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Petro-king
百勤油服

PETRO-KING OILFIELD SERVICES LIMITED
百勤油田服務有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 2178)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Petro-king Oilfield Services Limited (the "**Company**") hereby presents the annual results of the Company and its subsidiaries (collectively referred to as the "**Group**", "**we**" or "**our**") for the year ended 31 December 2016.

OVERVIEW

Amidst the general slowdown in exploration and production ("**E&P**") investments by most oil and gas operators that led to the low level of oilfield service activities, the Group's revenue in 2016 declined by 38% to HK$392.4 million, from HK$631.0 million in 2015. The Group's operating costs amounted to HK$811.2 million in 2016, down by 17% compared with that HK$975.8 million in 2015. The Group recorded an operating loss of HK$416.9 million in 2016, representing an increase of 21% compared with the operating loss of HK$344.2 million in 2015. The Group's net financing cost decreased by 50% to HK$24.1 million in 2016, from that of HK$48.1 million in 2015. During the year, the Group recorded a net loss of HK$443.4 million attributable to owners of the Company, up by HK$59.1 million or 15% compared with that of HK$384.3 million in 2015.

As part of the operating costs, the Group's impairment loss of goodwill amounted to HK$213.9 million in 2016 (2015: Nil). The Group's operating costs, excluding the impairment loss of goodwill, amounted to HK$597.3 million in 2016, representing a decrease of HK$378.5 million or 39% compared with that of HK$975.8 million in 2015.

Year 2016 remained challenging for the oilfield service industry. The E&P industry found itself mired in the deepest financial crisis, low profitability and uncertainty in cash flow made most oil and gas operators take cautious approaches to both capital and operating expenditure planning, such as postponing investments in exploration, curtailing development activity and squeezing service industry prices. As a result, the oilfield service providers suffered as much as the oil and gas operators. Most of the oilfield service providers were forced to offer discounts when negotiating contracts with the E&P operators in order to stay competitive. Our 2016 results showed that the Group had experienced another challenging year marked by lower activity levels and continued downward pressure on pricing in both the China market and the overseas market.

During the year, the Group continuously conducted special financial risk management plans to cope with the industry downturn, enhanced our financial position and further reduced our bank and other borrowings. At the same time, the Group has been seeking advancement in organisational structure and management performance, focusing on intrinsic improvement in operational performance and overall long-term competitiveness. The Group took the following measures in 2016:

- Reviewed the Group's organisational structure and streamlined the operational management mechanism and the cost structure of all service lines and supporting departments.

- Adjusted the proportions of various regions in the China market and the overseas market and reallocated the Group's resources, including the members of the marketing and sales team, oilfield service equipment and the member of the engineering team, among various regions.

- Further deleveraged to minimise the financial distress risk and took a conservative approach to cash flow management.

THE CHINA MARKET

The downturn of the China oilfield service market has lasted for more than two years after the market hit its peak in early 2014 in the midst of shale gas boom. As there was a significant reduction in oilfield service equipment investments in the sector as well as the massive redundancy plans from nearly all of the industry participants, the oilfield service providers were still under tremendous pressure to tackle the issues of profitability and operating cash flow when negotiating and executing contracts in the current sluggish market environment.

Oilfield service activities in the China market remained at a relatively low level in 2016. The weak international oil price continued to impact the industry in both volume and price. Major national oil companies ("**NOCs**") as well as other domestic oil and gas operators (especially those new investors in unconventional upstream projects, such as shale gas and coal bed methane), continued to take a "wait and see" approach. Delaying or halting investments were common in most of the oil and gas operators due to the uncertainty over profitability as well as tight cash flow situation. The China market began to show signs of recovery in E&P activities in certain areas in the fourth quarter of 2016. However, successful biddings still require a high standard of technical expertise with very competitive pricing, and as such, margin of such projects are still at a relatively low level.

Due to the weak market environment, delays in project execution and trade receivables settlement are still common in the oilfield service sector in China. By taking a strategy of prudent working capital management during this long industry downturn cycle, the Group tightened the customer credit control policy and rejected certain business opportunities due to uncertainty over collection of trade receivables. Nevertheless, the Group's self-developed tools and technologies have received further recognition from the market. During the year, revenue from sales of completion tools to oilfield service providers or agents contributed a significant part of the Group's revenue in the China market.

THE OVERSEAS MARKET

Similar to the China market, most of the international oil and gas companies were also delaying or halting their E&P investments due to the continuous weak oil price in 2016. There was a massive capacity reduction in the oilfield service industry globally. It is widely believed that the E&P investment cuts will soon lead to the decline in production of these oil and gas operators and the decline in volume of the oilfield service activities are likely to be temporary issues.

As a result of the slow-down in E&P activities of the Group's major customers and the downsizing of the Group's certain overseas operations, the Group experienced a decline in revenue from the overseas market in 2016.

During the year, the Group focused on market reassessment and restructured its marketing and sales team as well as its service capacity in various regions in the overseas market, including expansion of the Middle East market. Although the overall development of its overseas market development was at a relatively slow pace, the Group's business strategy and market development in the Middle East continued to progress well in 2016.

The low oil price and the industry downturn made most of the oil and gas companies more cost-conscious than before. To make use of this industry downturn and leverage the Group's reputable team of professional engineers, especially the excellent track record in handling complicated oilfield service projects in the Middle East, we expanded the marketing and sales team in the Middle East and have been proactively seeking new business opportunities in certain Gulf Cooperation Council countries. We are expecting further penetration in the market of certain major oil and gas operators in the Middle East by offering price competitive technologies and services.

GEOGRAPHICAL MARKET ANALYSIS

Set out below is the breakdown of revenue by geographical area:

	2016	2015	Approximate percentage change	**Approximate percentage of total revenue in 2016**	Approximate percentage of total revenue in 2015
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
China market	**266.1**	309.2	-14%	**68%**	49%
Overseas market	**126.3**	321.8	-61%	**32%**	51%
Total	**392.4**	631.0	-38%	**100%**	100%

The Group's revenue from the China market dropped by HK$43.1 million or 14% to HK$266.1 million in 2016 from HK$309.2 million in 2015. In 2016, the overall E&P investments in the China market remained at a relatively low level due to the weak oil price. During the year, the Group's revenue from drilling, production enhancement and consultancy in the China market was significantly impacted due to the reduced E&P investment activities in the market and the postponement of projects' execution.

The Group's revenue from the overseas market dropped by HK$195.5 million or 61% to HK$126.3 million in 2016, from HK$321.8 million in 2015. The decrease in revenue from the overseas market was mainly due to the postponement of E&P investments and delay in projects execution by major customers in the Middle East and the substantial downsizing of the Group's business operations in other overseas regions for copying with the industry downturn in 2016.

REVENUE FROM THE CHINA MARKET

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

	2016	2015	Approximate percentage change	**Approximate percentage of total revenue from the China market in 2016**	Approximate percentage of total revenue from the China market in 2015
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
Northern China	**22.9**	73.7	-69%	**9%**	24%
Southwestern China	**33.1**	72.4	-54%	**12%**	24%
Other regions in China	**210.1**	163.1	29%	**79%**	52%
Total	**266.1**	309.2	-14%	**100%**	100%

In 2016, the Group's revenue from Northern China amounted to HK$22.9 million, down by HK$50.8 million or 69% from HK$73.7 million in 2015. During the year, the overall oilfield service activities, including production enhancement and drilling activities, from major customers in Northern China, continued to shrink due to their reduced E&P investment budgets, which led to a significant decline in the Group's revenue from this region.

The revenue from Southwestern China amounted to HK$33.1 million in 2016, down by HK$39.3 million or 54%, from HK$72.4 million in 2015. The decrease in revenue was mainly due to the decline in the production enhancement services in relation to unconventional gas projects.

The revenue from other regions in China amounted to HK$210.1 million in 2016, up by HK$47.0 million or 29% from HK$163.1 million in 2015. The increase was mainly attributable to the sales of the Group's self-developed completion tools in Eastern China.

REVENUE FROM THE OVERSEAS MARKET

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

	2016	2015	Approximate percentage change	**Approximate percentage of total revenue from the overseas market in 2016**	Approximate percentage of total revenue from the overseas market in 2015
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
The Middle East	**118.3**	259.1	-54%	**94%**	81%
Others	**8.0**	62.7	-87%	**6%**	19%
Total	**126.3**	321.8	-61%	**100%**	100%

The revenue from the Middle East amounted to HK$118.3 million in 2016, down by HK$140.8 million or 54%, from HK$259.1 million in 2015. The decrease was mainly caused by the postponement of E&P investments by various major customers in the region and this led to a substantial decline in the Group's revenue from well completion services and drilling services in the region.

The revenue from other overseas regions amounted to HK$8.0 million, down by HK$54.7 million or 87% from HK$62.7 million in 2015. The decline in revenue was mainly due to the drop in revenue from production enhancement projects in Kyrgyzstan and Indonesia. During the year, the Group suspended its provision of services for a production enhancement project in Kyrgyzstan, to tackle the issue of slow progress in payment by such customer.

BUSINESS SEGMENT ANALYSIS

Set out below is the breakdown of revenue by business segment:

	2016	2015	Approximate percentage change	**Approximate percentage of total revenue in 2016**	Approximate percentage of total revenue in 2015
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
Oilfield project tools and services	**340.8**	585.5	-42%	**87%**	93%
Consultancy services	**51.6**	45.5	13%	**13%**	7%
Total	**392.4**	631.0	-38%	**100%**	100%

In 2016, the Group's revenue from oilfield project tools and services amounted to HK$340.8 million, down by HK$244.7 million or 42%, from HK$585.5 million in 2015. The decrease was mainly due to the decline in service revenue from well completion projects, production enhancement projects and drilling projects in the Middle East, China and Kyrgyzstan as discussed above.

The Group's revenue from consultancy services amounted to HK$51.6 million in 2016, up by HK$6.1 million or 13%, from HK$45.5 million in 2015. This increase was mainly attributable to the service revenue generated from the provision of early-stage project management and planning services for a key customer in the Middle East.

Oilfield Project Tools and Services

Set out below is the breakdown of revenue from the oilfield project tools and services:

	2016 *(HK$ million)*	2015 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from oilfield project tools and services in 2016** *(%)*	Approximate percentage of total revenue from oilfield project tools and services in 2015 *(%)*
Drilling	**24.1**	178.4	-86%	**7%**	31%
Well completion	**264.4**	282.3	-6%	**78%**	48%
Production enhancement	**52.3**	124.8	-58%	**15%**	21%
Total	**340.8**	585.5	-42%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to HK$24.1 million in 2016, down by HK$154.3 million or 86%, from HK$178.4 million in 2015. The decrease was mainly caused by the decline in drilling business in the Middle East and Northern China.

Well Completion

In 2016, the Group's revenue from well completion amounted to HK$264.4 million, down by HK$17.9 million or 6%, from HK$282.3 million in 2015. The decrease was mainly due to the drop in revenue from the provision of well completion services in the Middle East. However, the Group's sales of completion tools in the China market greatly offset such decline in revenue.

Production Enhancement

In 2016, the Group's revenue from production enhancement amounted to HK$52.3 million, down by HK$72.5 million or 58%, from HK$124.8 million in 2015. The decrease was mainly due to the decline in revenue from production enhancement projects in China and Kyrgyzstan, partly because of the reduced budget of a major customer in China and partly due to the suspension of services in order to tackle the issue of slow progress in payment by a customer in Kyrgyzstan.

CUSTOMER ANALYSIS

Customer	2016 *(HK$ million)*	2015 *(HK$ million)*	Approximate percentage change *(%)*	Approximate percentage of total revenue in 2016 *(%)*	Approximate percentage of total revenue in 2015 *(%)*
Customer 1	**71.4**	–	N/A	**18%**	N/A
Customer 2	**50.9**	113.3	-55%	**13%**	18%
Customer 3	**43.6**	–	N/A	**11%**	N/A
Customer 4	**38.9**	–	N/A	**10%**	N/A
Customer 5	**38.9**	54.6	-29%	**10%**	9%
Customer 6	**31.5**	39.1	-19%	**8%**	6%
Other customers	**117.2**	424.0	-72%	**30%**	67%
Total	**392.4**	631.0	-38%	**100%**	100%

The revenue from customer 1 amounted to HK$71.4 million and such revenue from a new customer was mainly attributable to on-going marketing and promotion activities of the Group's self-developed tools in China. The revenue from customer 2 amounted to HK$50.9 million in 2016, down by HK$62.4 million or 55%, from HK$113.3 million in 2015. Such drop was mainly due to the decrease in provision of well completion tools and services in the Middle East. The revenue from customer 3 amounted to HK$43.6 million, which was also attributable to the Group's new marketing strategy in China. The revenue from customer 4 amounted to HK$38.9 million, which was generated from the sales of completion tools in the Middle East. The revenue from customer 5 amounted to HK$38.9 million in 2016, down by HK$15.7 million or 29% from HK$54.6 million in 2015. Such decrease was mainly caused by the reduction in sales of well completion tools in the Middle East. The revenue from customer 6 amounted to HK$31.5 million in 2016, down by HK$7.6 million or 19% from HK$39.1 million in 2015. The decrease was mainly caused by completion of the oilfield consultancy services of the customer during the year. The revenue from other customers amounted to HK$117.2 million in 2016, down by HK$306.8 million or 72% from HK$424.0 million in 2015. The decrease was mainly due to the continuing decrease of crude oil prices which led to the depression of the industry investment and the shrinkage of the oilfield services market.

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our sustainable business growth. We have implemented human resources policies and procedures that detailed the requirements on dismissal compensation, recruitment, promotion, working hours, equal opportunity and other benefits and welfare. We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right skillset and knowledge, we arrange a series of training courses that cover technical update of drilling and completion technology, blast management, control at wells and environment management. We also work with external organisations such as unions and consultants to provide training for the specific needs of the operations. During the year, the Group arranged 107 trainings and 295 employees attended these training programs.

As the employee benefit expenses form a major part of the operating costs, the Group periodically reviews the adequacy of our total headcount and evaluates the individual performance of each employee. To cope with the industry downturn in 2016, the Group streamlined the organisation structure and the cost structure of all service lines as well as supporting departments. Total headcount is reduced by 37% to 349 employees as at 31 December 2016 from 553 employees as at 31 December 2015.

In order to keep the Group's human resources policies and procedures abreast with the industry development, the Group reviewed its human resources management system and made certain transformation aiming at a long-term development of the Group's engineer talents and adopted a new performance based remuneration system in early 2017, encouraging staff ownership and team spirit.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology and prides itself in introducing innovative products and services in various oilfield service lines, such as turbine-drilling, directional drilling, multi-stage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 2016, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

- Developed a new 5 ½" tubing retrievable safety value with 10,000 Psi working pressure together with a wireline safety valve and lock out tool;

- Upgraded the American Petroleum Institute ("**API**") license of the packer group, down hole completion tool which hang all the tubing and diverse the production for annular to tubing, in API 11D1 from Grade V3 to Grade V0;

- Upgraded the API license of the flow control group in API 14L from Grade V2 to Grade V1;

- Developed a new 9 5/8" packer which is with dual piston and dual bore to run with electric submersible pump. This new packer can be set with lower pressure and provide easier field operation and enhance cost effectiveness;

- Introduced a new fracturing technology, being dissolvable plug-and-perforation fracturing technology, to a major customer in China. The new technology can substantially shorten the total operation time and in turn saving operation costs.

In 2016, the Group had been granted 2 utility model patents and 2 innovation patents. In addition, the Group has 14 innovation patents and 4 utility model patents under application as at 31 December 2016.

The Group will continue to focus on developing down-hole completion tools and technology, as well as certain specific high-end drilling tools and technology. In order to maintain its leading position in the high-end oilfield service sector, the Group will further enhance its tools and technology in 2017 through in-house research and development and cooperation with oilfield service technology companies.

OUTLOOK

The reaching of an agreement in production cut among Organisation of the Petroleum Exporting Countries (OPEC) in November 2016 is likely to accelerate the correction of the crude oil supply-demand imbalance and thus lead to a major rebound in international oil price. The Brent crude oil price has rebounded by more than 100% to about US$57 a barrel in December 2016, from the cyclical low of about US$28 in January 2016. It is widely believed that the production cut will support a oil price recovery in 2017. According to a market consensus from Bloomberg, Brent crude oil price is estimated to reach US$59 a barrel in the fourth quarter of 2017 and gradually increase to US$67.5 a barrel in 2020. As such, we believe that 2016 might be the bottom of the downturn, and the oilfield service industry is likely to walk out from the cyclical bottom in 2017.

In January 2017, the central government of China published the 13th Five-year Plan for Energy Development, which set a national gas consumption target of more than 360 billion cubic metres by 2020, and targeted gas consumption to account for 8.3% to 10% of the nationwide energy consumption. This implied compound annual growth rate of 13% in the country's gas demand from 2017 to 2020. On the other hand, China has set the annual crude oil production target of about 200 million tons in 2020, which is below the 214 million tons produced in 2015. In light of the recent development in the country's energy consumption plan, we believe that the gas related E&P activities in China will present opportunity for business growth of the Chinese oilfield service companies in the coming years.

In the past two years, the Group took a proactive approach to cope with the industry downturn, such as downsizing certain service lines; downsizing the operations to a minimal level in Venezuela; reducing headcount and implementing certain cost control measures. The Group also tightened up its credit policy. There were other measures taken by the Company, included raising capital in order to enhance the Group's financial position and repaying substantial part of the Group's bank borrowings in order to minimise the risk of financial distress. After taking all the abovementioned measures, we safeguarded our core expertise and competency and maintained the Group's status as a high-end oilfield technology and service company, while keeping the operating costs at a reasonable level.

In addition, we identified and capitalised on certain improvement opportunities by being willing to challenge our existing ways of management decision process and risk management mechanism and by actively seeking insight and learning good experience from those best companies in the oilfield service industry and other technology and service industries.

Having anticipated a recovery in the oilfield service sector in 2017, the Group started to expand its marketing and sales team in certain regions in the overseas market in 2016, and began to reallocate the Group's resources and service capacity to those markets that we believe will offer the Group more opportunities in forthcoming recovery in the industry, which has been widely expected by the market.

Looking ahead to 2017, the Group will refocus on its technology development and enhance its capability to provide high-end oilfield services in the China market and the Middle East market:

- Enhance the capability and capacity of its marketing and sales operations in the Middle East with the aim of acquiring new customers in the region.

- Co-operate with reputable Chinese drilling companies in the provision of integrated project management services in China and the Middle East markets.

- Enhance its tools and technologies through in-house research and development and through cooperation with oilfield service technology companies with the focus on high-end downhole drilling and completion technology.

- Transform the Group's human resource management system for the long term development of the talent of the Group's engineering team, and adopt a new performance based remuneration system encouraging team spirit and staff ownership.

We believe that the abovementioned action plans will further enhance the Group's capability to provide high-end oilfield services in both the China market and the overseas market for the long term. With these measures in place, the Group will be well-positioned to grasp business opportunities in the forthcoming recovery in the industry.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	2015
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**605,608**	757,928
Intangible assets	*4*	**304,435**	520,485
Land use rights		**9,926**	25,442
Available-for-sale financial asset		**7,421**	32,486
Other receivables, deposits and prepayments		**44,975**	147,724
Deferred tax assets		**7,634**	13,640
		979,999	1,497,705
Current assets			
Inventories		**170,816**	242,719
Trade receivables	*5*	**401,750**	467,088
Other receivables, deposits and prepayments		**83,533**	89,522
Current income tax recoverable		**3,268**	3,249
Pledged bank deposits		**4,234**	147,685
Restricted bank balance		**5,581**	5,959
Cash and cash equivalents		**44,927**	46,592
		714,109	1,002,814
Assets classified as held for sale		**29,400**	–
		743,509	1,002,814
Total assets		**1,723,508**	2,500,519

		As at 31 December	
		2016	2015
	Note	***HK$'000***	*HK$'000*
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**2,001,073**	1,879,966
Other reserves		**15,061**	36,268
Accumulated losses		**(782,294)**	(338,941)
		1,233,840	1,577,293
Non-controlling interests		**2,840**	2,011
Total equity		**1,236,680**	1,579,304
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*7*	**178,030**	174,746
Deferred tax liabilities		**6,360**	11,246
		184,390	185,992
Current liabilities			
Trade payables	*6*	**174,210**	310,967
Other payables and accruals		**109,378**	212,943
Current income tax liabilities		**2,217**	1,826
Bank and other borrowings	*7*	**16,633**	209,487
		302,438	735,223
Total liabilities		**486,828**	921,215
Total equity and liabilities		**1,723,508**	2,500,519

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December **2016** **HK$'000**	2015 HK$'000
Revenue	3	**392,442**	631,014
Other income		**1,912**	563
Operating costs			
Material costs		**(165,592)**	(215,925)
Depreciation of property, plant and equipment		**(93,721)**	(86,266)
Amortisation of intangible assets and land use rights		**(1,768)**	(1,712)
Operating lease rental		**(10,357)**	(14,529)
Employee benefit expenses		**(112,106)**	(168,346)
Distribution expenses		**(13,008)**	(14,670)
Technical service fees		**(24,674)**	(111,697)
Research and development expenses		**(12,066)**	(19,274)
Entertainment and marketing expenses		**(12,391)**	(15,657)
Provision for impairment of trade receivables, net	5	**(16,077)**	(182,148)
Other expenses	8	**(76,396)**	(78,453)
Impairment loss of goodwill	4	**(213,859)**	–
Impairment loss of an available-for-sale financial asset		**(28,868)**	–
Foreign exchange losses, net	9	**(14,896)**	(86,101)
Other (losses)/gains, net	10	**(15,457)**	19,013
Operating loss		**(416,882)**	(344,188)
Finance income	11	**486**	3,370
Finance costs	11	**(24,555)**	(51,490)
Finance costs, net		**(24,069)**	(48,120)
Share of loss of a joint venture		**(241)**	–
Loss before income tax		**(441,192)**	(392,308)
Income tax (expense)/credit	12	**(4,155)**	549
Loss for the year		**(445,347)**	(391,759)
Other comprehensive (loss)/income			
Items that have been or may be subsequently reclassified to profit or loss:			
Change in fair value of an available-for-sale financial asset		**(25,065)**	(3,803)
Reclassification of revaluation reserve of an available-for-sale financial asset		**28,868**	–
Currency translation differences			
– Group		**(34,581)**	(57,452)
– Recycling upon disposal of equity interest in a subsidiary		**–**	(250)
Other comprehensive loss for the year, net of tax		**(30,778)**	(61,505)
Total comprehensive loss for the year		**(476,125)**	(453,264)

	Note	Year ended 31 December 2016 HK$'000	2015 HK$'000
Loss for the year attributable to:			
Owners of the Company		**(443,353)**	(384,342)
Non-controlling interests		**(1,994)**	(7,417)
		(445,347)	(391,759)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(474,131)**	(444,464)
Non-controlling interests		**(1,994)**	(8,800)
		(476,125)	(453,264)
Loss per share attributable to owners of the Company during the year	*13*		(As restated)
Basic loss per share *(HK cents)*		**(29)**	(31)
Diluted loss per share *(HK cents)*		**(29)**	(31)

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

These consolidated financial information 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 information 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 information of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRS**"). The consolidated financial information 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 consolidated financial information 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.

During the year ended 31 December 2016, the Group reported a net loss attributable to owners of approximately HK$443,353,000 and a net operating cash outflow of approximately HK$121,802,000.

As at 31 December 2016, the Group had cash and cash equivalents of HK$44,927,000 and total borrowings of HK$194,663,000, of which HK$16,633,000 will be due in the coming twelve months.

During the year ended 31 December 2016, the Group completed a number of transactions to reduce its gearing and strengthen the Group's working capital, including, (i) completion of rights issue of the Company's shares in July 2016 which raised net proceeds of approximately HK$121,107,000; (ii) recovery of certain prepayments for purchase of equipment of HK$84,761,000; and (iii) disposal of land use right in the PRC at a consideration of HK$20,017,000, of which a deposit of approximately HK$13,394,000 was received. Furthermore, the Group has implemented measures to contain operating and capital expenditures. These measures together with the cash inflows from the aforementioned transactions and collection of pledged bank deposits of HK$136,350,000 funded the net repayment of borrowings during the year ended 31 December 2016 of approximately HK$202,259,000.

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 2016. A number of measures have been put in place by the directors of the Company to further improve the financial position and alleviate the liquidity pressure, as set out below:

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

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

(iii) The Group has agreed to dispose certain machineries for approximately HK$20,829,000 and planned to dispose other machineries for approximately HK$11,637,000.

(iv) The Group has started to negotiate with various financial institutions and identify options for raising additional finance.

Based on the cash flow projections and taking into account the anticipated cash flows to be generated from the Group's operations as well as the possible changes in its operating performance, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2016. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial information on a going concern basis.

2.2 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 on or after 1 January 2016, and have been adopted in preparing these consolidated financial information:

		Effective for annual periods beginning on or after
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
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
IFRS 14	Regulatory deferral accounts	1 January 2016
Annual improvements project	Annual improvements 2012-2014 cycle	1 January 2016

(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 on 1 January 2016, and have not been early adopted in preparing these consolidated financial information:

		Effective for annual periods beginning on or after
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
IAS 7 (Amendment)	Disclosure initiative	1 January 2017
IAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

3 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 segments 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.

During the year ended 31 December 2016, the CODM assessed the performance of the Group by reviewing the results of two reportable segments: oilfield project tools and services, and consultancy services, which is different from the segment categorisation in prior years, in order to align the segment review with the restructured internal management and reporting structure. The segment information of comparative year has been restated to conform to the current year categorisation.

(a) Revenue

Revenue recognised during the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
	HK$'000	*HK$'000*
		(As restated)
Oilfield project tools and services		
– Drilling work	**24,146**	178,421
– Well completion work	**264,378**	282,328
– Production enhancement work	**52,272**	124,790
Total oilfield project tools and services	**340,796**	585,539
Consultancy services	**51,646**	45,475
Total revenue	**392,442**	631,014

The segment information for the years ended 31 December 2016 and 2015 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Year ended 31 December 2016			
Total segment revenue	**340,796**	**51,646**	**392,442**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**340,796**	**51,646**	**392,442**
Segment results	**(250,457)**	**34,615**	**(215,842)**
Net unallocated expenses			**(225,350)**
Loss before income tax			**(441,192)**
Other information:			
Amortisation of intangible assets	**(1,125)**	**–**	**(1,125)**
Depreciation	**(82,346)**	**–**	**(82,346)**
Provision for impairment of trade receivables, net *(Note 5)*	**(16,077)**	**–**	**(16,077)**
Impairment loss of goodwill *(Note 4)*	**(213,859)**	**–**	**(213,859)**
Losses on disposals of property, plant and equipment	**(14,897)**	**–**	**(14,897)**
Income tax expense	**(2,179)**	**–**	**(2,179)**
Year ended 31 December 2015 (As restated)			
Total segment revenue	585,539	45,475	631,014
Inter-segment revenue	–	–	–
Revenue from external customers	585,539	45,475	631,014
Segment results	(88,221)	30,479	(57,742)
Net unallocated expenses			(334,566)
Loss before income tax			(392,308)
Other information:			
Amortisation of intangible assets	(1,158)	–	(1,158)
Depreciation	(75,641)	–	(75,641)
(Provision)/reversal of provision for impairment of trade receivables, net *(Note 5)*	(185,751)	3,603	(182,148)
Gain on disposal of equity interest in a subsidiary *(Note 10)*	19,920	–	19,920
Losses on disposals of property, plant and equipment	(893)	–	(893)
Income tax expense	(2,433)	–	(2,433)

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.

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

	2016	2015
	HK$'000	*HK$'000*
		(As restated)
Segment results	**(215,842)**	(57,742)
Other income	**1,912**	563
Depreciation of property, plant and equipment	**(11,375)**	(10,625)
Amortisation of intangible assets and land use rights	**(643)**	(554)
Operating lease rental	**(6,504)**	(9,909)
Employee benefit expenses	**(76,060)**	(116,632)
Entertainment and marketing expenses	**(12,043)**	(13,525)
Other expenses	**(53,850)**	(53,206)
Impairment loss of an available-for-sale financial asset	**(28,868)**	–
Foreign exchange losses, net	**(14,896)**	(86,101)
Other losses	**(560)**	(14)
Finance income	**486**	3,370
Finance costs	**(22,708)**	(47,933)
Share of loss of a joint venture	**(241)**	–
Loss before income tax	**(441,192)**	(392,308)

The segment results included material costs, technical service fees, depreciation, amortisation of intangible assets, distribution expenses, operating lease rental, employee benefit expenses, research and development expenses, entertainment and marketing expenses, provision for impairment of trade receivables, net, other expenses, impairment loss of goodwill, other losses and finance costs, allocated to each operating segment.

(b) Assets

The segment assets as at 31 December 2016 are as follows:

	Oilfield project tools and services	**Consultancy services**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
As at 31 December 2016			
Segment assets	**1,355,504**	**136,774**	**1,492,278**
Unallocated assets			**231,230**
Total assets			**1,723,508**
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	**23,492**	**–**	**23,492**

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

	Oilfield project tools and services *HK$'000*	Consultancy services *HK$'000*	Total *HK$'000*
As at 31 December 2015 (As restated)			
Segment assets	1,958,752	143,625	2,102,377
Unallocated assets			398,142
Total assets			2,500,519
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	79,804	–	79,804

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

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

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

	2016 ***HK$'000***	2015 *HK$'000* (As restated)
Segment assets for reportable segments	**1,492,278**	2,102,377
Unallocated assets		
– Unallocated available-for-sale financial asset	**7,421**	32,486
– Unallocated property, plant and equipment	**113,889**	116,471
– Unallocated land use rights	**9,926**	25,442
– Unallocated intangible assets	**525**	862
– Unallocated other receivables, deposits and prepayments	**17,867**	28,267
– Unallocated deferred tax assets	**7,634**	13,640
– Unallocated current income tax recoverable	**3,268**	3,249
– Unallocated pledged bank deposits	**–**	141,585
– Unallocated restricted bank balance	**5,581**	5,959
– Unallocated cash and cash equivalents	**35,719**	30,181
– Unallocated assets classified as held for sale	**29,400**	–
Total assets per consolidated statement of financial position	**1,723,508**	2,500,519

(c) Geographical information

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

	2016	2015
	HK$'000	*HK$'000*
The PRC	**266,052**	309,181
South America	**6,733**	9,700
The Middle East	**118,336**	259,062
Central Asia	**–**	21,126
Others	**1,321**	31,945
	392,442	631,014

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

	2016	2015
	HK$'000	*HK$'000*
The PRC	**721,305**	1,181,871
South America	**–**	92,108
Singapore	**57,437**	67,356
The Middle East	**185,005**	108,926
Australia	**74**	119
	963,821	1,450,380

(d) Information about major customers

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

	2016
	HK$'000
Customer A	**71,449**
Customer B	**50,925**
Customer C	**43,625**
	165,999

	2015
	HK$'000
Customer D	148,526
Customer B	113,278
Customer E	77,131
	338,935

All the customers contributing 10% or more of the total revenue of the Group are from the oilfield project tools and services segment.

4 INTANGIBLE ASSETS

	Goodwill *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
At 1 January 2015			
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
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	(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
Year ended 31 December 2016			
Opening net book amount	**516,900**	**3,585**	**520,485**
Amortisation	**–**	**(1,420)**	**(1,420)**
Impairment loss	**(213,859)**	**–**	**(213,859)**
Exchange differences	**(695)**	**(76)**	**(771)**
Closing net book amount	**302,346**	**2,089**	**304,435**
At 31 December 2016			
Cost	**520,687**	**8,210**	**528,897**
Accumulated amortisation and impairment	**(218,341)**	**(6,121)**	**(224,462)**
Net book amount	**302,346**	**2,089**	**304,435**

The low oil price during the year ended 31 December 2016 has caused international oil companies to substantially cut their capital expenditure, and the oilfield services industry suffered. As a result, the Group's performance in relation to the oilfield project tools and services has been adversely affected. Based on the impairment assessment review, an impairment loss of HK$213,859,000 was recognised against the goodwill of the oilfield project tools and services during the year ended 31 December 2016.

As at 31 December 2016, the recoverable amount of the oilfield project tools and services business was lower than the carrying amount of the CGU. This shortfall leads to the recognition of impairment of goodwill during the year ended 31 December 2016.

5 TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**810,964**	879,350
Less: provision for impairment of trade receivables	**(409,214)**	(412,262)
Trade receivables – net	**401,750**	467,088

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

	2016	2015
	HK$'000	*HK$'000*
Up to 3 months	**114,372**	102,419
3 to 6 months	**10,691**	121,797
6 to 12 months	**141,507**	197,443
Over 12 months	**544,394**	457,691
Trade receivables	**810,964**	879,350
Less: provision for impairment of trade receivables	**(409,214)**	(412,262)
Trade receivables – net	**401,750**	467,088

As at 31 December 2016, trade receivables of HK$287,378,000 (2015: HK$369,713,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is as follows:

	2016	2015
	HK$'000	*HK$'000*
Up to 3 months	**10,691**	126,264
3 to 6 months	**121,251**	141,666
6 to 12 months	**50,895**	52,006
Over 12 months	**104,541**	49,777
	287,378	369,713

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.

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

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

	2016	2015
	HK$'000	*HK$'000*
United States dollar ("**US$**")	**297,346**	236,577
Chinese Renminbi ("**RMB**")	**70,436**	185,307
European dollar ("**Euro**")	**33,968**	45,204
	401,750	467,088

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.

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 2016 amounted to HK$409,214,000 (2015: HK$412,262,000). The ageing of these receivables by services completion or delivery date at the respective balance sheet dates is as follows:

	2016	2015
	HK$'000	*HK$'000*
6 to 12 months	**–**	1,847
Over 12 months	**409,214**	410,415
	409,214	412,262

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**412,262**	297,600
Provision for receivables impairment	**37,204**	198,863
Reversal of provision for receivables impairment	**(21,127)**	(16,715)
Written off of receivables	**(12,272)**	–
Exchange differences	**(6,853)**	(67,486)
As at 31 December	**409,214**	412,262

As at 31 December 2016, the recognition of provision for receivables impairment had been included in 'provision for impairment of trade receivables, net' of HK$16,077,000 (2015: HK$182,148,000).

6 TRADE PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**174,210**	310,967

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

	2016	2015
	HK$'000	*HK$'000*
Up to 3 months	**25,901**	87,945
3 to 6 months	**8,999**	40,272
6 to 12 months	**3,186**	72,580
Over 12 months	**136,124**	110,170
	174,210	310,967

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

	2016	2015
	HK$'000	*HK$'000*
US$	**63,462**	100,252
RMB	**97,274**	179,933
Singaporean dollar ("**SGD**")	**13,138**	30,137
Others	**336**	645
	174,210	310,967

7 BANK AND OTHER BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Non-current		
Bank borrowings *(Note a)*	**37,479**	39,083
Finance lease liabilities *(Note b)*	**2,810**	8,777
Convertible bonds – liability component *(Note c)*	**137,741**	126,886
	178,030	174,746
Current		
Bank borrowings (including overdraft) *(Note a)*	**3,901**	196,765
Finance lease liabilities *(Note b)*	**5,373**	5,363
Convertible bonds – liability component *(Note c)*	**7,359**	7,359
	16,633	209,487
	194,663	384,233

(a) Bank borrowings

Bank borrowings bear average coupon rate of 3.7% as at 31 December 2016 (2015: 3.4%).

As at 31 December 2016, the Group's bank borrowings were under floating interest rates (2015: Same).

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:

	2016	2015
	HK$'000	*HK$'000*
6 months or less	**2,085**	195,328
Over 6 months	**39,295**	40,520
	41,380	235,848

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:

	2016	2015
	HK$'000	*HK$'000*
US$	**2,085**	56,841
RMB	**–**	130,655
SGD	**39,295**	48,352
	41,380	235,848

The Group's bank borrowings were all secured.

As at 31 December 2016, banking facilities of approximately HK$41 million were granted by a bank to a subsidiary of the Company, all of which have been utilised by the subsidiary of the Company. The facilities are secured by:

(a) corporate guarantee given by the Company; and

(b) a building of the Group.

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

(a) certain pledged bank deposits;

(b) corporate guarantee given by certain Group companies;

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

(d) a building of the Group.

The Group has the following undrawn borrowing facilities:

	2016	2015
	HK$'000	*HK$'000*
Floating rate		
– Expiring within one year	**–**	298,239
	–	298,239

(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.

	2016	2015
	HK$'000	*HK$'000*
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**5,719**	6,180
Later than 1 year and no later than 5 years	**2,860**	9,269
	8,579	15,449
Future finance charges on finance leases	**(396)**	(1,309)
Present value of finance lease liabilities	**8,183**	14,140
The present value of finance lease liabilities is as follows:		
No later than 1 year	**5,373**	5,363
Later than 1 year and no later than 5 years	**2,810**	8,777
	8,183	14,140

The finance lease liabilities are denominated in RMB.

As at 31 December 2016, finance lease liabilities were secured by certain machineries of the Group amounting to HK$18,940,000 (2015: HK$22,590,000).

(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 is 30 March 2018. The holders have 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. Subsequently, the liability component is carried at amortised cost.

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

The convertible bonds recognised on 30 March 2015 is calculated as follows:

	HK$'000
Net proceeds of convertible bonds issued on 30 March 2015	153,860
Equity component	(28,462)
Liability component at initial recognition	125,398

Movements in convertible bonds are analysed as follows:

	2016	2015
	HK$'000	*HK$'000*
Opening amount	**134,245**	125,398
Interest expenses *(Note 11)*	**18,727**	12,804
Interest paid	**(7,872)**	(3,957)
Closing amount	**145,100**	134,245
Less: Non-current convertible bonds – liability component	**(137,741)**	(126,886)
Current portion	**7,359**	7,359

8 OTHER EXPENSES

	2016	2015
	HK$'000	*HK$'000*
Auditor's remuneration		
– Audit services	**3,100**	2,799
– Non-audit services	**250**	–
Communications	**2,341**	2,413
Professional service fee	**4,952**	8,025
Motor vehicle expenses	**3,633**	6,052
Travelling	**19,264**	23,786
Insurance	**1,157**	2,370
Office utilities	**17,567**	13,006
Other tax-related expenses and custom duties *(Note (i))*	**3,480**	4,478
Bank charges	**831**	867
Agency fee	**–**	901
Logistic service fee *(Note (ii))*	**5,025**	–
Provision for impairment of inventories	**3,639**	5,553
Provision for impairment of property, plant and equipment	**4,120**	–
Provision for impairment of other receivables	**781**	–
Others	**6,256**	8,203
	76,396	78,453

Note:

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

(ii) During the year, the management has relocated the machineries from South America to the Middle East after management's decision to downsize the business of the subsidiary in South America.

9 FOREIGN EXCHANGE LOSSES, NET

	2016	2015
	HK$'000	*HK$'000*
Foreign exchange losses	**(14,896)**	(86,101)
Net foreign exchange losses on financing activities	**(585)**	(8,286)
	(15,481)	(94,387)

10 OTHER (LOSSES)/GAINS, NET

	2016	2015
	HK$'000	*HK$'000*
Losses on disposals of property, plant and equipment	**(16,891)**	(1,016)
Write off of property, plant and equipment	**(1,533)**	(984)
Government grant	**2,031**	265
Gain on disposal of equity interest in a subsidiary	**–**	19,920
Others	**936**	828
	(15,457)	19,013

11 FINANCE INCOME AND COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest expenses:		
– Bank borrowings	**(4,554)**	(29,832)
– Convertible bonds *(Note 7(c))*	**(18,727)**	(12,804)
– Finance lease liabilities	**(689)**	(568)
– Net foreign exchange losses on financing activities *(Note 9)*	**(585)**	(8,286)
Finance costs	**(24,555)**	(51,490)
Finance income:		
– Interest income from bank deposits	**486**	1,990
– Gain on net monetary position	**–**	1,380
Finance income	**486**	3,370
Finance costs, net	**(24,069)**	(48,120)

12 INCOME TAX EXPENSE/(CREDIT)

	2016	2015
	HK$'000	*HK$'000*
Current tax		
– PRC enterprise income tax	–	161
– Singapore corporate tax	**2,242**	2,319
	2,242	2,480
Under/(over) provision in prior years		
– Hong Kong profits tax	–	(922)
– Singapore corporate tax	**103**	–
	103	(922)
Deferred tax	**1,810**	(2,107)
Income tax expense/(credit)	**4,155**	(549)

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2015: 16.5%) during the year.

(ii) PRC enterprise income tax ("EIT")

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 2016, 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% (2015: 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 2016 (2015: 17%).

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

	2016	2015
	HK\$'000	*HK\$'000*
Loss before income tax	**(441,192)**	(392,308)
Tax calculated at domestic tax rates applicable to profit/loss in the respective entities	**(22,951)**	(53,439)
– Under/(over) provision for prior years	**103**	(922)
– Income not subject to tax	**(3,971)**	(5,202)
– Expenses not deductible for tax purposes	**22,705**	15,781
– Reversal of withholding tax on undistributed profits of a subsidiary established in the PRC	**(3,806)**	–
– Tax losses for which no deferred tax assets was recognised	**12,075**	43,233
Income tax expense/(credit)	**4,155**	(549)

The weighted average applicable tax rate was 5% (2015: 14%). The decrease is primarily due to changes in the profitability of the group companies in the respective jurisdictions.

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

	2016	2015 (As restated)
Loss attributable to owners of the Company *(HK\$'000)*	**(443,353)**	(384,342)
Weighted average number of ordinary shares in issue *(Number of shares in thousand)*	**1,536,351**	1,252,673
Basic loss per share *(HK cents)*	**(29)**	(31)
Diluted loss per share *(HK cents)*	**(29)**	(31)

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 2016 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2015: 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.

On 8 July 2016, the Group completed rights issue of 398,463,000 ordinary shares at HK$0.31 per rights share on the basis of three rights shares for every ten existing shares held on 29 June 2016. The basic and diluted loss per share for the year ended 31 December 2015 have been restated to take into account the right shares issued at a discount on market price subsequent to the year ended 31 December 2015. The weighted average number of shares outstanding was retrospectively increased to reflect the discount in the rights issue. For the year ended 31 December 2015, the weighted average number of ordinary shares in issue were 1,223,346,000 before restatement.

14 DIVIDEND

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: Nil).

FINANCIAL REVIEW

Revenue

During the year, the Group's revenue amounted to HK$392.4 million, which decreased by 38% compared with that of HK$631.0 million in 2015, representing a decrease of HK$238.6 million. The decrease in revenue was mainly attributable to the decline of revenue in oilfield project tools and services caused by the shrinking markets, intensified competition and delay in certain projects affected by the low oil price.

Material Costs

During the year, the Group's material costs were HK$165.6 million, which decreased by HK$50.3 million or 23% compared with that of HK$215.9 million in 2015. The decrease in material costs was mainly due to the drop of revenue in 2016.

Depreciation of Property, Plant and Equipment

During the year, the depreciation of property, plant and equipment amounted to HK$93.7 million, which increased by HK$7.4 million or 9% compared with that of HK$86.3 million in 2015, primarily resulting from the additions of service equipment in the second half of 2015.

Employee Benefit Expenses

During the year, the Group's employee benefit expenses were HK$112.1 million, which dropped by HK$56.2 million or 33% compared with that of HK$168.3 million in 2015. The decrease in employee benefit expenses mainly resulted from the optimisation of the staff structure and the strengthening of the cost control in the harsh market environment, where the headcount decreased by 37% from 553 in 2015 to 349 in 2016.

Distribution Expenses

During the year, the Group's distribution expenses amounted to HK$13.0 million, which decreased by HK$1.7 million or 12% from HK$14.7 million in 2015. The decrease in distribution expenses was mainly due to the drop in the revenue.

Technical Service Fees

During the year, the Group's technical service fees amounted to HK$24.7 million, which decreased by HK$87.0 million or 78% from HK$111.7 million in 2015. The decrease in technical service fees was mainly related to the decline in the number of oilfield projects tools and services 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$16.1 million, which decreased by HK$166.0 million or 91% from HK$182.1 million in 2015. It was mainly due to the provision for impairment of trade receivable from a major customer in Venezuela and a major customer in the China market amounted to HK$127.1 million and HK$33.1 million, respectively in 2015. The provision for impairment of trade receivables in 2016 was mainly attributable to a customer in the Middle East area.

Other Expenses

During the year, the Group's other expenses were HK$76.4 million, which decreased by HK$2.1 million or 3% from HK$78.5 million in 2015. The decrease was mainly resulted from the Group's cost control measures.

Impairment Loss of Goodwill

During the year, the Group's impairment loss of goodwill amounted to HK$213.9 million (31 December 2015: Nil), mainly because the Group's performance in relation to the oilfield project tools and services has been adversely affected by the long term low oil price and the economics and industry downturn.

Impairment Loss of an Available-for-sale Financial Asset

During the year, the Group's impairment loss of an available-for-sale financial asset amounted to HK$28.9 million (31 December 2015: Nil), due to a significant decline in fair value of the available-for-sale financial asset below its cost.

Operating Loss

As a result of the foregoing, the Group's operating loss in 2016 amounted to HK$416.9 million, which increased by HK$72.7 million or 21% compared with the HK$344.2 million in 2015.

Net Financing Costs

During the year, the Group's net financing costs amounted to HK$24.1 million, which decreased by HK$24.0 million compared with that of HK$48.1 million in 2015. This change was mainly attributable to the repayment of bank borrowings.

Loss for the Year

As a result of the foregoing, the Group's loss amounted to HK$445.3 million, which increased by HK$53.5 million compared with the HK$391.8 million in 2015.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company in 2016 was HK$443.4 million, which increased by HK$59.1 million compared with that of HK$384.3 million in 2015.

Property, Plant and Equipment

Property, plant and equipment mainly include items such as buildings, plant and machinery, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 31 December 2016, the Group's property, plant and equipment amounted to HK$605.6 million, which decreased by HK$152.3 million or 20% from HK$757.9 million as at 31 December 2015. The decrease was primarily due to the depreciation of the property, plant and equipment, disposal of some equipments and transfer to assets held for sale.

Intangible Assets

As at 31 December 2016, the Group's intangible assets amounted to HK$304.4 million, representing a decrease of HK$216.1 million or 42% from HK$520.5 million as at 31 December 2015. The decrease was mainly affected by an impairment loss of HK$213.9 million, which recognised against the goodwill of the oilfield project tools and services as discussed above.

Inventories

As at 31 December 2016, the Group's inventories amounted to HK$170.8 million, representing a drop of HK$71.9 million or 30% compared with that of HK$242.7 million as at 31 December 2015. The average turnover days of inventories decreased from 505 days in 2015 to 457 days in 2016. The decrease of inventories turnover days was mainly due to utilisation of aged-tools by the Group and costs control in the procurement process in 2016.

Trade Receivables

As at 31 December 2016, the Group's trade receivables amounted to HK$401.8 million, representing a decrease of HK$65.3 million or 14% compared with that of HK$467.1 million as at 31 December 2015. The average turnover days of trade receivables were 405 days in 2016, representing an increase of 126 days compared with the 279 days in 2015. The increase in turnover days of trade receivables was mainly due to the slower settlement by some of the customers in 2016.

Trade Payables

As at 31 December 2016, the Group's trade payables were HK$174.2 million, which decreased by HK$136.8 million or 44% compared with that of HK$311.0 million as at 31 December 2015. The average turnover days of trade payables increased from 347 days in 2015 to 467 days in 2016, representing an increase of 120 days. The increase in turnover days of trade payables was mainly due to the slower payment by the Group in 2016.

Liquidity and Capital Resources

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

As at 31 December 2016, the Group's cash and cash equivalents amounted to HK$44.9 million, representing a decrease of HK$1.7 million compared with the HK$46.6 million as at 31 December 2015. The cash and cash equivalents were mainly held in RMB and US$.

As at 31 December 2016, HK$5.6 million cash was restricted deposits held at bank as reserve under litigation claim (31 December 2015: HK$6.0 million).

As at 31 December 2016, the Group's bank facilities of HK$41.4 million (31 December 2015: HK$534.0 million) were granted by a bank to a subsidiary, of which all (31 December 2015: HK$236.0 million) have been utilised by the subsidiary.

Gearing ratio

As at 31 December 2016, the Group's gearing ratio (calculated as net debt divided by total capital) was 10% (31 December 2015: 10%). Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings" as shown in the consolidated financial information) less total cash (including "pledged bank deposits", "cash and cash equivalents" and "restricted bank balance" as shown in the consolidated financial information). Total capital is calculated as "equity" as shown in the consolidated financial information plus net debt.

Foreign Exchange Risk

The Group operates in various countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$, EUR and RMB. Foreign exchange risk mainly arises from trade and other receivables, cash and cash equivalents, trade and other payables, intra-group balance and bank borrowings in foreign currencies.

Contractual Obligations

The Group leases various offices, warehouses and a land in Singapore under non-cancellable operating lease agreements. The lease terms are between 1 and 29 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group's commitment under operating leases amounted to HK$23.7 million as at 31 December 2016.

Contingent Liabilities

During 2014, a contracting party initiated legal proceedings against the Group alleging a failure to provide stipulated amount of drilling works under the contracts entered in 2012 and 2013 and claimed for a total amount of RMB25.0 million. The case was concluded on 1 June 2015 in which the judgement 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 2016, restricted deposits of RMB5.0 million (equivalent to approximately HK$5.6 million) are held at bank as reserve under litigation claim (31 December 2015: equivalent to approximately HK$6.0 million).

Non-current Assets Held for Sale

On 31 May 2016, the Group entered into an agreement to transfer the ownership of a land use right in the PRC with carrying amount of HK$13.6 million to an independent third party. The sale proceeds of the land use right amounted to HK$20.0 million, with deposits received amounted to HK$13.4 million as at 31 December 2016. The transfer was completed on 10 January 2017.

On 12 October 2016 and 14 October 2016, the Group entered into agreements to dispose certain machineries to an independent third party at the consideration of approximately HK$17.2 million, with the carrying value of HK$15.8 million as at 31 December 2016. The transfer was completed on 12 January 2017.

Off-balance Sheet Arrangements

As at 31 December 2016, the Group did not have any off-balance sheet arrangements (31 December 2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 29 May 2017 to Friday, 2 June 2017, both dates inclusive, during which period no share transfers will be registered. In order to determine the identity of the shareholders of the Company entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at its office situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 May 2017.

CORPORATE GOVERNANCE

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

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

Code A.2.1

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

Mr. Wang Jinlong ("**Mr. Wang**") was performing both the roles of chairman and chief executive officer ("**CEO**") of the Group during the reporting period until 25 April 2016. Taking into account Mr. Wang's strong expertise in the oil and gas industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. However, in order to maintain good corporate governance and fully comply with the Code Provisions, Mr. Wang has resigned as the CEO and Mr. Zhao Jindong ("**Mr. Zhao**") has been re-designated from a vice president to the CEO on 25 April 2016. On 1 December 2016, Mr. Zhao has resigned as the CEO of the Company due to health reasons, but remained as an executive Director and Mr. Zeng Weizhong has been appointed as the CEO with effect from 1 December 2016. The changes of CEO appointment enabled the Company to comply with the code provision requirement of separating the roles of chairman and chief executive officer under the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of 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 reporting period.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER BALANCE SHEET DATE

On 10 January 2017, the Group completed the sale of the land use right with carrying amount of HK$13.6 million to an independent third party. The sale proceeds of the land use right amounted to HK$20.0 million with deposits received amounted to HK$13.4 million as at 31 December 2016.

On 12 January 2017, the Group completed the sale of certain machineries totalling HK$15.8 million to an independent third party at consideration of HK$17.2 million.

On 22 January 2017, the Group entered into an agreement to dispose certain machineries to an independent third party at the consideration of approximately HK$20.8 million, which is the same as the carrying value of these machineries as at 31 December 2016. The transfer will be completed within one year.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") which composes of three independent non-executive Directors, namely Mr. Wong Lap Tat Arthur (Chairman of the Audit Committee), Mr. He Shenghou and Mr. Tong Hin Wor. The consolidated financial statements for the year ended 31 December 2016 has been reviewed by the Audit Committee.

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

Hong Kong, 23 March 2017

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