 29 January 2016.

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.

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 have been used for partial repayment of the Term Loan.

CONNECTED TRANSACTIONS

Connected transactions during the year were required to be disclosed pursuant to Rule 14A.71 of the Listing Rules:

(i) Subscription of new shares of the Company

The Company entered into subscriptions agreements on 24 September 2015 (as amended and supplemented by supplemental agreements dated 24 November 2015) with Termbray Natural Resources Company Limited, Jade Win Investment Limited and Jereh International (Hong Kong) Co., Limited respectively in relation to the Subscriptions of an aggregate of 93,480,000 new ordinary shares of the Company with no par value at the price of HK$0.79 per Subscription Share. The completion of the Subscriptions took place on 30 December 2015 and the Subscription Shares were allotted and issued to the Subscribers at HK$0.79 per Subscription Share.

Termbray Natural Resources Company Limited ("**Termbray Natural Resources**"), being one of the subscribers of the Subscriptions, is a controlling shareholder of the Company and thus is a connected person of the Company for the purpose of chapter 14A of the Listing Rules. Accordingly, the Subscription by Termbray Natural Resources constitutes a non-exempt connected transaction of the Company under the Listing Rules and the Company has complied with the announcement, reporting and independent shareholders' approval requirements pursuant to the Listing Rules.

(ii) Disposal of 40.1% equity interest in a subsidiary

On 3 August 2015, 深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited*) ("**Petro-king Shenzhen**"), an indirectly wholly-owned subsidiary of the Company, entered into disposal agreements (the "**Disposal Agreements**") with 長安財富資產管理有限公司, He Jianhui and Chen Liquan in relation to the Disposal. The consideration of the Disposal amounts to RMB60,150,000 (equivalent to approximately HK$75,187,500), of which RMB34,547,400 (equivalent to approximately HK$43,184,250) was the aggregate deposit to satisfy part of the payment of the consideration of the Disposal.

As He Jianhui is one of the management shareholder and a director of the Target Company, He Jianhui is regarded as a connected person of the Company at the subsidiary level. As such, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. However, as (i) the Disposal is on normal commercial terms or better; (ii) the Board has approved the Disposal Agreements and the transactions contemplated thereunder; and (iii) the independent non-executive Directors have confirmed that the terms of the Disposal Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole, the Disposal is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules. The Company has complied with the announcement requirements under the Listing Rules.

CONTINUING CONNECTED TRANSACTION

A continuing connected transactions 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.

Shenzhen FST was a non-wholly owned subsidiary of the Company and was owned as to 60% by Petro-king Shenzhen and as to 40% by He Jianhui, Chen Hongli and Zhang Yianwu. On 3 August 2015, Petro-king Shenzhen entered into disposal agreements with each of three purchasers in relation to the Disposal. Upon the Disposal, the Company holds 19.9% equity interest of Shenzhen FST and Shenzhen FST has ceased to be a subsidiary of the Company and the results of Shenzhen FST are no longer consolidated in the Group's consolidated financial statements.

Before the Disposal, given that Ms. Chen Hongli is interested in 16% equity interests in Shenzhen FST, a previous non-wholly owned subsidiary of the Company, Ms. Chen Hongli, being a substantial shareholder of Shenzhen FST, was 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 was approximately RMB117,900 and RMB132,000 respectively. Since each of the percentage ratios calculated by reference in Rule 14.07 of the Listing Rules, where applicable, in respect of the Tenancy Agreements was less than 0.1%, the Tenancy Agreements constituted exempted continuing connected transactions of the Company under Rule 14A.76(1) of the Listing Rules for the period up to the Disposal.

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transaction were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 57 of the annual report in accordance with paragraph 14A. 56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 21 to 27.

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.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible oilfield service provider, the Group is committed to observing the laws and regulations on environmental protection. The Group has established stringent standards and adopted effective environmental measures to ensure that the conducting of the Group's business meets the applicable local standards and ethics in respect of environmental protection.

The Group pays special effort in developing environmentally friendly technology and tools as well as applying these tools and technology in customers' E&P projects.

In addition, the Group advocated conservation of resources in office, actively promoted its own policy regarding health, safety and environment (HSE) and encouraged employees to develop good habits in conserving resources and energy so as to build a green and paperless office environment. Further, the Group has improved the office automation (OA system) and implemented information sharing electronically to minimize office wastage. The Group always actively undertakes environmental protection duty, observes and meets the requirements of the national energy saving targets.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has strictly complied with the relevant laws and regulations and as far as the Board and the management of the Group are aware, there was no material breach of laws and regulations by the Group during the year.

PERMITTED INDEMNITY PROVISIONS

The Company has arranged appropriate liability coverage, for the Directors to insure against any losses and liabilities incurred by Directors for the year ended 31 December 2015.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

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

Hong Kong, 23 March 2016

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

TO THE SHAREHOLDERS OF
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 set out on pages 62 to 158, which comprise the consolidated balance sheet as at 31 December 2015, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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, 23 March 2016

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2015	2014
	Note	**HK$'000**	HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**757,928**	815,108
Intangible assets	*7*	**520,485**	567,312
Land use rights	*8*	**25,442**	27,624
Available-for-sale financial asset	*9*	**32,486**	–
Other receivables, deposits and prepayments	*12*	**147,724**	142,611
Deferred tax assets	*19*	**13,640**	11,111
		1,497,705	1,563,766
Current assets			
Inventories	*11*	**242,719**	367,967
Trade receivables	*12*	**467,088**	778,449
Other receivables, deposits and prepayments	*12*	**89,522**	170,989
Current income tax recoverable		**3,249**	19,093
Pledged bank deposits	*13*	**147,685**	200,154
Restricted bank balance	*14*	**5,959**	6,338
Cash and cash equivalents	*14*	**46,592**	55,339
		1,002,814	1,598,329
Total assets		**2,500,519**	3,162,095
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*15*	**1,879,966**	1,658,187
Other reserves	*16*	**36,268**	51,761
(Accumulated losses)/retained earnings		**(338,941)**	41,680
		1,577,293	1,751,628
Non-controlling interests		**2,011**	43,300
Total equity		**1,579,304**	1,794,928

	Note	As at 31 December 2015 HK$'000	2014 HK$'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*18*	**174,746**	36,784
Deferred tax liabilities	*19*	**11,246**	18,674
		185,992	55,458
Current liabilities			
Trade payables	*17*	**310,967**	312,042
Other payables and accruals	*17*	**212,943**	274,793
Current income tax liabilities		**1,826**	12,175
Bank and other borrowings	*18*	**209,487**	712,699
		735,223	1,311,709
Total liabilities		**921,215**	1,367,167
Total equity and liabilities		**2,500,519**	3,162,095

The notes on pages 70 to 158 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 62 to 158 were approved by the Board of Directors on 23 March 2016 and were signed on its behalf.

Mr. Wang JinLong
Director

Mr. Zhao JinDong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2015 HK$'000	2014 HK$'000
Revenue	5	**631,014**	705,172
Other income	20	**563**	416
Operating costs			
Material costs	11	**(215,925)**	(220,280)
Depreciation of property, plant and equipment	6	**(86,266)**	(61,233)
Amortisation of intangible assets and land use rights	7,8	**(1,712)**	(1,640)
Operating lease rental		**(14,529)**	(20,170)
Employee benefit expenses	21	**(168,346)**	(214,902)
Distribution expenses		**(14,670)**	(22,196)
Technical services fees		**(111,697)**	(74,749)
Research and development expenses		**(19,274)**	(24,648)
Entertainment and marketing expenses		**(15,657)**	(27,794)
Provision for impairment of trade receivables, net	12	**(182,148)**	(280,296)
Other expenses	22	**(78,453)**	(147,869)
Foreign exchange losses, net	28	**(86,101)**	(7,426)
Other gains/(losses), net	23	**19,013**	(385)
Operating loss		**(344,188)**	(398,000)
Finance income	26	**3,370**	19,167
Finance costs	26	**(51,490)**	(38,001)
Finance costs, net		**(48,120)**	(18,834)
Loss before income tax		**(392,308)**	(416,834)
Income tax credit/(expense)	27	**549**	(1,314)
Loss for the year		**(391,759)**	(418,148)
Other comprehensive (loss)/income			
Items that have been or may be subsequently reclassified to profit or loss:			
Revaluation loss on an available-for-sale financial asset	9	**(3,803)**	–
Currency translation differences			
– Group		**(57,452)**	18,980
– Recycling upon disposal of equity interest in a subsidiary	34	**(250)**	–
Total comprehensive loss for the year		**(453,264)**	(399,168)

		Year ended 31 December	
	Note	**2015** **HK$'000**	2014 HK$'000
(Loss)/income for the year attributable to:			
Owners of the Company		**(384,342)**	(423,082)
Non-controlling interests		**(7,417)**	4,934
		(391,759)	(418,148)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(444,464)**	(404,058)
Non-controlling interests		**(8,800)**	4,890
		(453,264)	(399,168)
Loss per share attributable to owners of the Company during the year	*29*		
Basic loss per share (HK cents)		**(31)**	(38)
Diluted loss per share (HK cents)		**(31)**	(38)

The notes on pages 70 to 158 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 16)*	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2015	1,658,187	51,761	41,680	1,751,628	43,300	1,794,928
Comprehensive loss						
Loss for the year	–	–	(384,342)	(384,342)	(7,417)	(391,759)
Other comprehensive loss						
Revaluation loss on an available-for-sale financial asset *(Note 9)*	–	(3,803)	–	(3,803)	–	(3,803)
Currency translation differences						
– Group	–	(56,069)	–	(56,069)	(1,383)	(57,452)
– Recycling upon disposal of equity interest in a subsidiary *(Note 34)*	–	(250)	–	(250)	–	(250)
Total comprehensive loss for the year	–	(60,122)	(384,342)	(444,464)	(8,800)	(453,264)
Transactions with owners in their capacity as owners						
Issuance of ordinary shares from rights issue *(Note 15)*	147,930	–	–	147,930	–	147,930
Issuance of new ordinary shares *(Note 15)*	73,849	–	–	73,849	–	73,849
Issuance of convertible bonds *(Note 18(c))*	–	28,462	–	28,462	–	28,462
Recognition of share-based payment	–	19,888	–	19,888	–	19,888
Disposal of equity interest in a subsidiary	–	(3,721)	3,721	–	(32,489)	(32,489)
Total transactions with owners, recognised directly in equity	221,779	44,629	3,721	270,129	(32,489)	237,640
Balance at 31 December 2015	1,879,966	36,268	(338,941)	1,577,293	2,011	1,579,304

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves *(Note 16)*	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2014	1,634,591	36,174	520,279	2,191,044	34,523	2,225,567
Comprehensive loss						
Loss for the year	–	–	(423,082)	(423,082)	4,934	(418,148)
Other comprehensive income						
Currency translation differences – Group	–	19,024	–	19,024	(44)	18,980
Total comprehensive loss for the year	–	19,024	(423,082)	(404,058)	4,890	(399,168)
Transactions with owners in their capacity as owners						
Exercise of share options	23,596	(11,659)	–	11,937	–	11,937
Recognition of share-based payment	–	6,724	–	6,724	–	6,724
Transfer to statutory reserve	–	1,498	(1,498)	–	–	–
Dividend	–	–	(54,019)	(54,019)	–	(54,019)
Total transactions with owners, recognised directly in equity	23,596	(3,437)	(55,517)	(35,358)	–	(35,358)
Capital injection from non-controlling shareholders of new subsidiaries	–	–	–	–	3,887	3,887
Total transactions with owners	23,596	(3,437)	(55,517)	(35,358)	3,887	(31,471)
Balance at 31 December 2014	1,658,187	51,761	41,680	1,751,628	43,300	1,794,928

The notes on pages 70 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
	Note	**2015** **HK$'000**	2014 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	*31*	**67,733**	(20,441)
Interest paid		**(17,257)**	(29,608)
Income tax refunded/(paid)		**13,512**	(35,199)
Net cash generated from/(used in) operating activities		**63,988**	(85,248)
Cash flows from investing activities			
Prepayment and purchases of land use rights		**–**	(22,115)
Prepayment of property, plant and equipment		**(1,876)**	(91,463)
Purchases of property, plant and equipment		**(77,745)**	(531,671)
Proceeds from disposal of property, plant and equipment	*31(b)*	**2,206**	87
Purchases of intangible assets		**–**	(537)
Proceeds from disposal on equity interest of a subsidiary, net of cash disposed	*34*	**69,025**	–
Decrease/(increase) in pledged bank deposits		**50,404**	(35,660)
Interest received	*26*	**1,990**	4,468
Net cash generated from/(used in) investing activities		**44,004**	(676,891)

	Note	Year ended 31 December 2015 HK$'000	2014 HK$'000
Cash flows from financing activities			
Acquisition of non-controlling interest in a subsidiary		**–**	(18,600)
Capital injection from non-controlling shareholders of subsidiaries		**–**	3,887
Proceeds from bank borrowings		**238,924**	937,172
Repayments of bank borrowings		**(722,443)**	(419,838)
Repayments of other borrowings		**(7,181)**	–
Net proceeds from issuance of convertible bonds	*18(c)*	**153,860**	–
Net proceeds from rights issue	*15*	**147,930**	–
Net proceeds from issuance of ordinary shares		**73,849**	11,938
Advance (repaid to)/received from related parties	*35*	**(82)**	22,908
Repayment from/(advance to) a related party	*35*	**3,565**	(5,704)
Repayment of advance from related parties	*35*	**(6,731)**	(2,601)
Loans from a related party		**–**	126,760
Repayment of loans from a related party		**–**	(126,760)
Dividend paid		**–**	(54,019)
Net cash (used in)/generated from financing activities		**(118,309)**	475,143
Net decrease in cash and cash equivalents		**(10,317)**	(286,996)
Cash and cash equivalents at beginning of year, net of overdraft		**55,339**	343,921
Exchange losses on cash and cash equivalents		**(1,098)**	(1,586)
Cash and cash equivalents at end of year, net of overdraft	*14*	**43,924**	55,339

The notes on pages 70 to 158 are an integral part of these 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 ("**B.V.I.**").

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

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

These 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 these 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 all applicable International Financial Reporting Standards ("**IFRS**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of an available-for-sale financial asset, which is carried at fair value.

The preparation of financial statements in conformity with IFRS 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.

2.1.1 Going Concern

During the year ended 31 December 2015, the Group reported a net loss attributable to owners of approximately HK$384,342,000 and a net operating cash inflow of approximately HK$63,988,000.

As at 31 December 2015, the Group had cash and cash equivalents of HK$46,592,000 and pledged bank deposits of HK$147,685,000. As at the same date, the Group had total borrowings of HK$384,233,000, of which HK$209,487,000 will be due in the coming twelve months. The HK$209,487,000 borrowings due within the coming twelve months mainly included (i) a term-loan of HK$56,841,000 due in January 2016 where the Group did not meet certain covenant requirement, but nevertheless this term-loan was fully repaid as scheduled on 29 January 2016; and (ii) bank borrowings of approximately HK$139,924,000 which were secured by pledged bank deposits of HK$136,350,000 (details of the borrowings are set out in note 18).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going Concern (Continued)

During the year ended 31 December 2015, the Group completed a series of financing activities to lower its gearing ratio, including, (i) completion of a rights issue of the Company's shares in February 2015 which raised net proceeds of approximately HK$147,930,000; (ii) issuance of 3-year 5% convertible bonds in March 2015 which raised net proceeds of HK$153,860,000; (iii) completion of a disposal in September 2015 of 40.1% equity interest in Shenzhen Fluid Science & Technology Co., Ltd, a former subsidiary of the Company, with net proceeds of HK$69,025,000; and (iv) completion of a placement of 93,480,000 new shares of the Company in December 2015 raising net proceeds of HK$73,849,000. Furthermore, the Group has implemented measures to expedite collection of outstanding trade receivables and contain operating and capital expenditures. These efforts together with the cash inflows from the aforementioned financing activities funded a net repayment of borrowings of approximately HK$490,700,000 during the year ended 31 December 2015.

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 2015. A number of measures have been put in place by the directors of the Company to further improve the financial position and alleviate the liquidity pressure, including:

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

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

Based on the cash flow projections and taking into account the anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2015. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Venezuela – Exchange control and devaluation

A Venezuelan subsidiary incorporated on 17 September 2012 continued its operations in the current year and its functional currency is Bolivares fuertes ("**Bs**"). Venezuela operated a number of alternative exchange mechanisms and the Group used official exchange rate (i.e. CENCOEX), which at 31 December 2014 was 6.3 Bs per United States dollar ("US$"), for translation of its financial statements into Hong Kong dollar for consolidation. During 2015, the Venezuelan government announced a new exchange rate (i.e. Sistema Marginal de Divisas – SIMADI) to allow both, individuals and entities, to buy and sell foreign currency with fewer restrictions than the other rates in Venezuela. The SIMADI rate is a daily variable average rate based on market transactions and the rate is 199.5 Bs per US$ at 31 December 2015.

The Group changed the exchange rate from the CENCOEX rate to the SIMADI rate for accounting and consolidation of its Venezuelan subsidiary for the year as the management believed that the SIMADI rate could better represent the primary economic environment for the Venezuelan subsidiary operated in Venezuela. The change from the CENCOEX rate to the SIMADI rate brought about devaluation effect to non-monetary assets as well as certain monetary assets and liabilities that were denominated in Bs. The effect as at 31 December 2015 are as follows:

(i) Decrease in property, plant and equipment by HK$71,375,000 to HK$2,327,000,

(ii) Decrease in inventories by HK$24,500,000 to HK$799,000,

(iii) Decrease in prepayments and other receivables denominated in Bs by HK$7,696,000to HK$251,000; and

(iv) Decrease in trade and other payables denominated in Bs by HK$144,143,000 to HK$4,700,000.

The total assets decreased from HK$118,672,000 to HK$3,792,000 whereas the total liabilities decreased from HK$252,474,000 to HK$78,245,000, and such devaluation was reflected in currency translation differences in other comprehensive income.

Furthermore, as a result of the translation of payables denominated in US$ of the Venezuelan subsidiary led to a foreign exchange loss of HK$66 million included in the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.3 Venezuela – Hyperinflationary economy

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 Bs on 8 February 2013.

Pursuant to the requirements of IAS 29, the Venezuelan subsidiary which reports its financial statements in Bs, 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 2015, the index was 2,357.9 (2014: 839.5) and the year-over-year change in the index was 180.9%.

Pursuant to this standard, the 2014 figures should not be restated, and 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 2015 was 199.5 Bs per US$ (2014: 6.3 Bs per US$).

As at 31 December 2015, 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$1,380,000 (2014: HK$14,699,000). The deferred tax liabilities on temporary difference associated with restatement of the non-monetary assets and liabilities amounting to HK$722,000 as at 31 December 2015 (2014: HK$8,033,000).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.4 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are effective for annual periods beginning after 1 January 2015, and have been 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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.4 Changes in accounting policies and disclosures (Continued)

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

The following new standards and amendments to standards have been issued but not effective for the financial year end beginning 1 January 2015, and have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 10 and IAS 28 Amendment	Sale or contribution of assets between an investor and its associate or joint venture	A date to be determined by the IASB
IFRS 10, IFRS 12 and IAS 28 Amendment	Investment entities: Applying the consolidation exception	1 January 2016
IFRS 11 Amendment	Accounting for acquisitions of interests in joint operations	1 January 2016
IAS 1 Amendment	Disclosure initiative	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
Annual Improvements Project	Annual improvements 2012-2014 cycle	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(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.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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.

(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.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or joint ventures that do not result in the group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

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
Buildings	Shorter of lease term or useful life of 50 years
Plant and machineries	5-10 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 losses, net' 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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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

2.8.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

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), "cash and cash equivalents" (Note 2.12), "restricted bank balance" and "pledged bank deposits" (Note 2.13) in the consolidated balance sheet.

(b) Available-for-sale financial asset

Available-for-sale financial asset is non-derivative that is either designated in this category or not classified in any of the other categories. It is included in non-current asset unless the investment mature or management intend to dispose of it within 12 months from the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on 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.

Changes in the fair value of financial asset classified as available-for-sale are recognised in other comprehensive income.

When financial asset classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income within 'other losses, net'.

2.8.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.9 Impairment of financial assets

(a) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.18 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in other reserve in the equity. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Current and deferred income tax (Continued)

(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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee benefits (Continued)

(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.

2.22 Share-based payment

(a) 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 Share-based payment (Continued)

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.23 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.

2.24 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition (Continued)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition (Continued)

(d) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

2.25 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.

2.26 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.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term

2.27 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 foreign exchange risk, and cash flow 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.

(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 US$, European dollar ("**EURO**") and the Chinese Renminbi ("**RMB**"). 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$, EURO and RMB 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 2015, 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$2,857,000 lower/higher (2014: HK$1,174,000 lower/higher) as a result of foreign exchange gains or losses on translation of US$ denominated net assets.

At 31 December 2015, if HK$ had weakened/strengthened by 5% against EURO with all other variables held constant, net post-tax loss for the year would have been approximately HK1,901,000 lower/higher (2014: HK$354,000 lower/higher) as a result of foreign exchange gains or losses on translation of EURO denominated net assets.

At 31 December 2015, if HK$ had weakened/strengthened by 5% against RMB with all other variables held constant, net post-tax loss for the year would have been approximately HK10,610,000lower/higher (2014: HK$10,271,000 lower/higher) as a result of foreign exchange gains or losses on translation of RMB denominated net assets.

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 and pledged bank deposits. 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 2015 and 2014, the Group's borrowings at variable rates were denominated in HK$, US$, RMB and Singaporean dollar ("**SGD**").

At 31 December 2015, 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 loss for the year would have been approximately HK$848,000 (2014: HK$4,693,000) higher/lower, 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.

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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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

The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement 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 relevant debtors.

The Group's consolidated results would be heavily affected by the financial capability of its debtors to fulfil their obligations with the Group. The Group's credit risk monitoring activities relating to the debtors include review of the credit profile, business prospects, background and their financial capacities. As at 31 December 2015, management has determined to record provision for doubtful receivables of HK$412,262,000 (2014: HK$297,600,000) which represents the impairment of total receivables due from the Group's certain debtors.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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.

The table below analyses the Group'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$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2015					
Trade payables	**310,967**	**–**	**–**	**–**	**310,967**
Other payables	**146,981**	**–**	**–**	**–**	**146,981**
Bank and other borrowings	**210,817**	**15,462**	**160,921**	**32,896**	**420,096**
	668,765	**15,462**	**160,921**	**32,896**	**878,044**
At 31 December 2014					
Trade payables	312,042	–	–	–	312,042
Other payables	168,828	–	–	–	168,828
Bank and other borrowings	718,339	2,704	9,248	44,957	775,248
	1,199,209	2,704	9,248	44,957	1,256,118

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 bank and other 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 2015 and 2014 were as follows:

	2015 **HK$'000**	2014 HK$'000
Bank and other borrowings *(Note 18)*	**384,233**	749,483
Less:		
Pledged bank deposits *(Note 13)*	**(147,685)**	(200,154)
Cash and cash equivalents *(Note 14)*	**(46,592)**	(55,339)
Restricted bank balance *(Note 14)*	**(5,959)**	(6,338)
Net debt	**183,997**	487,652
Total equity	**1,579,304**	1,794,928
Total capital	**1,763,301**	2,282,580
Gearing ratio	**10%**	21%

The decrease in gearing ratio for the year ended 31 December 2015 resulted primarily from decrease in bank and other borrowings (Note 18).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

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

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31 December 2015 and 2014.

	Level 3	
	2015	2014
	HK$'000	HK$'000
Asset		
Available-for-sale financial asset		
– unlisted equity security	**32,486**	–

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

	2015 HK$'000
At 1 January	–
Additions	36,289
Revaluation loss transferred to other comprehensive income *(Note 9)*	(3,803)
At 31 December	32,486
Changes in fair value for the year included in profit or loss at the end of the year	–

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.

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 2015 against goodwill in any of the CGUs if the pre-tax discount rate for the Group had been 2 percentage points higher than the management's estimates or the average annual growth rate of revenue for the Group had been 3percentage points lower than management's estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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.

(c) Fair value of available-for-sale financial asset

The fair value of the available-for-sale financial asset that is not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses discounted cash flow analysis for the available-for-sale financial asset that is not traded in the active market.

(d) 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 12).

(e) 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.

(f) 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(g) Recognition of deferred tax asset

At 31 December 2015 a deferred tax asset of HK$11,095,000 (2014: HK$8,052,000) in relation to unused tax losses 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.

(h) Convertible bonds classification

The Group's convertible bonds is financial instrument, which is all accounted for under International Accounting Standard 32 — "Financial Instruments: Presentation" ("**IAS 32**") and International Accounting Standard 39 — "Financial Instruments: Recognition and Measurement" ("**IAS 39**"). The net proceeds of the convertible bonds issued was HK$153,860,000. The cash considerations of the convertible bonds were lower than the fair value of the convertible bonds at the completion date. Such difference may imply that unidentifiable services or goods could be received by the Group, where the convertible bonds could be accounted for in accordance with International Financial Reporting Standard 2 — "Share-based Payment" (Note 2.22). After taking into account of the Group's current financial performance, liquidity position and other appropriate factors, management concluded that there were no unidentifiable services received and have accounted for the convertible bonds in accordance with IAS 32 and IAS 39.

5 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the Chief Executive Officer, vice president 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 operations. 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 years ended 31 December 2015 and 2014 is as follows:

	2015	2014
	HK$'000	HK$'000
Oilfield project services		
– Drilling	**175,216**	179,160
– Well completion	**58,377**	28,555
– Production enhancement	**116,736**	225,510
Total oilfield project services	**350,329**	433,225
Consultancy services	**45,475**	89,076
Manufacturing and sales of tools and equipment	**235,210**	182,871
Total revenue	**631,014**	705,172

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

The segment information for the years ended 31 December 2015 and 2014 are as follows:

	Oilfield project services HK$'000	Consultancy services HK$'000	Manufacturing and sales of tools and equipment HK$'000	Total HK$'000
Year ended 31 December 2015				
Total segment revenue	350,329	45,475	264,357	660,161
Inter-segment revenue	–	–	(29,147)	(29,147)
Revenue from external customers	350,329	45,475	235,210	631,014
Segment results	(140,478)	41,581	66,933	(31,964)
Net unallocated expenses				(360,344)
Loss before income tax				(392,308)
Other information:				
Amortisation	(1,117)	–	–	(1,117)
Depreciation	(68,256)	–	(15,390)	(83,646)
Provision for impairment of trade receivables, net *(Note 12)*	(179,120)	3,603	(6,631)	(182,148)
Gain on disposal of equity interest in a subsidiary *(Note 34)*	–	–	19,920	19,920
Income tax expense	–	–	(2,433)	(2,433)

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

The segment information for the years ended 31 December 2015 and 2014 are as follows:

	Oilfield project services HK$'000	Consultancy services HK$'000	Manufacturing and sales of tools and equipment HK$'000	Total HK$'000
Year ended 31 December 2014				
Total segment revenue	433,225	89,076	236,539	758,840
Inter-segment revenue	–	–	(53,668)	(53,668)
Revenue from external customers	433,225	89,076	182,871	705,172
Segment results	(179,295)	52,357	21,764	(105,174)
Net unallocated expenses				(311,660)
Loss before income tax				(416,834)
Other information:				
Amortisation	(1,117)	–	–	(1,117)
Depreciation	(47,428)	–	(7,642)	(55,070)
Provision for impairment of trade receivables, net *(Note 12)*	(266,216)	(10,419)	(3,661)	(280,296)
Income tax expense	–	–	(2,930)	(2,930)

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 before income tax is provided as follows:

	2015 HK$'000	2014 HK$'000
Segment results	**(31,964)**	(105,174)
Other income	**563**	416
Depreciation of property, plant and equipment	**(2,620)**	(6,163)
Amortisation of intangible assets and land use rights	**(595)**	(523)
Operating lease rental	**(9,909)**	(11,392)
Employee benefit expenses	**(116,632)**	(135,015)
Distribution expenses	**(14,192)**	(21,132)
Research and development expenses	**(18,657)**	(23,823)
Entertainment and marketing expenses	**(13,525)**	(19,515)
Other expenses	**(53,206)**	(81,385)
Foreign exchange losses, net	**(86,101)**	(7,426)
Other losses	**(907)**	(385)
Finance income	**3,370**	19,167
Finance costs	**(47,933)**	(24,484)
Loss before income tax	**(392,308)**	(416,834)

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, and finance costs, allocated to each operating segment.

5 SEGMENT INFORMATION (Continued)

(b) Assets

The segment assets as at 31 December 2015 are as follows:

	Oilfield project services HK$'000	Consultancy services HK$'000	Manufacturing and sales of tools and equipment HK$'000	Total HK$'000
As at 31 December 2015				
Segment assets	1,442,976	143,625	669,916	2,256,517
Unallocated assets				244,002
Total assets				2,500,519
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	73,803	–	30,599	104,402

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

	Oilfield project services HK$'000	Consultancy services HK$'000	Manufacturing and sales of tools and equipment HK$'000	Total HK$'000
As at 31 December 2014				
Segment assets	2,025,873	187,923	618,787	2,832,583
Unallocated assets				329,512
Total assets				3,162,095
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	542,423	–	133,169	675,592

5 SEGMENT INFORMATION (Continued)

(b) Assets (Continued)

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

Segment assets included property, plant and equipment, intangible assets,land use rights, available-for-sale financial asset,deferred tax assets, inventories, trade and other receivables, deposits and prepayments, pledged bank deposits, restricted bank balance and cash and cash equivalents.

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

	2015 HK$'000	2014 HK$'000
Segment assets for reportable segments	**2,256,517**	2,832,583
Unallocated assets		
– Unallocated property, plant and equipment	**20,259**	20,025
– Unallocated intangible assets	**862**	1,452
– Unallocated other receivables, deposits and prepayments	**28,267**	40,535
– Unallocated deferred tax assets	**13,640**	8,052
– Unallocated current income tax recoverable	**3,249**	19,093
– Unallocated pledged bank deposits	**141,585**	192,470
– Unallocated restricted bank balance	**5,959**	6,338
– Unallocated cash and cash equivalents	**30,181**	41,547
	244,002	329,512
Total assets per consolidated balance sheet	**2,500,519**	3,162,095

(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:

	2015 HK$'000	2014 HK$'000
The People's Republic of China ("**the PRC**")	**309,181**	465,359
South America	**9,700**	71,737
The Middle East	**259,062**	146,336
Central Asia	**21,126**	–
Others	**31,945**	21,740
	631,014	705,172

5 SEGMENT INFORMATION (Continued)

(c) Geographical information (Continued)

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:

	2015 HK$'000	2014 HK$'000
The PRC	**1,215,556**	1,275,594
South America	**92,108**	135,869
Singapore	**67,356**	97,474
The Middle East	**108,926**	43,578
Australia	**119**	140
	1,484,065	1,552,655

(d) Information about major customers

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

	2015 HK$'000
Customer A	**148,526**
Customer B	**113,278**
Customer C	**77,131**
	338,935

	2014 HK$'000
Customer C	135,654
Customer A	101,171
Customer D	71,737
	308,562

6 PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machineries HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1 January 2014								
Cost	59,927	3,583	2,741	237,776	14,269	8,211	3,811	330,318
Accumulated depreciation	–	(637)	(2,527)	(23,454)	(4,951)	(3,978)	(1,402)	(36,949)
Net book amount	59,927	2,946	214	214,322	9,318	4,233	2,409	293,369
Year ended 31 December 2014								
Opening net book amount	59,927	2,946	214	214,322	9,318	4,233	2,409	293,369
Additions	114,753	–	92	454,687	4,483	1,110	297	575,422
Depreciation	–	(2,250)	(91)	(52,923)	(3,209)	(1,341)	(1,419)	(61,233)
Monetary correction for hyperinflation	(2,742)	8,750	–	1,946	806	195	242	9,197
Transferred (out)/in	(120,068)	108,064	–	3,274	–	–	8,730	–
Disposals	–	–	–	(721)	–	(75)	–	(796)
Exchange differences	(124)	(16)	(1)	(638)	(40)	(18)	(14)	(851)
Closing net book amount	51,746	117,494	214	619,947	11,358	4,104	10,245	815,108
At 31 December 2014								
Cost	51,746	120,386	2,825	695,712	19,517	8,813	12,630	911,629
Accumulated depreciation	–	(2,892)	(2,611)	(75,765)	(8,159)	(4,709)	(2,385)	(96,521)
Net book amount	51,746	117,494	214	619,947	11,358	4,104	10,245	815,108
Year ended 31 December 2015								
Opening net book amount	**51,746**	**117,494**	**214**	**619,947**	**11,358**	**4,104**	**10,245**	**815,108**
Additions	**12,631**	**11,980**	**8,488**	**79,708**	**79**	**1,594**	**4,710**	**119,190**
Depreciation	**–**	**(6,575)**	**(620)**	**(74,377)**	**(2,072)**	**(1,218)**	**(1,404)**	**(86,266)**
Monetary correction for hyperinflation	**98**	**753**	**–**	**274**	**79**	**18**	**26**	**1,248**
Transferred (out)/in	**(56,785)**	**56,785**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**(24)**	**(1,819)**	**(1,289)**	**(80)**	**(10)**	**(3,222)**
Disposal of equity interest in a subsidiary *(Note 34)*	**–**	**–**	**–**	**(2,646)**	**(189)**	**(95)**	**(78)**	**(3,008)**
Written-off	**–**	**–**	**–**	**(13)**	**–**	**(971)**	**–**	**(984)**
Exchange differences	**(5,118)**	**(28,321)**	**(80)**	**(45,089)**	**(3,318)**	**(676)**	**(1,536)**	**(84,138)**
Closing net book amount	**2,572**	**152,116**	**7,978**	**575,985**	**4,648**	**2,676**	**11,953**	**757,928**
At 31 December 2015								
Cost	**2,572**	**183,663**	**11,119**	**694,635**	**14,877**	**6,182**	**15,861**	**928,909**
Accumulated depreciation	**–**	**(31,547)**	**(3,141)**	**(118,650)**	**(10,229)**	**(3,506)**	**(3,908)**	**(170,981)**
Net book amount	**2,572**	**152,116**	**7,978**	**575,985**	**4,648**	**2,676**	**11,953**	**757,928**

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

Construction in progress as at 31 December 2015 mainly comprises factory building and fracturing base being constructed in the Middle Eastand the PRC.

During the year, the Group did not capitalise borrowing costs (2014: HK$2,866,000) on qualifying assets.

Bank borrowings are secured by the building for the value of HK$45,955,000 (2014: HK$50,246,000) (Note 18).

Plant and machineries includes the following amounts where the Group is a lessee under a finance lease:

	2015 **HK$'000**
Cost – capitalised finance leases	**23,979**
Accumulated depreciation	**(1,389)**
Net book amount	**22,590**

7 INTANGIBLE ASSETS

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
At 1 January 2014			
Cost	566,621	7,747	574,368
Accumulated amortisation and impairment	(2,700)	(1,582)	(4,282)
Net book amount	563,921	6,165	570,086
Year ended 31 December 2014			
Opening net book amount	563,921	6,165	570,086
Additions	–	537	537
Amortisation	–	(1,520)	(1,520)
Exchange differences	(1,786)	(5)	(1,791)
Closing net book amount	562,135	5,177	567,312
At 31 December 2014			
Cost	566,621	8,285	574,906
Accumulated amortisation and impairment	(4,486)	(3,108)	(7,594)
Net book amount	562,135	5,177	567,312

7 INTANGIBLE ASSETS (Continued)

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2015			
Opening net book amount	**562,135**	**5,177**	**567,312**
Amortisation	**–**	**(1,472)**	**(1,472)**
Disposal of equity interest in a subsidiary *(Note 34)*	**(41,010)**	**(47)**	**(41,057)**
Exchange differences	**(4,225)**	**(73)**	**(4,298)**
Closing net book amount	**516,900**	**3,585**	**520,485**
At 31 December 2015			
Cost	**520,687**	**8,210**	**528,897**
Accumulated amortisation and impairment	**(3,787)**	**(4,625)**	**(8,412)**
Net book amount	**516,900**	**3,585**	**520,485**

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$'000	Exchange differences HK$'000	Disposal of equity interest in a subsidiary *(Note 34)* HK$'000	Closing HK$'000
Year ended 31 December 2015				
Oilfield project services	381,823	–	–	381,823
Consultancy services	95,456	–	–	95,456
Manufacturing and sales of tools and equipment	84,856	(4,225)	(41,010)	39,621
	562,135	(4,225)	(41,010)	516,900
Year ended 31 December 2014				
Oilfield project services	381,823	–	–	381,823
Consultancy services	95,456	–	–	95,456
Manufacturing and sales of tools and equipment	86,642	(1,786)	–	84,856
	563,921	(1,786)	–	562,135

7 INTANGIBLE ASSETS (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.

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 2015 and 2014 are as follows:

Year ended 31 December 2015

	Oilfield project services	**Consultancy services**	**Manufacturing and sales of tools and equipment**
Average annual growth rate	**15%**	**15%**	**12%**
Pre-tax discount rate	**18%**	**18%**	**16%**
Long term growth rate	**3%**	**3%**	**3%**

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	3%	3%	3%

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

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

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

8 LAND USE RIGHTS

	2015 **HK$'000**	2014 HK$'000
For the year ended 31 December		
Opening net book amount	**27,624**	12,042
Addition	**–**	15,942
Amortisation	**(240)**	(120)
Capitalisation in construction in progress	**(300)**	(203)
Exchange differences	**(1,642)**	(37)
Closing net book amount	**25,442**	27,624

9 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2015 **HK$'000**	2014 HK$'000
Unlisted equity security in the PRC – non-current	**32,486**	–

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

	2015 **HK$'000**
At 1 January	**–**
Transfer from the disposal of the equity interest of a subsidiary *(Note 34)*	**36,289**
Change in fair value recognised in other comprehensive income	**(3,803)**
At 31 December	**32,486**

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

The fair value is within the level 3 of the fair value hierarchy (Note 3.3).

10 FINANCIAL INSTRUMENTS BY CATEGORY

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

	2015 HK$'000	2014 HK$'000
Assets as per consolidated balance sheet		
Loans and receivables		
Trade receivables *(Note 12)*	**467,088**	778,449
Other receivables	**27,307**	30,663
Pledged bank deposits *(Note 13)*	**147,685**	200,154
Restricted bank balance *(Note 14)*	**5,959**	6,338
Cash and cash equivalents *(Note 14)*	**46,592**	55,339
Available-for-sale financial asset		
Unlisted equity security *(Note 9)*	**32,486**	–
Total	**727,117**	1,070,943
Liabilities as per consolidated balance sheet		
Other financial liabilities at amortised costs		
Trade payables *(Note 17)*	**310,967**	312,042
Other payables	**146,981**	168,828
Bank and other borrowings *(Note 18)*	**384,233**	749,483
Total	**842,181**	1,230,353

11 INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**3,996**	15,757
Assembling materials	**200,071**	326,613
Work in progress	**17,049**	8,099
Finished goods	**21,603**	17,498
	242,719	367,967

For the year ended 31 December 2015, the cost of inventories recognised as expense and included in 'material costs' amounted to HK$215,925,000 (2014: HK$220,280,000).

For the year ended 31 December 2015, inventories with cost of HK$5,553,000 (2014: HK$11,467,000) were considered as obsolete and recorded provision for impairment. The amount has been included in 'other expenses' (Note 22).

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	2015 HK$'000	2014 HK$'000
Trade receivables	**879,350**	1,076,049
Less: provision for impairment of trade receivables	**(412,262)**	(297,600)
Trade receivables – net	**467,088**	778,449

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

	2015 HK$'000	2014 HK$'000
Up to 3 months	**102,419**	270,129
3 to 6 months	**121,797**	148,956
6 to 12 months	**197,443**	155,870
Over 12 months	**457,691**	501,094
Trade receivables	**879,350**	1,076,049
Less: provision for impairment of trade receivables	**(412,262)**	(297,600)
Trade receivables – net	**467,088**	778,449

As at 31 December 2015, trade receivables of HK$369,713,000 (2014: HK$505,855,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is as follows:

	2015 HK$'000	2014 HK$'000
Up to 3 months	**126,264**	92,355
3 to 6 months	**141,666**	177,010
6 to 12 months	**52,006**	91,502
Over 12 months	**49,777**	144,988
	369,713	505,855

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

(a) Trade receivables (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 2015, bank borrowings are secured by certain trade receivables with an aggregate carrying value of HK$379,341,000 (2014: HK$ 641,387,000) (Note 18).

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

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

	2015 **HK$'000**	2014 HK$'000
US$	**236,577**	379,891
RMB	**185,307**	382,398
EURO	**45,204**	7,073
Bs	**–**	9,087
	467,088	778,449

Management has assessed the credit quality of customers on a case-by-case basis, taking into account of 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.

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

(a) Trade receivables (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 receivables as at 31 December 2015 amounted to HK$412,262,000 (2014: HK$297,600,000). The ageing of these receivables by services completion and delivery date at the respective balance sheet dates is as follows:

	2015 **HK$'000**	2014 HK$'000
6 to 12 months	**1,847**	13,744
Over 12 months	**410,415**	283,856
	412,262	297,600

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

	2015 **HK$'000**	2014 HK$'000
At 1 January	**297,600**	7,125
Provision for receivables impairment	**198,863**	290,475
Reversal of provision for receivables impairment	**(16,715)**	–
Exchange differences	**(67,486)**	–
As at 31 December	**412,262**	297,600

As at 31 December 2015, the recognition of provision for receivables impairment had been included in 'provision for impairment of trade receivables, net' of HK$182,148,000.

As at 31 December 2014, the recognition of provision for receivables impairment had been included in 'provision for impairment of trade receivables, net' of HK$280,296,000 and 'finance costs' of HK$10,179,000.

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

(b) Other receivables, deposits and prepayments

	2015 HK$'000	2014 HK$'000
Deposits and other receivables – third parties	**18,427**	10,978
Receivables on land bidding in the PRC	**2,384**	5,070
Value-added tax recoverables	**82,753**	97,344
Rental deposits	**1,592**	2,463
Cash advances to staff	**7,864**	11,326
Loans to staff *(Note (i))*	**3,723**	6,448
Loans to a senior management *(Note (i))*	**1,181**	5,704
Prepayments for materials	**23,191**	66,355
Prepayments for rents and others	**3,690**	7,572
Prepayment for land use rights	**5,804**	6,173
Prepayments for property, plant and equipment	**86,637**	94,167
	237,246	313,600
Less:		
Non-current value-added tax recoverables	**(54,084)**	(42,271)
Non-current deposit – a third party	**(1,199)**	–
Non-current prepayment for land use rights	**(5,804)**	(6,173)
Non-current prepayments for property, plant and equipment	**(86,637)**	(94,167)
Non-current portion	**(147,724)**	(142,611)
Current portion	**89,522**	170,989

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

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

Note (i):

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

The fair values of other receivables and deposits approximate to their carrying values. The carrying amounts of other receivables, deposits and prepayments are denominated in the following currencies:

	2015 **HK$'000**	2014 HK$'000
US$	**3,411**	115,037
HK$	**18,416**	4,359
RMB	**209,605**	182,869
SGD	**3,299**	1,388
Bs	**296**	6,258
Australian Dollar ("**AUD**")	**510**	1,524
Indonesian Rupiah ("**IDR**")	**1,674**	1,334
Others	**35**	831
	237,246	313,600

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

13 PLEDGED BANK DEPOSITS

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

	2015	2014
	HK$'000	HK$'000
Pledged bank deposits		
– Borrowings	**136,350**	192,470
– Bidding	**6,100**	7,684
– Performance bonds *(Note 32)*	**5,235**	–
	147,685	200,154

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

	2015	2014
	HK$'000	HK$'000
US$	**–**	6,500
HK$	**1,325**	–
RMB	**146,360**	193,654
	147,685	200,154

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rates ranging from 0.35% to 3.8% (2014: 0.02% to 2.8%)per annum. These deposits have an average maturity of 4.53 months (2014: 3.26 months) for the year.

14 CASH AND BANK BALANCE (INCLUDING RESTRICTED BANK BALANCE)

	2015 HK$'000	2014 HK$'000
Restricted bank balance *(Note (i))*	**5,959**	6,338
Cash at bank	**46,250**	55,027
Cash on hand	**342**	312
	52,551	61,677

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

	2015 HK$'000	2014 HK$'000
US$	**28,285**	27,884
HK$	**428**	497
RMB	**20,869**	28,866
SGD	**1,724**	2,107
Bs	**173**	1,439
Others	**1,072**	884
	52,551	61,677

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

	2015 HK$'000	2014 HK$'000
Cash and cash equivalents	**46,592**	55,339
Bank overdrafts	**(2,668)**	–
	43,924	55,339

14 CASH AND BANK BALANCE (INCLUDING RESTRICTED BANK BALANCE) (CONTINUED)

As at 31 December 2015, Group has cash at bank and on hand amounting to HK$93,057,000 (2014: HK$35,532,000) which are denominated in RMB, US$, EURO and HK$ and held in the PRC. These cash and bank balances are subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

As at 31 December 2015, Group has cash at bank and cash on hand amounting to HK$173,000 (2014: HK$1,439,000) 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 2015, HK$5,959,000 are restricted deposits held at bank as reserve under litigation claim (Note 32) (31 December 2014: HK$6,338,000).

15 SHARE CAPITAL

	Number of shares ’000	Total HK$000
Issued and fully paid:		
At 1 January 2014	**1,068,101**	1,634,591
Issuance of ordinary shares for share options exercise *(Note 25)*	**12,289**	23,596
At 31 December 2014	**1,080,390**	1,658,187
Rights issue of ordinary shares *(Note (i))*	**154,341**	147,930
Issuance of ordinary shares *(Note (ii))*	**93,480**	73,849
At 31 December 2015	**1,328,211**	1,879,966

Notes:

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

(ii) On 30 December 2015, the Group completed the issuance of ordinary shares of 93,480,000 ordinary shares of the Company at HK$0.79 per share and obtained net proceeds of HK$73,849,000.

16 OTHER RESERVES

	Translation reserve HK$'000	Statutory reserve (Note (i)) HK$'000	Share-based payment reserve HK$'000	Capital reserve HK$'000	Total HK$'000
Balance at 1 January 2014	52,166	20,135	13,008	(49,135)	36,174
Other comprehensive income					
Currency translation differences – Group	19,024	–	–	–	19,024
Total other comprehensive income for the year	19,024	–	–	–	19,024
Total contributions by and distributions to owners of the Company recognised directly in equity					
Exercise of share options	–	–	(11,659)	–	(11,659)
Recognition of share-based payment	–	–	6,724	–	6,724
Transfer from retained earnings to statutory reserve	–	1,498	–	–	1,498
Total contributions by and distributions to owners of the Company	–	1,498	(4,935)	–	(3,437)
Balance at 31 December 2014	71,190	21,633	8,073	(49,135)	51,761

16 OTHER RESERVES (Continued)

	Translation reserve HK$'000	Statutory reserve (Note (i)) HK$'000	Convertible bonds reserve HK$'000	Share-based payment reserve HK$'000	Capital reserve HK$'000	Available–for-sale financial asset reserve HK$'000	Total HK$'000
Balance at 1 January 2015	71,190	21,633	–	8,073	(49,135)	–	51,761
Other comprehensive loss							
Revaluation loss on an available-for-sale financial asset *(Note 9)*	–	–	–	–	–	(3,803)	(3,803)
Currency translation differences							
– Group	(56,069)	–	–	–	–	–	(56,069)
– Recycling upon disposal of equity interest in a subsidiary *(Note 34)*	(250)	–	–	–	–	–	(250)
Total other comprehensive loss for the year	(56,319)	–	–	–	–	(3,803)	(60,122)
Total contributions by and distributions to owners of the Company recognised directly in equity							
Issuance of convertible bonds *(Note 18(c))*	–	–	28,462	–	–	–	28,462
Recognition of share-based payment	–	–	–	19,888	–	–	19,888
Disposal of equity interest in a subsidiary	–	(3,721)	–	–	–	–	(3,721)
Total contributions by and distributions to owners of the Company	–	(3,721)	28,462	19,888	–	–	44,629
Balance at 31 December 2015	14,871	17,912	28,462	27,961	(49,135)	(3,803)	36,268

Note (i): Statutory reserve

In accordance with the relevant laws and regulations in 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.

17 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

(a) Trade payables

	2015 HK$'000	2014 HK$'000
Trade payables	**310,967**	312,042

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

	2015 HK$'000	2014 HK$'000
Up to 3 months	**87,945**	133,696
3 to 6 months	**40,272**	64,584
6 to 12 months	**72,580**	60,817
Over 12 months	**110,170**	52,945
	310,967	312,042

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

	2015 HK$'000	2014 HK$'000
US$	**100,252**	89,431
RMB	**179,933**	215,967
SGD	**30,137**	6,512
Others	**645**	132
	310,967	312,042

(b) Other payables and accruals

	2015 HK$'000	2014 HK$'000
Other payables		
– Third parties	**135,938**	147,981
– Related parties	**13,076**	20,847
Receipts in advance	**17,207**	49,080
Accrued payroll and welfare	**35,697**	33,377
Value-added tax payable	**2,273**	10,882
Other tax and surcharge payables	**8,752**	12,626
	212,943	274,793

17 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (Continued)

(b) Other payables and accruals (Continued)

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

	2015 HK$'000	2014 HK$'000
US$	**8,206**	62,183
HK$	**42,005**	29,677
RMB	**154,593**	172,272
SGD	**3,675**	2,348
Bs	**151**	7,239
AUD	**4,313**	1,074
	212,943	274,793

18 BANK AND OTHER BORROWINGS

	2015 HK$'000	2014 HK$'000
Non-current		
Bank borrowings *(Note a)*	**39,083**	36,784
Finance lease liabilities *(Note b)*	**8,777**	–
Convertible bonds – liability component *(Note c)*	**126,886**	–
	174,746	36,784
Current		
Bank borrowings (including overdraft) *(Note a)*	**196,765**	400,638
Non-current borrowings reclassified as current *(Note a)*	**–**	312,061
Finance lease liabilities *(Note b)*	**5,363**	–
Convertible bonds – liability component *(Note c)*	**7,359**	–
	209,487	712,699
	384,233	749,483

18 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings

Bank borrowings bear average coupon rate of 3.4% as at 31 December 2015 (2014: 4.2%).

The Group had classified the entire HK$312,061,000 outstanding balance of are levant term loan ("**Term Loan**") under current liabilities as at 31 December 2014 due to the breach of the restrictive financial covenants constituted events of default under the term loan agreement, which may cause the relevant term loan to become immediately repayable.

On 25 March 2015, the Group obtained waiver from all of the financiers of the Term Loan in respect of those restrictive financial covenants that the Group 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.

Based on the Group's consolidated financial statements for the year ended 31 December 2015, the Group breached certain financial covenant requirement of the term loan amounting to approximately US$7,000,000 (equivalent to approximately HK$56,841,000). Due to this breach of the restrictive financial covenant, the relevant lenders have the right to demand immediate repayment of the term loan before the scheduled repayment date. Notwithstanding the above circumstances, no such notice of demand was received by the Group and the term loan has not become due prior to its actual repayment date of 31 January 2016.

The Group's bank borrowings were repayable as follows:

	2015 **HK$'000**	2014 HK$'000
Within 1 year	**196,765**	469,200
Between 1 and 2 years	**1,432**	122,018
Between 2 and 5 years	**4,534**	126,898
Over 5 years	**33,117**	31,367
Total bank borrowings	**235,848**	749,483

As at 31 December 2015, the Group's bank borrowings were under floating interest rates (2014: Same).

18 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings (Continued)

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:

	2015 **HK$'000**	2014 HK$'000
6 months or less	**195,328**	700,956
Over 6 months	**40,520**	48,527
	235,848	749,483

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:

	2015 **HK$'000**	2014 HK$'000
HK$	**–**	71,000
US$	**56,841**	342,655
RMB	**130,655**	297,441
SGD	**48,352**	38,387
	235,848	749,483

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

	2015 **HK$'000**	2014 HK$'000
Secured	**235,848**	574,554
Unsecured	**–**	174,929
	235,848	749,483

18 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings (Continued)

As at 31 December 2015, banking facilities of approximately HK$534 million (2014: HK$1,028 million) were granted by banks to the Company and its subsidiaries, of which approximately HK$236 million (2014: HK$749 million) have been utilised by the Company and its subsidiaries. The facilities are secured by:

(a) certain pledged bank deposits (Note 13);

(b) corporate guarantees given by certain Group companies;

(c) floating charge on all trade receivables of certain subsidiaries of the Company of approximately HK$379 million (2014:HK$641 million) (Note 12); and

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

The Group has the following undrawn borrowing facilities:

	2015 **HK$'000**	2014 HK$'000
Floating rate		
– Expiring within one year	**298,239**	63,380
– Expiring beyond one year	**–**	215,492
	298,239	278,872

(b) Finance lease liabilities

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

	2015 **HK$'000**
Gross finance lease liabilities – minimum lease payments	
No later than 1 year	**6,180**
Later than 1 year and no later than 5 years	**9,269**
	15,449
Future finance charges on finance leases	**(1,309)**
Present value of finance lease liabilities	**14,140**
The present value of finance lease liabilities is as follows:	
No later than 1 year	**5,363**
Later than 1 year and no later than 5 years	**8,777**
	14,140

18 BANK AND OTHER BORROWINGS (Continued)

(b) Finance lease liabilities (Continued)

The finance lease liabilities are denominated in RMB.

As at 31 December 2015, finance lease liabilities were secured by certain machineries of the Group amounting to HK$22,590,000 (2014: Nil) (Note 6).

(c) Convertible bonds

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

The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 13.6% which is based on market interest rates for a number of comparable convertible bonds denominated in US$ and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair value of the liability component and is included in other reserves in equity (Note 16). Subsequently, the liability component is carried at amortised cost.

The convertible bonds recognised is calculated as follows:

	HK$'000
Net proceeds of convertible bonds issued on 30 March 2015	153,860
Equity component *(Note 16)*	(28,462)
Liability component at initial recognition at 30 March 2015	125,398
Interest expenses *(Note 26)*	12,804
Interest paid	(3,957)
Liability component at 31 December 2015	134,245
Less: Non-current convertible bonds – liability component	(126,886)
Current portion	7,359

19 DEFERRED INCOME TAX

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

	2015 **HK$'000**	2014 HK$'000
Deferred tax assets:		
– To be recovered within 12 months	**(13,640)**	(11,111)
Deferred tax liabilities:		
– To be realised after more than 12 months	**11,246**	18,674
Deferred tax (assets)/liabilities, net	**(2,394)**	7,563

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

	2015 **HK$'000**	2014 HK$'000
At 1 January	**7,563**	11,651
Exchange difference	**(7,850)**	(22)
Credited to consolidated statement of comprehensive income *(Note 27)*	**(2,107)**	(4,066)
At 31 December	**(2,394)**	7,563

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:

19 DEFERRED INCOME TAX (Continued)

	Deferred tax liabilities			Deferred tax assets		
	Undistributed profits of a subsidiary established in the PRC *(Note (i))* HK$'000	Temporary difference on reinstatement HK$'000	Decelerated tax depreciation HK$'000	Tax losses *(Note (ii))* HK$'000	Unrealised profit on inventory HK$'000	Total HK$'000
At 1 January 2014	9,956	2,538	2,095	–	(2,938)	11,651
Exchange difference	–	–	(22)	–	–	(22)
Charged/(credited) to consolidated statement of comprehensive income	–	5,495	(1,388)	(8,052)	(121)	(4,066)
At 31 December 2014	9,956	8,033	685	(8,052)	(3,059)	7,563
Exchange difference	–	(7,780)	(70)	–	–	(7,850)
Charged/(credited) to consolidated statement of comprehensive income	–	469	(47)	(3,043)	514	(2,107)
At 31 December 2015	**9,956**	**722**	**568**	**(11,095)**	**(2,545)**	**(2,394)**

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, deferred income tax liabilities of HK$1,498,000 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. 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.

During the year ended 31 December 2015, no deferred tax liabilities was recognized on the unremitted earnings of subsidiaries in the PRC as all the subsidiaries are in loss positions.

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 2015 amounting to HK$9,956,000 (2014: HK$9,956,000).

19 DEFERRED INCOME TAX (Continued)

Note (ii):

Deferred income tax assets are recognised for tax losses carry-forward 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:

	2015	2014
	HK$'000	HK$'000
Unused tax losses	**439,444**	199,834
Deferred income tax assets not recognised	**78,114**	37,161

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

	2015	2014
	HK$'000	HK$'000
Within 1 year	**888**	668
Within 2 years	**396**	888
Within 3 years	**1,384**	6,610
Within 4 years	**33,054**	1,058
Within 5 years	**96,033**	33,054
Without expiry date	**307,689**	157,556
	439,444	199,834

20 OTHER INCOME

	2015	2014
	HK$'000	HK$'000
Rental income	**563**	–
Others	**–**	416
	563	416

21 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2015 HK$'000	2014 HK$'000
Wages, salaries and bonus	**136,305**	192,849
Pension costs	**11,301**	13,647
Share options granted to directors, senior management and employees *(Note 25)*	**19,888**	6,724
Other staff benefits	**10,619**	14,936
Less: employee benefit expenses attributable for research and development	**(9,767)**	(13,254)
	168,346	214,902

As at 31 December 2015, there are no forfeited contributions available to offset future retirement benefit obligations of the Group (2014:Nil).

22 OTHER EXPENSES

	2015 HK$'000	2014 HK$'000
Communications	**2,413**	2,940
Professional service fee	**7,363**	11,486
Auditor's remuneration		
– Audit services	**2,799**	3,085
– Non-audit services	**662**	–
Motor vehicle expenses	**6,052**	8,356
Travelling	**23,786**	40,260
Insurance	**2,370**	3,472
Office utilities	**13,006**	23,577
Other tax-related expenses and custom duties *(Note (i))*	**4,478**	12,083
Bank charges	**867**	2,092
Agency fee *(Note (ii))*	**901**	18,909
Provision for impairment of inventories *(Note 11)*	**5,553**	11,467
Write off of other receivables	**–**	1,257
Others	**8,203**	8,885
	78,453	147,869

Note:

(i) Other tax-related expenses mainly comprise 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.

23 OTHER GAINS/(LOSSES), NET

	2015 HK$'000	2014 HK$'000
Loss on disposals of property, plant and equipment *(Note 31(b))*	**(1,016)**	(709)
Write off of property, plant and equipment *(Note 6)*	**(984)**	–
Government grants	**265**	353
Gain on disposal of equity interest in a subsidiary *(Note 34)*	**19,920**	–
Others	**828**	(29)
	19,013	(385)

24 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2015 is set out below:

Name	Fee HK$'000	Salary HK$'000	Discretionary bonus HK$'000	Housing allowance HK$'000	Estimated money value of other benefits *(Note (a))* HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive director and chief executive							
Wang JinLong	–	850	–	–	53	51	954
Executive director							
Zhao JinDong	–	743	–	–	451	45	1,239
Non-executive director							
Lee Tommy	–	135	–	–	53	–	188
Ma Hua	–	135	–	–	53	–	188
Ko PoMing	–	225	–	–	53	–	278
Independent non- executive director							
Tong HinWor	–	153	–	–	53	–	206
Wong LapTat Arthur	–	255	–	–	53	–	308
He ShengHou	–	153	–	–	53	–	206
	–	2,649	–	–	822	96	3,567

24 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

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

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

Certain of the comparative information of directors' emoluments for the year ended 31 December 2014 previously disclosed in accordance with the predecessor Companies Ordinance have been restated in order to comply with the new scope and requirements by the Hong Kong Companies Ordinance (Cap. 622).

Name	Fee HK$'000	Salary HK$'000	Discretionary bonus HK$'000	Housing allowance HK$'000	Estimated money value of other benefits *(Note (a))* HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive director and chief executive							
Wang JinLong	–	1,492	–	–	34	48	1,574
Executive director							
Zhao JinDong	–	854	–	–	34	41	929
Non-executive director							
Lee Tommy	–	180	–	–	34	–	214
Ma Hua	–	180	–	–	34	–	214
Ko PoMing	–	300	–	–	34	–	334
Independent non- executive director							
Tong HinWor	–	180	–	–	34	–	214
Wong Lap Tat Arthur	–	300	–	–	34	–	334
He ShengHou	–	180	–	–	34	–	214
	–	3,666	–	–	272	89	4,027

Note (a):

Other benefits include share options to directors and chief executive.

During the year,no emoluments, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2014: Nil). No consideration was provided to or receivable by third parties for making available directors' services (2014: Nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2014: None).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2014: None).

24 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2014:two) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2014:three) individuals during the year are as follows:

	2015 HK$'000	2014 HK$'000
Salary	2,423	2,869
Employer's contribution to pension scheme	96	48
Share-based payment	8,840	4,116
	11,359	7,033

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emoluments band		
Nil to HK$1,000,000	–	1
HK$1,000,001 – HK$1,500,000	2	–
Over HK$1,500,000	2	2
	4	3

25 SHARE-BASED PAYMENTS

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

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

Pre-IPO Share Option Scheme

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

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

25 SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

The Pre-IPO Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme. There is no vesting period for the Pre-IPO Share Option Scheme and it is exercisable within 5 years from the date of grant. All the outstanding options are expired in December 2015.

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

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

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the rights issue (Note 15).

Details in the exercise prices and the movement of the number of share options outstanding and exercisable as at 31 December 2015 and 2014 are as follow:

	Exercise price per share option		Number of share options			
	Before adjustment for rights issue	After adjustment for rights issue	As at 1 January 2015	Adjustment for rights issue	Expiry	As at 31 December 2015
	HK$	HK$				
Group of participants *(Note 1)*						
A	0.78	0.76	**1,924,273**	**41,827**	**(1,966,100)**	**–**
C	1.09	1.07	**371,214**	**8,069**	**(379,283)**	**–**
Total			**2,295,487**	**49,896**	**(2,345,383)**	**–**
Weighted average exercise price (HK$)			**0.83**	**–**	**–**	**–**

25 SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

		Number of share options		
Group of participants *(Note 1)*	Exercise price per share option HK$	As at 1 January 2014	Exercised during the year *(Note 2)*	As at 31 December 2014
A	0.78	7,151,554	(5,227,281)	1,924,273
B	0.93	2,969,708	(2,969,708)	–
C	1.09	371,214	–	371,214
D	1.25	4,092,457	(4,092,457)	–
Total		14,584,933	(12,289,446)	2,295,487
Weighted average exercise price (HK$)		0.95	0.97	0.83

Note 1:

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

Note 2:

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

During the year ended 31 December 2015, no share-based payment expense for the Pre-IPO Share Option Scheme was recognised in the statement of comprehensive income (2014: Nil).

25 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme

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

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

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

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

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

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

25 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

Note:

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

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

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the rights issue (Note 15).

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

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 31 December 2015 are as follow:

	Exercise price per share option		Number of share options				
	Before adjustment for rights issue HK$	After adjustment for rights issue HK$	As at 1 January 2015	Grant date during the year	Adjustment for rights issue	Forfeited during the year	As at 31 December 2015
Grant date							
29 April 2014	2.61	2.55	**19,500,000**	**–**	**423,857**	**(306,521)**	**19,617,336**
29 May 2015	N/A	1.3	**–**	**59,700,000**	**–**	**(500,000)**	**59,200,000**
Total			**19,500,000**	**59,700,000**	**423,857**	**(806,521)**	**78,817,336**
Weighted average exercise price (HK$)			**0.83**	**–**	**–**	**–**	**–**
Grant date							
29 April 2014			**2.61**	**–**	**–**	**–**	**2.55**
29 May 2015			**–**	**1.3**	**–**	**–**	**1.3**

25 SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

Details in the exercise price and the movement of number of share options outstanding and exercisable as at 31 December 2014 are as follow:

		Number of share options			
	Exercise price per share option HK$	As at 1 January 2014	Granted during the year	Forfeited during the year	As at 31 December 2014
Grant date					
29 April 2014	2.61	–	20,000,000	(500,000)	19,500,000

During the year ended 31 December 2015, share-based payment expense of HK$19,888,000 for the Share Option Scheme was recognised in the statement of comprehensive income (2014: HK$6,724,000) (Note 21).

26 FINANCE INCOME AND COSTS

	2015 **HK$'000**	2014 HK$'000
Interest expenses:	**2,423**	2,869
– Bank borrowings	**(29,832)**	(26,533)
– Convertible bonds *(Note 18(c))*	**(12,804)**	–
– Finance lease liabilities	**(568)**	–
– Provision for impairment of trade receivables *(Note 12)*	**–**	(10,179)
– Net foreign exchange losses on financing activities *(Note 28)*	**(8,286)**	(1,079)
– Loans from a related party *(Note 35(a))*	**–**	(3,076)
Less: amounts capitalised on qualifying assets *(Note 6)*	**–**	2,866
Finance costs	**(51,490)**	(38,001)
Finance income:		
– Interest income on short-term bank deposits	**1,990**	4,468
– Gain on net monetary position	**1,380**	14,699
Finance income	**3,370**	19,167
Finance costs, net	**(48,120)**	(18,834)

27 INCOME TAX (CREDIT)/EXPENSE

	2015 **HK$'000**	2014 HK$'000
Current tax		
– PRC enterprise income tax	**161**	4,885
– Singapore corporate tax	**2,319**	4
– Other tax	**–**	224
	2,480	5,113
(Over)/under provision in prior years		
– Hong Kong profits tax	**(922)**	267
Deferred tax *(Note 19)*	**(2,107)**	(4,066)
Income tax (credit)/expense	**(549)**	1,314

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2014: 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 EIT rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards.

As at 31 December 2015, Petro-king Oilfield Technology Limited was approved by relevant local tax bureau authorities as the High and New Technological Enterprise, and was entitled to a preferential EIT rate of 15% (2014: 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.

(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 2015 (2014: 17%).

27 INCOME TAX (CREDIT)/EXPENSE (Continued)

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

	2015 **HK$'000**	2014 HK$'000
Loss before income tax	**(392,308)**	(416,834)
Tax calculated at domestic tax rates applicable to profits/losses in the respective entities	**(53,439)**	(77,816)
– (Over)/under provision of taxation for prior years	**(922)**	267
– Income not subject to tax	**(5,202)**	(453)
– Expenses not deductible for tax purposes	**15,781**	43,034
– Tax losses for which no deferred tax assets was recognised	**43,233**	36,282
Income tax (credit)/expense	**(549)**	1,314

The weighted average applicable tax rate was 14% (2014: 19%).The decrease is primarily due to changes in the profitability of the subsidiaries in the respective jurisdictions.

28 FOREIGN EXCHANGE LOSSES, NET

	2015 **HK$'000**	2014 HK$'000
Foreign exchange losses	**(86,101)**	(7,426)
Net foreign exchange losses on financing activities *(Note 26)*	**(8,286)**	(1,079)
	(94,387)	(8,505)

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

	2015	2014
Loss attributable to owners of the Company (HK$'000)	**(384,342)**	(423,082)
Weighted average number of ordinary shares in issue (number of shares in thousand)	**1,223,346**	1,110,296
Basic loss per share (HK cent)	**(31)**	(38)
Diluted loss per share (HK cent)	**(31)**	(38)

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares issued during the year.

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

Diluted loss per share for the year ended 31 December 2015 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2014: Same) as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic loss per share.

30 DIVIDEND

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2015 (2014: Nil).

31 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash generated from/(used in) operations

	2015 **HK$'000**	2014 HK$'000
Loss before income tax	**(392,308)**	(416,834)
Adjustments for:		
– Depreciation *(Note 6)*	**86,266**	61,233
– Amortisation *(Notes 7 and 8)*	**1,712**	1,640
– Share-based payment *(Note 21)*	**19,888**	6,724
– Gain on net monetary assets *(Note 26)*	**(1,380)**	(14,699)
– Provision for impairment of trade receivables, net *(Note 12)*	**182,148**	280,296
– Provision for impairment of inventories *(Note 22)*	**5,553**	11,467
– Write off of other receivables *(Note 22)*	**–**	1,257
– Loss on disposals of property, plant and equipment *(Note b)*	**1,016**	709
– Write off of property, plant and equipment *(Note 23)*	**984**	–
– Gain on disposal of equity interest in a subsidiary *(Note 23)*	**(19,920)**	–
– Net finance costs	**41,214**	32,454
– Foreign exchange (gains)/losses	**(7,577)**	3,841
	(82,404)	(31,912)
Changes in working capital:		
– Inventories	**97,113**	(66,899)
– Trade and other receivables, deposits and prepayments	**81,401**	(113,099)
– Trade,other payables and accruals	**(28,377)**	196,281
– Restricted bank balance	**–**	(4,812)
Cash generated from/(used in) operations	**67,733**	(20,441)

31 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (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:

	2015 **HK$'000**	2014 HK$'000
Net book amount *(Note 6)*	**3,222**	796
Loss on disposals of property, plant and equipment *(Note 23)*	**(1,016)**	(709)
Proceeds from disposals of property, plant and equipment	**2,206**	87

Non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of machineries of the Group amounting to HK$16,685,000 (2014: Nil).

32 CONTINGENCIES

	2015 **HK$'000**	2014 HK$'000
Performance bonds *(Note (i))*	**5,235**	–
Litigation claim *(Note (ii))*	**28,799**	30,630

Note (i):

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

Note (ii):

During 2014, a contracting party initiated legal proceedings against the Group alleging a failure to provide stipulated amount of drilling works under the contracts entered in 2012 and 2013 and claimed for a total amount of RMB25,000,000. The case was concluded on 1 June 2015 in which the judgement of the court is in favour of the Group and has dismissed the claim of the contracting party. The contracting party is in the process of appeal. As at 31 December 2015, restricted deposits of HK$5,959,000 are held at bank as reserve under litigation claim (2014: HK$6,338,000) (Note 14).

33 COMMITMENTS

(a) Capital commitments

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

	2015	2014
	HK$'000	HK$'000
Land use rights		
Contracted but not provided for	**13,551**	14,413
Property, plant and equipment		
Contracted but not provided for	**2,743**	127,143

(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:

	2015	2014
	HK$'000	HK$'000
No later than 1 year	**7,915**	12,136
Later than 1 year and no later than 5 years	**8,940**	14,674
Later than 5 years	**16,445**	21,654
	33,300	48,464

34 DISPOSAL OF 40.1% EQUITY INTEREST IN A SUBSIDIARY

On 3 August 2015, the Group entered into agreements with the purchasers to dispose of 40.1% of equity interest in Shenzhen Fluid Science & Technology Co., Ltd ("Target Company"), a 60% owned subsidiary of the Company, and its subsidiaries, for a consideration of RMB60,150,000 (equivalent to approximately HK$73,124,000) in cash, and the disposal was completed on 17 August 2015. The subsidiary together with its subsidiaries are engaged in the manufacturing and sales of tools and equipment in the PRC.

Upon the completion of the disposal, the Group's equity interest in the subsidiary was reduced from 60% to 19.9% and ceased to be a subsidiary of the Group, and the remaining equity interest was accounted for as an available-for-sale financial asset which is stated at fair value on the consolidated balance sheet.

Pursuant to the agreements, the purchasers may request the Group to buy back all or part of its equity interest in the Target Company if certain conditions are not fulfilled within two years following the execution of the agreements.

Details of net assets disposed of, the carrying value of the non-controlling interest, the fair value of the remaining equity interest and the gain on disposal of the equity interest in the subsidiary at the date of disposal were as follows:

	2015 **HK$'000**
Cash consideration received by cash, net of direct expenses	**73,124**
Non-controlling interest	**32,489**
Fair value of remaining equity interest *(Note 9)*	**36,289**
	141,902
Less:	
Goodwill *(Note 7)*	**(41,010)**
Carrying amount of net assets disposed of	**(81,222)**
Currency translation differences released to profit or loss upon disposal of equity interest in a subsidiary	**250**
Gain on disposal of equity interest in a subsidiary	**19,920**

34 DISPOSAL OF 40.1% EQUITY INTEREST IN A SUBSIDIARY (Continued)

The assets and liabilities of the subsidiary at the date of disposal were as follows:

	2015 HK$'000
Carrying amount of assets and liabilities disposed of:	
Property, plant and equipment *(Note 6)*	**3,008**
Intangible asset *(Note 7)*	**47**
Trade, other receivables and prepayments	**128,105**
Inventories	**27,688**
Pledged bank deposits	**5,114**
Cash and cash equivalents	**4,099**
Trade, other payables and accruals	**(48,532)**
Bank borrowings	**(34,040)**
Tax payable	**(4,267)**
	81,222
Cash consideration received by cash, net of direct expenses	**73,124**
Cash and cash equivalents disposed of	**(4,099)**
Net proceeds from disposal of a subsidiary	**69,025**

35 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2015 and 2014, and balances arising from related party transactions as at 31 December 2015 and 2014.

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
Mr. Shu Wa Tung Laurence	Senior management
Mr. Lin JingYu	Senior management
Mr. Zhang TaiYuan	Senior management
Mr. Yuan FuCun	Senior management
Mr. Ren WenSheng	Senior management

35 RELATED PARTY TRANSACTIONS (Continued)

(a) Interest expenses from loan from a related party

	2015	2014
	HK$'000	HK$'000
Interest expenses from loan from a related party	**–**	3,076

The loan is unsecured, interest bearing of 6.16% per annum and approximates to its 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.

	2015	2014
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**7,689**	9,727
Share-based payments	**10,460**	4,388
	18,149	14,115

35 RELATED PARTY TRANSACTIONS (Continued)

(c) Amounts due to related parties

	2015	2014
	HK$'000	HK$'000
Amounts due to related parties:		
At 1 January	**(15,143)**	(540)
(Repayment from)/advance to a related party *(Note (i))*	**(3,565)**	5,704
Repayment to/(advance from) related parties *(Note (i))*	**9,813**	(19,014)
Expenses paid on behalf of the Group during the year *(Note (i))*	**(9,731)**	(3,894)
Reimbursement to related parties *(Note(i))*	**6,731**	2,601
Loans from a related party *(Note (ii))*	**–**	(126,760)
Repayment of loans from a related party *(Note (ii))*	**–**	126,760
At 31 December	**(11,895)**	(15,143)
Amount due to shareholders:		
At 1 January	**–**	–
Dividend paid	**–**	54,019
Dividend payable	**–**	(54,019)
At 31 December	**–**	–

As at 31 December 2015 and 2014, 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 loan is unsecured, interest bearing of 6.16% per annum and approximates to its fair value. It represents cash advanced from the Group's substantial shareholder, Mr. Lee Lap. The amount has been fully repaid as at 31 December 2014.

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

	2015	2014
	HK$'000	HK$'000
RMB	**8,014**	14,066
HK$	**3,881**	1,077
	11,895	15,143

36 SUBSIDIARIES

As at 31 December 2015, 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$5,000,000 issued share capital
深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited)	–	100%	Trading of tools and equipment and provision for consultancy service in the PRC and Iraq, etc.	The PRC, Limited liability company (wholly foreign owned enterprise) 26 April 2002	Registered capital of RMB76,000,000
德州嘉誠石油裝備有限公司 (Dezhou Jiacheng Oil Tools Co., Limited)	–	100%	Trading of tools and equipment and provision for consultancy service in the PRC	The PRC, Limited liability company 3 April 2007	Registered capital of RMB10,000,000
Wellsharp Group Limited	–	100%	Dormant in BVI	BVI, Limited liability company 11 April 2008	100 ordinary shares at no par value for 1 US$ each
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 SUBSIDIARIES (Continued)

As at 31 December 2015, the Company has direct and indirect interests in the following principal subsidiaries: (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
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
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

36 SUBSIDIARIES (Continued)

As at 31 December 2015, the Company has direct and indirect interests in the following principal subsidiaries: (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
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 SGD 1 each
Petro-king International Holdings Limited	–	100%	Dormant in Hong Kong	Hong Kong, Limited liability company 13 May 2013	HK$10,000 issued share capital
百勤石油(深圳)有限公司	–	100%	Dormant in the PRC	The PRC, Limited liability company 8 November 2013	Registered capital of RMB10,000,000
Petro-king Group Middle East Corporation FZE	–	100%	Trading of oilfield tools and equipment in the Middle East	Dubai, Limited liability company, 9 June 2014	100 shares of AED 1,000 each
Petro-king International Australia PTY. LTD.	–	100%	Trading of oilfield tools and equipment in the Australia	Australia, Limited liability company 6 January 2014	1 ordinary shares of AUD 1 each
百勤鑽井技術(惠州)有限公司	–	86%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling and well completion equipment.	The PRC, Limited liability company 7 January 2014	Registered capital of US$ 1,000,000

36 SUBSIDIARIES (Continued)

As at 31 December 2015, the Company has direct and indirect interests in the following principal subsidiaries: (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
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 USD1,000,000
Turbodynamics USA Inc.	–	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in North America	The United States of America, Limited liability company 28 April 2015	Registered capital of USD1,000

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2015	2014
	HK$'000	HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**868,412**	1,174,277
Current assets		
Other receivables and prepayments	**489,083**	506,696
Cash and cash equivalents	**266**	98
Total current assets	**489,349**	506,794
Total assets	**1,357,761**	1,681,071
EQUITY AND LIABILITIES		
Capital and reserves attributable to owners of the Company		
Share capital	**1,879,966**	1,658,187
Other reserves	**56,423**	8,073
(Accumulated losses)/retained earnings	**(726,301)**	4,259
Total equity	**1,210,088**	1,670,519
LIABILITIES		
Non-current liabilities		
Convertible bonds – liability component	**126,886**	–
Current liabilities		
Other payables and accruals	**13,428**	10,552
Convertible bonds – liability component	**7,359**	–
	20,787	10,552
Total liabilities	**147,673**	10,552
Total equity and liabilities	**1,357,761**	1,681,071

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Reserve movement of the Company

	Share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000
At 1 January 2014	13,008	–	71,116
Loss for the year	–	–	(12,837)
Exercise of share options	(11,659)	–	–
Recognition of share-based payment	6,724	–	–
Dividend	–	–	(54,020)
At 31 December 2014	8,073	–	4,259
At 1 January 2015	**8,073**	**–**	**4,258**
Loss for the year	**–**	**–**	**(730,559)**
Issuance of convertible bonds	**–**	**28,462**	**–**
Recognition of share-based payment	**19,888**	**–**	**–**
At 31 December 2015	**27,961**	**28,462**	**(726,301)**