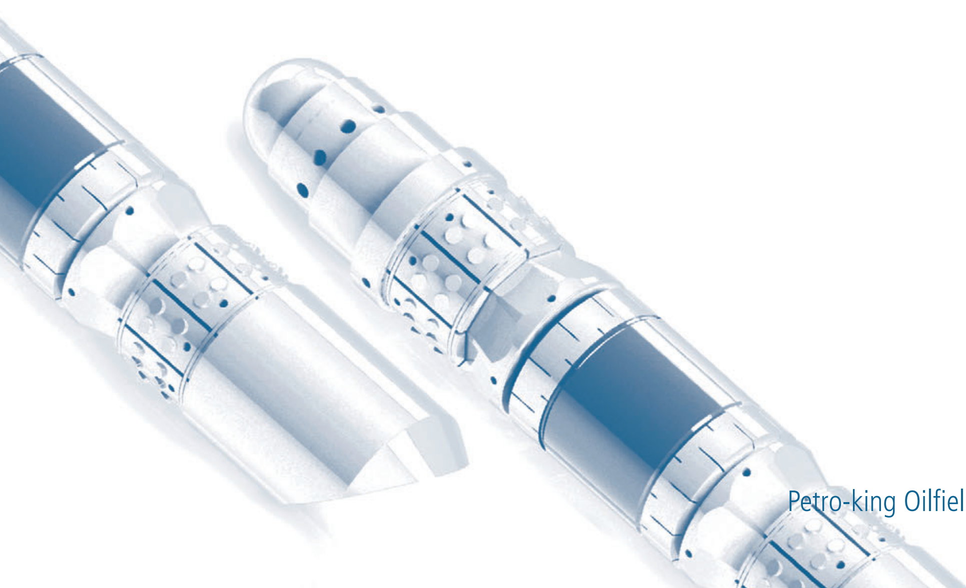
Petro-king
百勤油服

Annual Report 2017

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

Stock Code: 2178

CONTENTS



FINANCIAL HIGHLIGHT

Operating Figures

For the year ended 31 December	2017 HK$	2016 HK$	Change	2015 HK$	2014 HK$	2013 HK$
Revenue	**287,848,000**	392,442,000	-27%	631,014,000	705,172,000	1,060,435,000
Operating (loss)/profit	**(138,332,000)**	(416,882,000)	67%	(344,188,000)	(398,000,000)	259,705,000
(Loss)/profit for the year	**(181,142,000)**	(445,347,000)	59%	(391,759,000)	(418,148,000)	210,506,000
(Loss)/earnings per share						
Basic (HK$ cents)	**(10)**	(29)	66%	(31)	(38)	20
Diluted (HK$ cents)	**(10)**	(29)	66%	(31)	(38)	20

Consolidated Balance Sheet

As at 31 December	2017 HK$	2016 HK$	Change	2015 HK$	2014 HK$	2013 HK$
Total assets	**1,539,840,000**	1,723,508,000	-11%	2,500,519,000	3,162,095,000	2,849,166,000
Non-current assets	**866,495,000**	979,999,000	-12%	1,497,705,000	1,563,767,000	893,917,000
Current assets	**673,345,000**	743,509,000	-9%	1,002,814,000	1,598,328,000	1,955,249,000
Total liabilities	**416,055,000**	486,828,000	-15%	921,215,000	1,367,167,000	623,599,000
Non-current liabilities	**48,330,000**	184,390,000	74%	185,992,000	55,458,000	14,589,000
Current liabilities	**367,725,000**	302,438,000	22%	735,223,000	1,311,709,000	609,010,000
Net current assets	**305,620,000**	441,071,000	-31%	267,591,000	286,619,000	1,346,239,000
Net assets	**1,123,785,000**	1,236,680,000	-9%	1,579,304,000	1,794,928,000	2,225,567,000

Financial Indicators

For the year ended 31 December	2017	2016	2015	2014	2013
Trade receivables turnover days	**513**	405	279	461	285
Inventory turnover days	**414**	457	505	552	268
Trade payables turnover days	**378**	467	347	334	225
Current ratio	**1.83**	2.46	1.36	1.22	3.21
Gearing ratio *(Note 1)*	**14%**	10%	10%	21%	N/A
Return on Equity *(Note 2)*	**-15%**	-32%	-23%	-23%	13%

Note 1: Based on net debt 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.

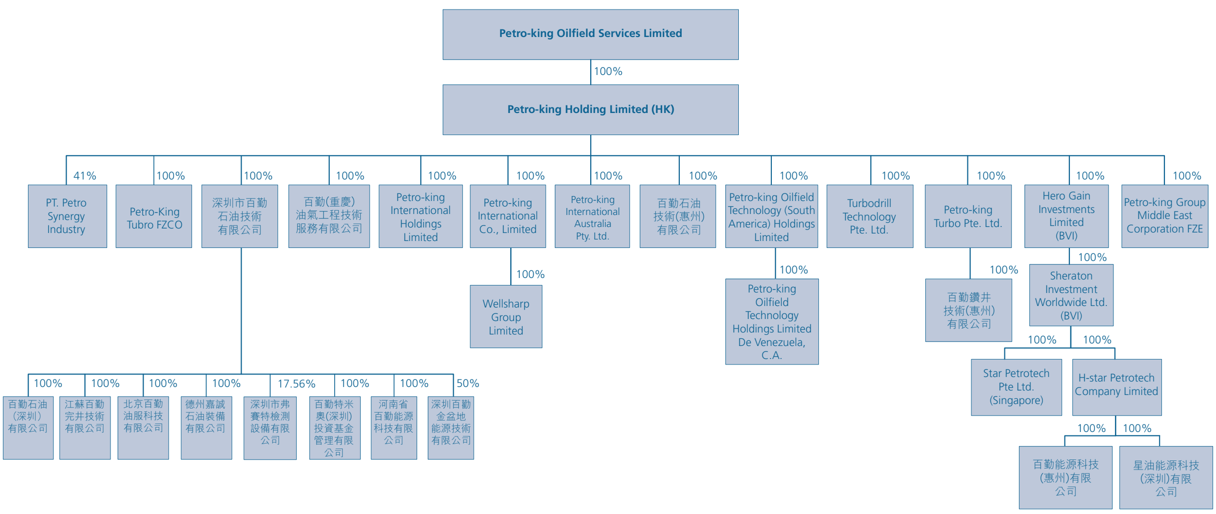
CORPORATE PROFILE

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 macross 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 2017.

RESULTS

The second half of 2017 seemed to be the turning point of the Group's business recovery from the past long-lasted downturn cycle of the oilfield service sector, the Group recorded a half year revenue growth of about 17% sequentially and a half year revenue growth of about 23% as compared to that of the second half of 2016. However, resulting from the persistently weak sentiment among most of the Group's customers about investment in exploration and production ("**E&P**") in the past few years, the Group's full year revenue in 2017 has declined by 27% to HK$287.8 million, from HK$392.4 million in 2016. The Group's operating costs amounted to HK$428.2 million in 2017, down by 47% as compared to that of HK$811.2 million in 2016. The Group recorded an operating loss of HK$138.3 million in 2017, representing a decrease of 67% as compared to the operating loss of HK$416.9 million in 2016. The Group's net financing cost has increased by 85% to HK$44.5 million in 2017, from that of HK$24.1 million in 2016. During the year, the Group recorded a net loss of HK$180.3 million attributable to owners of the Company, narrowed by HK$263.1 million or 59% as compared to that of HK$443.4 million in 2016.

Started with a challenging first half in 2017, the Group continued to focus on improving its management performance, organisational structure, operational performance and overall competitiveness for its long term development. The Group took the following measures in 2017:

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

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

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

With certain positive development in the oil and gas industry in the second half of 2017, such as (i) the international crude oil price further rebounded and continued increasing steadily; and (ii) the announcement of aggressive investment plans in gas related E&P projects by certain major national oil companies ("**NOC**") in China, we have received strong recovery signals from our customers in both the China market and the overseas market, and the Group has since then reacted proactively in chasing new orders and enhancing service capacity.

THE CHINA MARKET

The downturn of the China oilfield service market lasted for more than 36 months after the market hit its peak in early 2014 in the midst of shale gas boom. In 2017, the China market showed some signs of partial recovery in certain areas, especially those areas with gasfield operations. Market recovery signals were further strengthened in the second half of 2017 when NOCs announced aggressive E&P investment plans in gasfields in Sichuan basin. Demand for production enhancement services (such as pressure pumping for shale gas projects) increased substantially in the second half of 2017. As a result, the Group had won certain bids for tenders and gained some new project contracts in the China market, such as contracts for provision of pressure pumping and fracturing services for shale gas projects in Sichuan Basin and coal bed methane ("**CBM**") projects in Shanxi. These projects have led to a higher utilisation of the Group's pressure pumping equipment in the second half of 2017.

Due to the persistently weak market environment since early 2014, the Group took a strategy of prudent working capital management during the long-lasted industry downturn cycle. In 2017, the Group continued its tightened customer credit control policy and rejected certain business opportunities due to uncertainty over collection of trade receivables.

In 2017, the Group has introduced to the market its newly developed dissolvable alloy bridge plug, a technology which could substantially shorten the time and save the cost of multistage perforation fracturing operations. After a few success trial runs in shale gas wells, the Group has been proactively promoting this new tool in the China market and received encouraging feedback from our customers. In addition, the participation in the successful exploration work of an offshore methane hydrate project indicates that we are at the forefront of the advanced technology for China's development of such new and green energy. Furthermore, leveraging on the Group's research and development capability, the Group has developed certain completion tools satisfying specific requirements from customers in the China market. We believe that some of these business opportunities that we grasped will continue to contribute to the Group's revenue in the foreseeable future.

THE OVERSEAS MARKET

Despite a strong recovery in the drilling activities of shale oil and gas projects in North America in 2017, the global market for the oilfield services in general was still associated with a gloomy market environment in early 2017. Signs of overall market recovery began to show in the fourth quarter of 2017 after the international crude oil price rebounded to above US$60.

During the year, the Group streamlined its marketing and sales team and its service capacity in various regions in the overseas market. In particular, it expanded its service capacity in the Middle East and North Africa region. The Group had built its reputation as a high-end oilfield service provider with cost competitive solutions in the Middle East in past years. During the year, the Group's further marketing and promotion efforts in various overseas markets began to earn further recognition from certain new customers including international oil companies, local oil and gas companies and local oilfield service providers. In 2017, we have won orders of our self-developed completion tools in Central Asia, the Middle East, North Africa, Indonesia and Australia. In addition, our turbine drilling services and production enhancement services have received encouraging feedback from prospective customers in the Middle East and North Africa. We are expecting more business co-operations with certain major oil and gas operators in the Middle East and North Africa by offering our technologies and services at competitive prices.

OUTLOOK

The Brent crude oil price rebounded significantly in 2016, from its lowest of about US$28 in January 2016 to about US$57 at the end of December 2016. It further rebounded to above US$60 in the fourth quarter of 2017 after a correction in the first half of 2017. Driven by a robust growth outlook of the global economy and the crude oil production cut as agreed by OPEC and Russia, it is widely believed that the Brent crude oil price will be standing steadily at above US$60 in 2018.

With an expectation of market recovery for the global oil and gas industry, the international oilfield service sector is expected to have a significant recovery in 2018, after experiencing such a long-lasted downturn cycle in the past few years. In the China market, the recently announced aggressive E&P investment plans are mainly related to gas projects. We expect the demand for directional drilling and production enhancement services from unconventional gas projects (including shale gas and CBM) will continue to be keen in 2018.

Based on the recent market development and our customers' investment plans, we are expecting the Group's business recovery to continue in the foreseeable future. Looking ahead to 2018, we will continue to put effort into the marketing and promotion of the Group's oilfield services, tools and technologies in the Middle East and North Africa market, so as to increase our market penetration in the region. In addition, the Group will continue to focus on the advancement of its oilfield service technologies and tools in order to further enhance our capability in provision of high-end oilfield services in mainland China and the overseas market.

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, 10 May 2018

GEOGRAPHICAL MARKET ANALYSIS

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

	2017 *(HK$ million)*	2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2017 *(%)***	Approximate percentage of total revenue in 2016 *(%)*
China market	**153.3**	266.1	-42%	**53%**	68%
Overseas market	**134.5**	126.3	6%	**47%**	32%
Total	**287.8**	392.4	-27%	**100%**	100%

The Group's revenue from the China market dropped by HK$112.8 million or 42% to HK$153.3 million in 2017 from HK$266.1 million in 2016. The decrease in revenue from the China market was mainly due to customers' cutting in capital investments in E&P projects and delaying project execution under the continuously weak market environment in the past downturn cycle. In addition the long settlement of trade receivables by customers makes the Group cautious about certain business opportunities in the China market.

The Group's revenue from the overseas market increased by HK$8.2 million or 6% to HK$134.5 million in 2017 from HK$126.3 million in 2016. The increase in revenue from the overseas market was mainly because the Group expanded its business in Central Asia and recorded revenue increase in both Australia and North Africa.

REVENUE FROM THE CHINA MARKET

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

	2017 *(HK$ million)*	2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the China market in 2017 *(%)***	Approximate percentage of total revenue from the China market in 2016 *(%)*
Northern China	**6.6**	22.9	-71%	**4%**	9%
Southwestern China	**23.0**	33.1	-31%	**15%**	12%
Other regions in China	**123.7**	210.1	-41%	**81%**	79%
Total	**153.3**	266.1	-42%	**100%**	100%

In 2017, the Group's revenue from Northern China amounted to HK$6.6 million; which has dropped by HK$16.3 million or 71% from HK$22.9 million in 2016. The decrease was mainly due to the shrinking orders of enhancement services from a major customer in Northern China, which led to a significant decline in the Group's revenue from this region.

The revenue from Southwestern China amounted to HK$23.0 million in 2017, which has dropped by HK$10.1 million or 31% from HK$33.1 million in 2016. The decrease was mainly due to the completion of unconventional gas projects related to the production enhancement services.

The revenue from other regions in China amounted to HK$123.7 million in 2017, which has dropped by HK$86.4 million or 41% from HK$210.1 million in 2016. The decrease was mainly due to the low investment activities from two key customers in well completion in 2017.

REVENUE FROM THE OVERSEAS MARKET

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

	2017 **(HK$ million)**	2016 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue from the overseas market in 2017 (%)**	Approximate percentage of total revenue from the overseas market in 2016 (%)
The Middle East	**117.2**	118.3	-1%	**87%**	94%
Others	**17.3**	8.0	116%	**13%**	6%
Total	**134.5**	126.3	6%	**100%**	100%

The revenue from the Middle East amounted to HK$117.2 million in 2017, which has dropped by HK$1.1 million or 1%, from HK$118.3 million in 2016. The decrease was mainly caused by the decline in consultancy services, net off the increase in revenue from the sales of well completion tools in this region.

The revenue from other overseas regions amounted to HK$17.3 million in 2017, which has increased by HK$9.3 million or 116% from HK$8.0 million in 2016. The increase in revenue was mainly due to the Group's new order from the sales of well completion tools in Central Asia.

BUSINESS SEGMENT ANALYSIS

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

	2017 **(HK$ million)**	2016 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2017 (%)**	Approximate percentage of total revenue in 2016 (%)
Oilfield project tools and services	**243.6**	340.8	-29%	**85%**	87%
Consultancy services	**44.2**	51.6	-14%	**15%**	13%
Total	**287.8**	392.4	-27%	**100%**	100%

In 2017, the Group's revenue from oilfield project tools and services amounted to HK$243.6 million, which has decreased by HK$97.2 million or 29% from HK$340.8 million in 2016. The decrease was mainly due to the decline in well completion tools sales revenue from the China Market, net off the revenue increase in drilling service.

The Group's revenue from consultancy services amounted to HK$44.2 million in 2017, which has decreased by HK$7.4 million or 14%, from HK$51.6 million in 2016. This decrease was mainly due to the completion of two projects, namely the integrated project and management services project in Middle East and consultancy services in South America.

Oilfield Project Tools and Services

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

	2017	2016	Approximate percentage change	**Approximate percentage of total revenue from oilfield project tools and services in 2017**	Approximate percentage of total revenue from oilfield project tools and services in 2016
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
Drilling	**46.7**	24.1	94%	**19%**	7%
Well completion	**148.4**	264.4	-44%	**61%**	78%
Production enhancement	**48.5**	52.3	-7%	**20%**	15%
Total	**243.6**	340.8	-29%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to HK$46.7 million in 2017, which has increased by HK$22.6 million or 94% from HK$24.1 million in 2016. The increase was mainly due to the sales of drilling tools to customers in Middle East and the provision of drilling services in Southwest China.

In 2017, the Group provided drilling services for 14 wells, all of which were completed before 31 December 2017. The drilling services were mainly provided in Southwest and Northwest China.

Well Completion

In 2017, the Group's revenue from well completion amounted to HK$148.4 million, which has decreased by HK$116.0 million or 44% from HK$264.4 million in 2016. The decrease was mainly due to no new orders of completion tools sales received from the key customers in 2016 in the other regions in China.

The well completion services were mainly provided in China, the Middle East, Australia, Indonesia and Central Asia.

Production Enhancement

In 2017, the Group's revenue from production enhancement amounted to HK$48.5 million, which has decreased by HK$3.8 million or 7% from HK$52.3 million in 2016. The decrease was mainly due to the decline in revenue from production enhancement projects in Northern China.

In 2017, the Group provided production enhancement services for 88 wells, of which 84 wells were completed before 31 December 2017 and the remaining 4 wells were still working in progress.

CUSTOMER ANALYSIS

Customer	**2017** **(HK$ million)**	2016 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2017** **(%)**	Approximate percentage of total revenue in 2016 *(%)*
Customer 1	**74.8**	43.6	72%	**26%**	11%
Customer 2	**74.0**	38.9	90%	**26%**	10%
Customer 3	**28.6**	14.4	99%	**10%**	4%
Customer 4	**21.6**	20.5	5%	**8%**	5%
Customer 5	**21.1**	22.8	-7%	**7%**	6%
Customer 6	**20.4**	17.0	20%	**7%**	4%
Other customers	**47.3**	235.2	-80%	**16%**	60%
Total	**287.8**	392.4	-27%	**100%**	100%

The revenue from customer 1 amounted to HK$74.8 million in 2017, which has increased by HK$31.2 million or 72% from HK$43.6 million in 2016. Such revenue from this customer was mainly attributable to promotion activities of the Group's self-developed tools in the Middle East. The revenue from customer 2 amounted to HK$74.0 million in 2017, which has increased by HK$35.1 million or 90% from HK$38.9 million in 2016. Such increase was mainly due to the revenue of well completion tools sales and drilling tools sales in the Middle East. The revenue from customer 3 amounted to HK$28.6 million in 2017, which has increased by HK$14.2 million or 99% from HK$14.4 million in 2016. Such increase was also attributable to the Group's new marketing strategy in the overseas market. The revenue from customer 4 amounted to HK$21.6 million in 2017, which has increased by HK$1.1 million or 5% from HK$20.5 million in 2016. The revenue from customer 5 amounted to HK$21.1 million in 2017, which has dropped by HK$1.7 million or 7% from HK$22.8 million in 2016. Such change was mainly caused by the reduction in production enhancement projects in Northern China. The revenue from customer 6 amounted to HK$20.4 million in 2017, which has increased by HK$3.4 million or 20% from HK$17.0 million in 2016. The increase was mainly attributable to the drilling technical service project in the China market. The revenue from other customers amounted to HK$47.3 million in 2017, which has dropped by HK$187.9 million or 80% from HK$235.2 million in 2016, the decrease was mainly due to the completion of sales contracts with two key customers in 2016.

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, multistage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 2017, the Group continued to seek advancement in technology and introduced new products to the market, including the followings:

- Successfully applied a new self-developed 5 ½" dissolvable Bridge plug in Northeast China. This kind of tool can reduce working procedures, substantially shorten the total operation time and in turn save the cost of multistage perforation fracturing operations.

- Designed and tested a new 4 ½" Tubing Retrievable Safety Valve with 15,000 Psi working pressure which can be used in high pressure and high temperature wells, and this kind of tool successfully passed in house testing. Most of the safety valve supplier in the market can only provide safety valve up to 10,000 Psi pressure rating.

- Successfully designed and produced 4 ½" dissolvable Bridge plug and delivered to our customers.

- Successfully tested the function and pressure-bearing of 7" Check Valve, which is a kind of simpler tool with low cost as compared with other tools of the same type in order to save operation cost.

- Focused on the development of 7" Psi retrievable packer with 10,000 Psi working pressure which is tubing retrievable without additional pulling tool. It will save much time and operation cost during workover.

- Continue to focus on the development of certain sizes of dissolvable Bridge plug to meet the demand of domestic and foreign markets.

In 2017, the Group was granted 4 utility model patents and 4 innovation patents. In addition, the Group has 15 innovation patents and 7 utility model patents under application as at 31 December 2017.

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 set up new research and development center to expand its tools and technology further through in-house research and development and cooperation with oilfield service technology companies.

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our business. We have implemented human resources policies and procedures that detail requirements on compensation dismissal, recruitment, promotion, working hours, equal opportunity and other benefits and welfare. We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right 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 organizations such as unions and consultants to provide training for the specific needs of the operations. The Group has arranged 58 trainings, more than 9000 hours in total and 166 employees attended these training programs in 2017. Besides, the company implemented new talents selection system to expand promotion channel for staff in order to realise a win-win situation for both the Company and employees.

To cope with the development trend of the industry, the Group streamlined the organisation structure and the cost structure of all service lines as well as the supporting departments. The Company paid high attention to talent introduction and has recruited some international experts who are good at market developing as well. The total headcount was 334 employees as at 31 December 2017, remained nearly flat as compared to that of 349 employees as at 31 December 2016.

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

FINANCIAL REVIEW

Revenue

During the year, the Group's revenue amounted to HK$287.8 million, which has decreased by 27% as compared to that of HK$392.4 million in 2016, representing a decrease of HK$104.6 million. The decrease in revenue was mainly attributable to the decline of revenue in oilfield project tools and services from the China market.

Material Costs

During the year, the Group's material costs were HK$128.7 million, which has decreased by HK$36.9 million or 22% as compared to that of HK$165.6 million in 2016. The decrease in material costs was in line with the decrease of revenue in 2017.

Depreciation of Property, Plant and Equipment

During the year, the depreciation of property, plant and equipment amounted to HK$80.8 million, which has decreased by HK$12.9 million or 14% as compared to that of HK$93.7 million in 2016, primarily resulting from the disposal of service equipment in 2017 and transfer of some service equipment to assets held for sale in 2016.

Employee Benefit Expenses

During the year, the Group's employee benefit expenses were HK$105.1 million, which has dropped by HK$7.0 million or 6% as compared to that of HK$112.1 million in 2016. 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 has decreased by 4% from 349 in 2016 to 334 in 2017.

Distribution Expenses

During the year, the Group's distribution expenses amounted to HK$5.1 million, which has decreased by HK$7.9 million or 61% from HK$13.0 million in 2016. The decrease in distribution expenses was mainly due to the drop in business from the China market.

Technical Service Fees

During the year, the Group's technical service fees amounted to HK$13.2 million, which has decreased by HK$11.5 million or 47% from HK$24.7 million in 2016. The decrease in technical service fees was mainly related to the decline in revenue of unconventional gas projects from the China market.

Provision for Impairment of Trade Receivables, Net

During the year, the provision for impairment of trade receivables net off reversal amounted to HK$3.1 million, which has decreased by HK$13.0 million or 81% from HK$16.1 million in 2016. The decrease was due to the reversal of provisions as some of the customers subsequently settled the trade receivables in 2017.

Other Expenses

During the year, the Group's other expenses were HK$56.2 million, which has decreased by HK$20.2 million or 26% from HK$76.4 million in 2016. The decrease was partly due to the Group's continuing cost control measure of certain service lines.

Operating Loss

As a result of the foregoing, the Group's operating loss in 2017 amounted to HK$138.3 million, which has decreased by HK$278.6 million or 67% as compared to that of HK$416.9 million in 2016.

Net Financing Costs

During the year, the Group's net financing costs amounted to HK$44.5 million, which has increased by HK$20.4 million or 85% as compared to that of HK$24.1 million in 2016. This change was mainly attributable to the Group discounting interests accrued from the Group's certain debtors amounted to HK$24.7 million.

Loss for the Year

As a result of the foregoing, the Group's loss amounted to HK$181.1 million, which has decreased by HK$264.2 million or 59% as compared to that of HK$445.3 million in 2016.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company in 2017 was HK$180.3 million, which has decreased by HK$263.1 million or 59% as compared to that of HK$443.4 million in 2016.

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 2017, the Group's property, plant and equipment amounted to HK$501.3 million, which has decreased by HK$104.3 million or 17% from HK$605.6 million as at 31 December 2016. The decrease was primarily due to the depreciation of the property, plant and equipment and disposal of equipment.

Intangible Assets

As at 31 December 2017, the Group's intangible assets amounted to HK$306.6 million, representing an increase of HK$2.2 million or 1% from HK$304.4 million as at 31 December 2016. The increase was mainly due to the exchange difference from currency appreciation.

Inventories

As at 31 December 2017, the Group's inventories amounted to HK$121.0 million, representing a drop of HK$49.8 million or 29% as compared to that of HK$170.8 million as at 31 December 2016. The average turnover days of inventories decreased from 457 days in 2016 to 414 days in 2017. The decrease of inventories turnover days was mainly due to the implementation of tightened inventory management policy in the past two years.

Trade Receivables

As at 31 December 2017, the Group's trade receivables amounted to HK$407.3 million, representing an increase of HK$5.5 million or 1% as compared to that of HK$401.8 million as at 31 December 2016. The average turnover days of trade receivables were 513 days in 2017, representing an increase of 108 days as compared to that of 405 days in 2016. The increase in turnover days of trade receivables was due to the longer settlement of trade receivables from customers.

Trade Payables

As at 31 December 2017, the Group's trade payables were HK$119.6 million, which has decreased by HK$54.6 million or 31% as compared to that of HK$174.2 million as at 31 December 2016. The average turnover days of trade payables decreased from 467 days in 2016 to 378 days in 2017, representing a decrease of 89 days. The decrease in turnover days of trade payables was mainly due to the quicker payments to the suppliers in 2017.

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 2017, the Group's cash and cash equivalents amounted to HK$24.7 million, representing a decrease of HK$20.2 million as compared to that of HK$44.9 million as at 31 December 2016. The cash and cash equivalents were mainly denominated in RMB and US$.

The restricted deposits held at bank as reserve under litigation claim had been released during the year ended 31 December 2017. (31 December 2016: HK$5.6 million).

As at 31 December 2017, the Group's bank facilities of HK$53.1 million (31 December 2016: HK$41.4 million) were granted by banks to subsidiaries, of which all have been utilised by the subsidiaries.

Gearing ratio

As at 31 December 2017, the Group's gearing ratio (calculated as net debt divided by total capital) was 14% (31 December 2016: 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", "restricted bank balance" and "cash and cash equivalents" 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$19.6 million as at 31 December 2017.

Off-balance Sheet Arrangements

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE REPORT

The Environmental, Social and Governance ("**ESG**") Report published by Petro-king Oilfield Services Limited (the"**Company**") presents the efforts and achievement made in sustainability and social responsibility by the Company and its subsidiaries (collectively the "**Group**" or "**we**"). The ESG Report details the performance of the Group in carrying out its environmental and social policies. The Group is committed to a good corporate social citizenship and works to integrate ESG considerations into its business management and day-to-day operations. We consider environmental and social responsibilities as a key part of our license-to-operate, regardless of the economic conditions and business performance.

1.1 Scope of the Report

The ESG Report covers the environmental and social performance of the Group's business of sales of well completion tools for the period between 1 January 2017 and 31 December 2017 (the "**Year**"). The environmental Key Performance Indicators ("**KPIs**") as disclosed in the ESG Report are based on the performance of the Group's headquarter in Shenzhen for the Year. The Group will extend its disclosure to other business segments and offices in a gradual manner. For details of corporate governance, please refer to the corporate governance report on pages 27 to 36 of this annual report.

1.2 Reporting Standard

The ESG Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

1.3 Stakeholder Engagement

The engagement of our employees from different departments of the Group helps us recognize our sustainability performance. The diligently collected and carefully analyzed data underscores not only the Group's sustainable initiatives for the Year, but also the Group's short-term and long-term sustainability strategy. The Group will continue to increase the involvement of stakeholders via constructive conversation with a view to charting a course for long term prosperity.

1.4 Information and Feedbacks

Your opinions are highly valued. If you have any queries or suggestions, please feel free to contact the Company:

Tel No.: 2397 8392
Fax No.: 2397 7391
Email: sales@petro-king.cn
Address: 17th Floor
Tower 2, Silvercord
30 Canton Road
Kowloon, Hong Kong

2. PROTECTING THE ENVIRONMENT

Given the stern environmental problems across the globe nowadays, the Group has realized the importance of putting environmental protection into perspective during its business operation. As a responsible corporation, the Group strictly conforms with the *Environmental Protection Law of the People's Republic of China ("**PRC**")* and is devoted to carrying out an assortment of measures with regard to emission control, waste management, water saving and energy conservation, in an effort to protect our environment, if not improving its quality. To make things systematic and manageable, the Group has formulated the environmental protection management procedures that suit its daily operation. Our environmental management system is certified in line with ISO 14001:2015, an internationally recognized standard.

2.1 Emission

There were no air and water pollutants emitted from the process in the Year. Nevertheless, private cars owned by the Group were used by our headquarter staff for office operation and other business purposes, thus air pollutants are emitted from the use of vehicles. In order to maximize the efficiency of our car hence reduce the emission of pollutants, we always keep our cars properly tuned and maintain an adequate tyre pressure by regular checks. Despite that the sales of tools and equipment usually do not involve the leakage of pollutants into the surrounding environment, the Group has established a thorough set of procedures in case there are any environmental pollution incidents triggered by any operations of the Group's business.

Air pollutants emission from the use of vehicles in the Year:

Type	Weight (g)
NO_x	4,641
SO_x	81
Particulate Matter (PM)	342

Greenhouse gas is another major type of emission of the Group. Although sales of tools do not generate greenhouse gas, the operation of our headquarter, as a back office for the sales of tools, is a major source of greenhouse gas emission. In the Year, the Group's headquarter has emitted in total 331 tones (in CO_2 equivalent emission) and on average 0.99 tones (in CO_2 equivalent emission)/employee of greenhouse gas, indirectly generated from the use of vehicles, business trips of staff, water and sewage treatment, use of electricity as well as the disposal of paper to landfill. In order to limit the amount of greenhouse gas, we have adopted a plenty of measures from paper recycling to energy conservation. (For details, please refer to "Energy and Water Conservation" and "Green Operation")

2.2 Waste Management

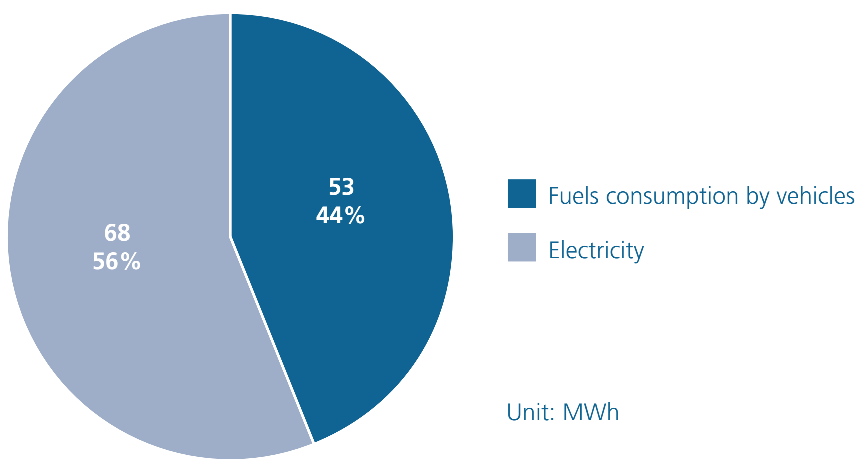
Waste produced by the Group is also from office operation, which includes mainly daily garbage generated by staff. We strive to handle our waste with carefulness and compliance with relevant laws and regulations. To effectively handle and reduce the waste we generate, a waste management policy has been set up in an attempt to guide the collection, storage, transportation and treatment of all the waste. Clear definitions of hazardous and non-hazardous waste are also included in the policy so that proper handling procedures can be assigned to different types of waste, though hazardous waste was not generated in the Year.

In the Year, the Group's headquarter has generated 950kg and 2.85kg/employee of non-hazardous waste, all from office operation. All the waste were collected and handled by qualified parties after waste separation in compliance with relevant local regulations if necessary. The Group is dedicated to minimizing the amount of waste produced in accordance with the "Reduce, Reuse and Recycle" principle. We recycle plastics and paper by using waste sorting bins and reuse office supplies such as folder, envelopes and file cards. We also strive to extend the life cycle of office stationery by refilling pens. Moreover, recyclable products are always chosen over disposable products in our office. In the Year, the Group has not used or produced any packaging materials.

2.3 Energy and Water Conservation

The use of resources including energy and water is necessary in maintaining the daily operation of our office, therefore the Group places emphasis on energy and water conservation. During the Year, the burning of fuels for vehicles and the use of electricity were the major sources of energy consumption of the Group's headquarter, which led to a total energy consumption of 122MWh, while the average consumption by employee was 0.36MWh. The Group is aware of the possible impacts resulted from the use of energy thereby we shoulder the burden of proper management of energy use and have dedicated considerable efforts to reducing energy consumption, hence greenhouse gas emission, of our office.

Energy Consumption by Types



Practically, we install energy-efficient lighting and ensure all light fixtures and lamps are cleaned regularly in a bid to enhance the efficiency of the lighting system and minimize electricity use. We also divide our office into several lighting zones with individual lighting controls so as to reduce energy waste. Managing our air-conditioning system is also a major way to cut down on energy consumption that temperature is fixed at 26°C in summer. We also clean the air filters of air-conditioners frequently to ensure that efficiency is always maximized. Besides, staff is allowed to wear light particularly in summer so that energy can further be saved.

Adding to energy usage is water consumption. In the Year, the Group's headquarter has consumed in total 123m^3 and on average 0.37m^3/employee of water. Since that water is a precious resource to everyone, a proper management on water consumption and the initiative in saving water are of paramount importance. The Group has exerted every effort to promote water saving in our office which includes using dual-flush toilets, using water taps with water efficiency labels, and putting up water-saving reminder labels in toilets and pantries to raise employees' awareness. To avoid wastage, the Group also conducts regular leakage checks on concealed water piping and tanks, as well as to record the water meter readings periodically in order to monitor leakage condition.

2.4 Green Operation

The Group is also committed to building an environmentally-friendly working culture in addition to energy and water conservation with pragmatism. We endeavor to reduce carbon footprint during our daily operation through a number of measures. Employees who are engaged actively in overseas meetings will substitute phone or video conferences for business travel. For unavoidable business trips, we always prefer direct flights and economy class in order to lower our carbon footprint from transportation.

Paperless operation is another important principle that the Group has followed. We adopt office automation system to replace paper-based administration system when disseminating information among staff. We also implement the policy of double-sided printing and copying and set up recycling bins to collect used paper products. Moreover, the Group has adopted e-fax and installed hand dryer in toilets to minimize the use of papers during daily operation. In general, the Group strives to raise the employees' awareness of "Green Operation" by educating them with relevant knowledge, encouraging them to take public transport instead of private cars and to take part in green activities.

3. CARING FOR EMPLOYEES

Human resources are always the most valuable asset to enterprises, there is no exception to the Group. Therefore, we always put the rights and well-being of our employees in the first place. The Group stringently abides by the relevant laws and regulations during recruitment, promotion, remuneration and dismissal of employees such as the Labor Law of the PRC and the Labor Contract Law of the PRC. We have also implemented a comprehensive human resources policies and procedures that detail requirements on remuneration and compensation, employment and dismissal, assessment and promotion, as well as other rights and welfare.

3.1 Employment

The Group highly focuses on recruiting talents as it is our conviction that employing the suitable persons is of ultimate importance to the business's thriving development. Before recruitment, a series of human resources application procedures have to be passed internally so as to ensure that the correct talents can be targeted for the corresponding positions. Through interviews and tests such as language test and examination on professional knowledge, the Group is committed to choosing the most suitable person by providing a fair, open and impartial recruitment and selection process to all applicants. We select the right persons only based on their qualifications, experience and ability without taking into consideration their gender, race, age, nationality, marital status, pregnancy, disability and religion etc. To attract talent, we always provide our employees with industry-compliant and competitive remuneration.

In accordance with the Provisions on the Prohibition of Using Child Labor, the Group under no circumstances employs child labor and forced labor. As a mean to avoid employing child labor, the Group verifies the age of all applicants by checking documents such as identity cards. The job duties and responsibilities will also be clearly conveyed to every employee before the official commencement of work. For employees who request to resign, the Group will follow relevant procedures to conduct exit interviews in an effort to collect precious opinion for any possible improvement of the Group's policies. In the Year, the Groups' headquarter had a total of 334 employees.

3.2 Training and Development

Employees' development and growth is a determining factor in the sustainable growth of the Group. We are devoted to nurturing our employees with the best resources and providing the most diverse training to them. The Group has established a training management policy to guide the organization, implementation and management of both internal and external training of the Group, which can also be basically divided into new employees training, professional skills training, general ability training and special position qualification training.

Every year, a training plan will be formulated according to the types of employees. For the sales of well completion tools, training in topics such as product sales and marketing expansion were provided to salespersons in the Year. For office operation, our staff was trained with programmes in areas such as computer software. In the Year, we have provided training to 166 employees which accounted for 50% of the headquarter staff. The average time inputted for each employee was 27.8 hrs.

Training Details:

	Percentage of employees trained (%)	Average Training Hours (hrs)
By employee level		
Senior	36	25.4
Middle	20	6.9
Junior	50	4.0
Basic	52	29.1

In order to provide a well-rounded development pathway, the Group also offers promotion opportunities to employees in addition to the provision of training. We have set up a policy regarding performance evaluation and promotion management in an effort to provide employees with timely promotion opportunities based on their working performance. In support of a free and diverse development, our employees are able to follow the managerial or the professional development pathways. By considering a myriad of factors such as job completion, communication skills, cooperation ability, initiative and leadership, employees with outstanding performance are given the priority to be promoted. An annual evaluation will also be conducted from which the results can act as a basis for salary adjustment and bonus provision.

3.3 Health and Safety

The Group always put priority on employees' health and safety. We strictly conform to the relevant laws and regulations such as the *Law of the PRC on the Prevention and Control of Occupational Diseases*.

The Group has a long-lasting commitment on health and safety management to our employees. We have adopted an integrated system for health, safety and environmental (HSE) management covering all our employees and contractors, which conforms to the Occupational Health and Safety Assessment Series OHSAS 18001:2007 standard. Our HSE procedures are strictly enforced to ensure consistent and effective management of HSE across our business units and facilities. The HSE management system stresses eight pillars which consist of (1) commitment, leadership and responsibility, (2) policies and objectives, (3) organizational structure and resources, (4) contractor and supply chain management, (5) risk management, (6) operation process, (7) performance monitoring and improvement, and (8) check and review. Risks related to health and safety at workplace are identified, assessed and mitigated. We have an incident reporting mechanism in place and encourage employees and contractors to timely report and record near-misses and incidents. Safety performance is measured, analyzed and reported to facilitate continuous improvement. In the Year, there were no work-related injuries and fatalities in our headquarter and the business of sales of well completion tools, thanks to the effort put in creating an injury-free business environment by the Group.

3.4 Welfare

It is our responsibility in assuring all our staff of the rights and welfare required by laws or provided by the Group voluntarily. In order to provide sufficient rest time to our employees, we adopt the 8-hour work day policy and ensure that employees rest for at least one day in a week. Our employees can also enjoy all the leaves as required by laws such as annual leaves, sick leaves, marriage leaves and maternity leaves etc. In order to stimulate the working initiative of the employees, the Group also provides year-end bonus and double pay to employees based on their performance. Welfare such as insurance, annual health check as well as communication and meal allowances are also given.

Work-life balance is also emphasized by the Group in a bid to ensure the well-being hence productivity and performance of the employees. In the Year, we have organized team-building programmes such as farming activities for our staff in an attempt to build up team spirit and foster collaboration among staff.

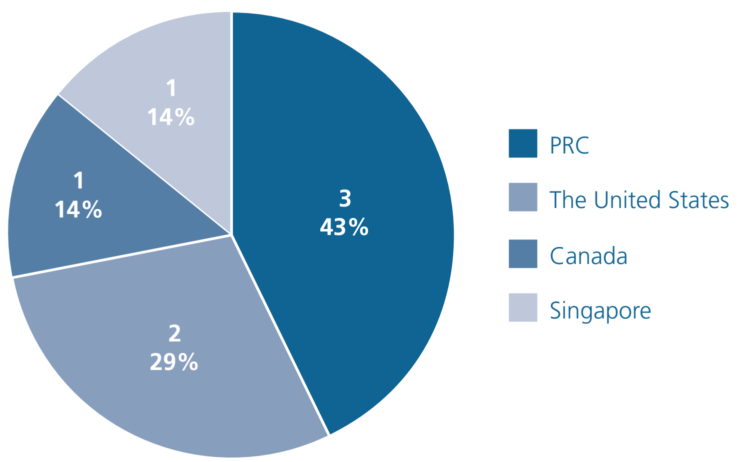
4. OPTIMIZING OPERATIONS

A sustainable development of an enterprise highly hinges on the quality and efficiency of its business operations. The Group spares no effort in optimizing its operations and maintaining its reputation by properly managing its supply chain, earnestly serving its customers and behaving ethically in the market.

4.1 Supply Chain Management

Supply chain is an important part of the Group's business, especially for the trading and sales of well completion tools. Thus, attention has been paid to the management of the supply chain in order to thoroughly fulfill the environmental and social responsibility of the Group. The Group interacts with a global network of suppliers and work closely with them to manage the supply chain risks effectively.

Number of Suppliers by Geographical Location



New suppliers are subject to rigorous screening based on a range of criteria such as quality, safety, labour practices and environmental compliance; site investigation is performed as needed to verify supplier performance. Suppliers who have passed the screening will be included in the approved supplier list. Besides, performance assessment is conducted annually so that risks can be timely monitored and controlled. In the event of an unsatisfactory performance, the supplier will be asked to take rectification actions in a timely manner. Suppliers who fail to comply with our standards may be suspended from our business relationship.

4.2 Customer Services

As a high-end integrated oilfield services provider, quality, reliability and safety of our products and services are keys to our customers. The Group never spares itself in the pursuit of excellence in the complete provision of products and services with respect to the sales of well completion tools. We have implemented a series of procedures regarding product quality check and inspection before selling products to our customers. Policies for handling unqualified products and operations are also put in place so as to prevent the provision of low-quality products and services to customers, at the same time perform remediation based on the reasons found. Our quality management system has been certified to comply with the ISO 9001:2008 standard.

Customer satisfaction is always our ultimate goal during our operations. The Group realizes that customer feedback is vital in attaining continuous improvement thereby we perform customer satisfaction survey regularly as a means to gather customers' opinion on aspects such as product and service quality, operational safety and on-time performance. In case of customer complaints, prompt response will be made after detailed inspection. In the Year, the Group receives no major complaints in regard to the sales of well completion tools.

4.3 Privacy Protection

With regard to confidentiality and data protection, the Group has established stringent requirements on the prevention of disclosure of the Group's confidential information by employees. All employees are obligated to protect customer information, the Group's intellectual property rights and trade secrets, as clearly stated in the labour contract. We have also implemented policies on computer information system to ensure privacy protection. Detailed instructions have to be followed to prevent private information of our employees and business partners from being revealed through the internet, email system or operational software.

4.4 Anti-corruption

Behaviors such as fraud, extortion, bribery and money laundering can weaken a business's stability therefore the Group by no means allow relevant actions and behaviors to tarnish the image of the Group. We are committed to maintaining a high-standard implementation of anti-corruption policy and measures.

Our principles and strong stance against corruption, conflicts of interest and other malpractices are well conveyed to our employees and all our business partners such as suppliers and contractors. We circulate our anti-corruption guidelines to newly engaged suppliers and set upholding integrity and business ethics as an essential criterion in doing business with us. Moreover, integrity pacts are signed with suppliers and contractors so as to ensure that staff of both parties is obligated to the anti-corruption terms under the pacts. Thanks to the efforts made on anti-corruption, the Group is not aware of any breach of laws and regulations that have a significant impact on the Group in relation to any kinds of corrupt practices.

5. CONTRIBUTING TO COMMUNITY

Aiming at making contribution to and raising values of the society, the Group has dedicated itself in non-profitable activities organized by different organizations. For example, our employees have participated in tree-planting activities in the Year. Through donating seedlings and taking part in tree-planting, we have helped in the greening of the environment and we hoped to disseminate the importance of a healthy environment, as well as to raise the awareness of environmental protection within the community.

Looking into the future, the Group will continue with its efforts in supporting and empowering the community. It is hoped that long-term values can be created for the society so that the Group can grow together with the society and the people.

APPENDIX: ESG REPORTING GUIDE CONTENT INDEX

ESG Index	Description	Chapters	Page No.
Environment			
A1 Emissions			
A1.1	The types of emissions and respective emissions data.	Emission	
A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	Emission	
A1.3	Total hazardous waste produced and, where appropriate, intensity.	Waste Management	
A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Waste Management	
A1.5	Description of measures to mitigate emissions and results achieved.	Energy and Water Conservation; Green Operation	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste Management	
A2 Use of Resources			
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Energy and Water Conservation	
A2.2	Water consumption in total and intensity.	Energy and Water Conservation	
A2.3	Description of energy use efficiency initiatives and results achieved.	Energy and Water Conservation	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Energy and Water Conservation	
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Waste Management	
A3 The Environment and Natural Resources			
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Energy and Water Conservation; Green Operation	

ESG Index	Description	Chapters	Page No.
Social			
B1 Employment			
B1.1	Total workforce by gender, employment type, age group and geographical region.	*No relevant disclosure for the Year*	
B1.2	Employee turnover rate by gender, age group and geographical region.	*No relevant disclosure for the Year*	
B2 Health and Safety			
B2.1	Number and rate of work-related fatalities.	Health and Safety	
B2.2	Lost days due to work injury.	Health and Safety	
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety	
B3 Development and Training			
B3.1	The percentage of employees trained by gender and employee category.	Training and Development	
B3.2	The average training hours completed per employee by gender and employee category.	Training and Development	
B4 Labor Standards			
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employment	
B4.2	Description of steps taken to eliminate such practices when discovered.	*No relevant disclosure for the Year*	
B5 Supply Chain Management			
B5.1	Number of suppliers by geographical region.	Supply Chain Management	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management	
B6 Product Responsibility			
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	*No relevant disclosure for the Year*	
B6.2	Number of products and service related complaints received and how they are dealt with.	Customer Services	
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Privacy Protection	
B6.4	Description of quality assurance process and recall procedures.	Customer Services	
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Privacy Protection	
B7 Anti-corruption			
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	
B7.2	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	
B8 Community Investment			
B8.1	Focus areas of contribution.	Contributing to Community	
B8.2	Resources contributed to the focus area.	*No relevant disclosure for the Year*	

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 2017, the Company has complied with the Code Provisions, save for the deviation discussed below.

The Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial year ended 31 December 2017; and (ii) publishing the annual report for the year ended 31 December 2017. Such delay has constituted non-compliance with Rules 13.46(2)(a), 13.49(1) and 13.49(2) of the Listing Rules.

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 2017, 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

(i) On 6 March 2018, the Group entered into a loan agreement with an independent third party (the "**Lender**") for a two-year borrowing with a principal amount of HK$180,000,000, bearing interest at 5.5% per annum (the "**2018 Term Loan**") (Note 38 to the consolidated financial statement). The 2018 Term Loan will be used for repayment of convertible bonds amounted to HK$155,576,000 with the original maturity date of 29 March 2018 (the "**Convertible Bonds**") and general working capital of the Group. The Group completed partial drawdown of HK$30,000,000 of the 2018 Term Loan on 16 April 2018 but the drawdown of the remaining HK$150,000,000 principal is subject to the Lender obtaining approval from the relevant government authorities for the release of the funds.

(ii) On 28 March 2018, the Group agreed with certain bondholders to convert the outstanding Convertible Bonds with a total principal amount of HK$47,000,000 as at 28 March 2018 to a term loan facility with a maturity date of 28 September 2019 that bear interest at 10% per annum (the "**Bondholder Loans**").

(iii) On 29 March 2018, all the remaining bondholders of the Convertible Bonds with a total principal amount of HK$110,000,000 as at 29 March 2018 have agreed in writing to extend the due date for payment of these Convertible Bonds to 13 April 2018 ("**First Extended Payment Date**"). On 13 April 2018, such remaining bondholders that held Convertible Bonds with aggregate principal amount of HK$71,000,000 and the other remaining bondholder that held Convertible Bonds with principal amount of HK$39,000,000 agreed to further extend the due date for payment of these Convertible Bonds to 11 May 2018 and 30 April 2018 ("**Second Extended Payment Dates**"), respectively, where the principal amount outstanding together with incremental interest accrued up to the Second Extended Payment Dates will become payable.

(iv) On 26 April 2018, the Group entered into a loan agreement to borrow HK$40,000,000 from a shareholder (the "**Shareholder Loan**") with a maturity date of 26 October 2019 and bears interest at 10% per annum. The Shareholder Loan was drawn down on 27 April 2018.

(v) On 27 April 2018, the Group agreed in writing with a bondholder that held Convertible Bonds with principal amount of HK$15,000,000 and had previously agreed to extend the due date for payment of the Convertible Bonds as mentioned in sub-paragraph (iii) above to convert the outstanding Convertible Bonds to the Bondholder Loans. Upon the completion of the conversion, the total principal amount of the Bondholder Loans outstanding increased to HK$62,000,000. At the same time, the principal amount of the Convertible Bonds to be repayable on the Second Extended Payment Dates were reduced from HK$110,000,000 to HK$95,000,000.

(vi) On 27 April 2018, the Group utilised the HK$30,000,000 proceeds from the partial drawdown of the 2018 Term Loan, HK$40,000,000 proceeds from the Shareholder Loan and HK$25,699,000 of the Group's own cash resources to settle outstanding Convertible Bonds with aggregate principal amounts of HK$95,000,000 and accrued incremental interest of HK$699,000.

(vii) On 10 May 2018, the Company entered into two subscription agreements with each of Asian Equity Special Opportunities Portfolio Master Fund Limited and Ms. Ng Man Chi (the "**Subscribers**"), pursuant to which the Company conditionally agreed to issue and the Subscribers conditionally agreed to subscribe for the 18-month 8% convertible bonds in the aggregate principal amount of HK$30,000,000 (the "**2018 Convertible Bonds**"). The net proceeds from the proposed issuance of 2018 Convertible Bonds will be used for general working capital purpose.

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, two non-executive Directors, namely Mr. Lee Tommy and Ms. Ma Hua, and three independent non-executive Directors, namely Mr. Leung Lin Cheong, Mr. Tong Hin Wor and Mr. Xin Junhe.

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		
Lee Tommy	✓	✓
Ma Hua	✓	✓
Independent non-executive Directors		
Leung Lin Cheong	✓	✓
Tong Hin Wor	✓	✓
Xin Junhe	✓	✓

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

Mr. Wang Jinlong, an executive Director and the chairman of the Company (the "**Chairman**"), plays the critical role of leading the Board in fulfilling its responsibilities. The role of chief executive officer (the "**CEO**") is held by Mr. Zeng Weizhong. While the Chairman oversee the Board's overall direction and functions and the long term development strategy of the Group, the CEO, supported by his management team, is responsible for the management decision and supervision of the Group's annual business plan and operational budget, and the overall daily management of the Group.

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.

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 2017, 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 2016, approval of the interim results of the Group for the 6 months ended 30 June 2017, review and discuss the management of the Group, review of the management accounts of the Group.

Details of the attendance of the Directors in the board meetings, board committee meetings and general meetings held during 2017 are as follows:

	Meetings attended/Meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Sanction Oversight Committee	2017 Annual General Meeting
Executive Directors						
Wang Jinlong	5/5	–	2/2	2/2	2/2	1/1
Zhao Jindong	5/5	–	–	–	–	1/1
Non-executive Directors						
Ko Po Ming (Resigned on 31 March 2018)	5/5	–	–	–	–	1/1
Lee Tommy	5/5	–	2/2	2/2	–	0/1
Ma Hua	5/5	–	–	–	–	0/1
Independent non-executive Directors						
He Shenghou (Resigned on 27 March 2017)	1/1	1/1	1/1	1/1	1/1	N/A
Tong Hin Wor	5/5	2/2	2/2	2/2	1/1	1/1
Wong Lap Tat Arthur (Retired on 2 June 2017)	2/2	1/1	1/1	1/1	1/1	1/1
Xin Junhe (Appointed on 27 March 2017)	4/4	1/1	1/1	1/1	1/1	1/1
Leung Lin Choeng (Appointed on 2 June 2017)	3/3	1/1	1/1	1/1	1/1	1/1

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

The initial term of office of each of the non-executive Directors (including independent non-executive Directors) is three years, subject to re-election.

BOARD COMMITTEES

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. Leung Lin Cheong, Mr. Tong Hin Wor and Mr. Xin Junhe. Mr. Leung Lin Cheong is the chairman of the Audit Committee.

During the year ended 31 December 2017, two meetings of the Audit Committee were held on 23 March 2017 and 28 August 2017 to review and consider, among others, the financial statements of the Company for the year ended 31 December 2016 and for the six months ended 30 June 2017, 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, risk management and internal control system for the year ended 31 December 2017.

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. Xin Junhe, Mr. Tong Hin Wor, Mr. Leung Lin Cheong, Mr. Wang Jinlong and Mr. Lee Tommy. Mr. Xin Junhe is the chairman of the Remuneration Committee.

During the year ended 31 December 2017, two meetings of the Remuneration Committee was held on 23 March 2017 and 1 June 2017 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 meetings.

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 2017 is set out below:

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

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 Jinlong, Mr. Lee Tommy, Mr. Xin Junhe, Mr. Tong Hin Wor and Mr. Leung Lin Cheong. Mr. Wang Jinlong is the chairman of the Nomination Committee.

During the year ended 31 December 2017, two meetings of the Nomination Committee was held on 23 March 2017 and 1 June 2017 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 meetings.

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. Leung Lin Cheong, Mr. Wang Jinlong and Mr. Xin Junhe. Mr. Leung Lin Cheong is the chairman of the Sanction Oversight Committee.

During the year ended 31 December 2017, two meetings of the Sanction Committee were held on 23 March 2017 and 28 August 2017 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 2017 amounted to HK$2,888,000 and HK$350,000, 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 2017, Mr. Tung has received relevant professional trainings of not less than 15 hours to update his skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk management system

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification*: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- *Evaluation*: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- *Management*: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2017, no significant risk was identified.

Internal control system

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment*: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- *Risk Assessment*: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- *Control Activities*: Action established by policies and procedures to help ensure that management directives to migitgate risks to the achievement of objectives are carried out.

- *Information and Communication*: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- *Monitoring*: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Group enters into significant negotiations.

- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2017, no significant control deficiency was identified.

Internal auditors

The Company currently does not have an internal audit function. During the year ended 31 December 2017, the Company has engaged an external risk management and internal control review consultant (the "**Consultant**") to conduct a review of the Group's risk management and internal control covering the period from 1 January 2017 to 31 December 2017. Such review is conducted semi-annually. The scope of the Consultant's review was previously determined and approved by the Board and covered risk management process, procurement and trade payable process, fixed assets management, as well as compliance process in relation to continuing obligation, discloseable transaction, connected transaction, disclosure of financial information and disclosure of inside information. The Consultant has reported findings and areas for improvement to the Board. The Board is of the view that there are no material risk management and internal control defeats noted. All recommendations given by the Consultant will be properly followed up by the Group to ensure that they are implemented within a reasonable period of time.

Effectiveness of the risk management and internal control systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted semi-annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by the Consultant and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

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 Level 17, Tower 2, Silvercord, 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 2017.

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED 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 2017, the Directors have selected appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

DIRECTORS

Executive Directors

Mr. Wang Jinlong (王金龍) ("Mr. Wang"), aged 52, is our chairman 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 the long term development strategy of the Group. He has over 30 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. 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 was performing both the roles of chairman and chief executive officer ("**CEO**") of the Group since the listing of the Company 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 on 25 April 2016.

Mr. Zhao Jindong (趙錦棟) ("Mr. Zhao"), aged 54, is our executive Director and Chief Technology Officer. 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. Mr. Zhao has been appointed as the CEO of the Group on 25 April 2016. On 1 December 2016, Mr. Zhao has resigned as the CEO of the Company due to health reason, but remained as an executive Director. He was appointed as the chief technology officer in February 2017.

Non-executive Directors

Mr. Lee Tommy (李銘浚) ("Mr. Lee"), aged 41, 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 (stock code: 93) 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 the Seneca College in Canada.

Ms. Ma Hua (馬華) ("Ms. Ma"), aged 42, 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.

Independent Non-executive Directors

Mr. Xin Junhe (辛俊和) ("Mr. Xin"), aged 61, is our independent non-executive Director. He was appointed as an independent non-executive Director on 27 March 2017. He is also the chairman of our remuneration committee and a member of each of our audit committee, nomination committee and sanction oversight committee. He has over 40 years of experience in petroleum engineering services of the oil and gas industry. Mr. Xin graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering degree majoring in drilling engineering in 1982. After graduating from college, Mr. Xin joined 玉門石油管理局 (Yumen Petroleum Administrative Bureau), which is under the management of China National Petroleum Corporation ("**CNPC**"). He has worked for CNPC all his career and retired in December 2016 as the Deputy Chief Engineer of 中國石油海外勘探開發公司 (China Petroleum Overseas Exploration and Development Corporation*). He has outstanding achievement throughout his career, has won first class National Scientific and Technological Progress Award, and has been receiving special government allowance from the State Council of the People's Republic of China. Mr. Xin has been appointed as a director of many projects of CNPC and accumulated rich experience.

Mr. Tong Hin Wor (湯顯和) ("Mr. Tong"), aged 72, 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 (Stock code: 93) in 2008 where he has also been serving as a member of the audit committee, the nomination committee and the remuneration 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. Leung Lin Cheong (梁年昌) ("Mr. Leung"), aged 64, is an independent non-executive director. He was appointed as an independent non-executive Director on 2 June 2017. He is also the chairman of our audit committee and sanction oversight committee, and a member of each of our nomination committee and remuneration committee. Mr. Leung is currently the chairman of the audit committee, a member of the nomination committee and the remuneration and assessment committee of Guangzhou Automobile Group Co., Ltd. (listed in both the Stock Exchange and the Shanghai Stock Exchange, with the stock codes of "2238" and "601238" respectively). Mr. Leung is also the managing director of Union Registrars Limited since May 2014 and a part-time tutor for the Master of Corporate Governance of The Open University of Hong Kong. From October 2012 to May 2015, Mr. Leung was an independent non-executive director of Casablanca Group Limited (stock code: 2223). He was the chief legal and compliance officer of Shanghai Industrial Investment (Holdings) Co., Ltd. and the chief legal and compliance officer and company secretary of Shanghai Industrial Holdings Limited (stock code: 0363). He obtained a master's degree in business administration jointly from Brunel University and Henley Management College and a master's degree in Laws from University of London in 1995 and 2006, respectively. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Chartered Institute of Management Accountants, The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries, and a founding member of The Hong Kong Independent Non-Executive Director Association.

SENIOR MANAGEMENT

Mr. Zeng Weizhong (曾維忠) ("Mr. Zeng"), aged 54, is our Chief Executive Officer responsible for overall management of the Group's business operations. He joined the Group on 1 December 2016. Mr. Zeng has over 30 years of experience in the oilfield services industry. Before joining the Group, Mr. Zeng was a vice president of 斯倫貝謝中國公司 (Schlumberger China S.A.* ("**Schlumberger China**")); the chairman of 斯倫貝謝油田技術(山東)有限公司 (Schlumberger Oilfield Technologies (Shandong) Company Limited*); the chairman of 斯倫貝謝(天津)採油機械有限公司 (Schlumberger (Tianjin) Artificial Lift Company Limited*); a director of 中國南海麥克巴泥漿有限公司 (China Nanhai Maikeba Mud Co., Ltd.*); and a director of 中法渤海地質服務有限公司 (China France Bohai Geo Services Co., Ltd.*). Mr. Zeng joined Schlumberger China in 1993 as a directional drilling engineer and had subsequently worked as a directional drilling engineer with Schlumberger in China and other countries including Australia, India, Middle East and Vietnam. From October 1999 to June 2002, Mr. Zeng acted as the geomarket segment general manager in Schlumberger and was responsible for the directional drilling services in Northern Asia. From July 2002 to June 2004, Mr. Zeng was transferred to Schlumberger Middle East and acted as the area marketing manager responsible for the directional drilling services in the Middle East and Asia Pacific area. From July 2004 to January 2007, Mr. Zeng was transferred to Schlumberger Egypt and acted as the geomarket segment general manager responsible for the directional drilling services in North and East Africa and West Asia. From February 2007 to November 2010, Mr. Zeng was transferred to Schlumberger China and acted as the geomarket general manager responsible for the oilfield services business in Northern Asia. From November 2010 to November 2016, Mr. Zeng took various senior management roles in Schlumberger China and its subsidiary and/or associated companies in China. Mr. Zeng started his career as a well cementing engineer at 中國海洋石油總公司 (China National Offshore Oil Corporation*) in August 1983. He continued his employment with China National Offshore Oil Corporation where he became a deputy general manager of 中海油服湛江分公司 (China Oilfield Services Limited Zhanjiang Branch*) in February 1991. Mr. Zeng graduated from 東北石油大學 (Northeast Petroleum University*) in 1983 with a bachelor's degree in engineering specializing in oil drilling engineering.

Ms. Sun Jinxia (孫金霞) ("Ms. Sun"), aged 43, is our Chief Commercial Officer and the general manager of our manufacturing centre. She is also a director of certain subsidiaries of the Group. Ms. Sun is responsible for the Group's daily operation of the contract department, purchase department, logistics department, HSE department, quality assurance department and manufacturing center. 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 54, is our general manager of business development department and Iraq Region. 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 45, joined the Group in July 2010 as our chief financial officer and he is primarily responsible for the Group's overall financial management functions and daily management of the Group's finance, accounting and legal departments. 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 Touche Tohmatsu ("**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. Shu is currently an independent non-executive director of Riverine China Holdings Limited (stock code: 1417) and Twintek Investment Holdings Limited (stock code: 6182).

Mr. Lin Jingyu (林景禹) ("Mr. Lin"), aged 44, is our general manager of production business department. Mr. Lin Jingyu is responsible for the engineering and technology of our production business 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 49, is our general manager of the Middle East region. He joined our Group in May 2015 and he is primarily responsible for the business development and growth in Middle East. 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 55, 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 Quantum Thinking Limited (stock code: 8050), respectively. He is also 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)
(Resigned on 31 March 2018)
Mr. Lee Tommy (李銘浚)
Ms. Ma Hua (馬華)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SANCTION OVERSIGHT COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗)

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE IN THE BRITISH VIRGIN ISLANDS

Commerce House
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British Virgin Islands
VG1110

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Silvercord,
30 Canton Road,
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 705-710, Tower A, Tiley Central Plaza
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Shenzhen
Guangdong
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road
Central
Hong Kong

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

China Merchants Bank
China Merchants Building, Shekou
Shenzhen 518067
China

Bank of China, Shekou sub-branch
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Shenzhen 518067
China

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS (HONG KONG LAW)

Tung & Co.

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 2017.

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 7 to 15 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 2017 are set out in the consolidated statement of comprehensive income on pages 67 to 68.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2017. No dividends were declared or paid in respect of the year ended 31 December 2017.

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 2017 are set out in notes 16 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 2017, 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

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 26 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 2017, 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 76% of the Group's total revenue. The amount of revenue to the Group's largest customer represented approximately 26% of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 62% of the Group's total purchases. The amount of purchases to the Group's largest supplier represented approximately 29% 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. Lee Tommy
Ms. Ma Hua

Independent Non-executive Directors:

Mr. Leung Lin Cheong
Mr. Tong Hin Wor
Mr. Xin Junhe

Ms. Ma Hua, Mr. Tong Hin Wor and Mr. Leung Lin Cheong will retire at the forthcoming annual general meeting of the Company (the "**AGM**") in accordance with Articles 74 & 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 agreement with the Company for a term of three years and terminable by not less than three months' notice in writing served by either party to 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$135,000 as Director and RMB1,000,000 as chairman
Mr. Zhao Jindong	HK$135,000 as Director and RMB800,000 as chief technology officer

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years and terminable by not less than three months' notice in writing served by either party to 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

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years and terminable by not less than three months' notice in writing served by either party to the other. The current basic annual salaries to the independent non-executive Directors under each of the letters of appointment are as follows:

Name	Amount
Mr. Leung Lin Cheong	HK$240,000
Mr. Tong Hin Wor	HK$153,000
Mr. Xin Junhe	HK$153,000

Save as disclosed above, none of the Directors has or is proposed to have any service contract or letter of appointment 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 2017, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code 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/ chief executive	Capacity/ Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Wang Jinlong	Interest in a controlled corporation *(Note 2)*	488,920,138 (L)	28.32%
	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	337,269,760 (L)	19.53%
	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Ko Po Ming	Beneficial owner *(Notes 4 and 5)*	1,595,195 (L)	0.09%
Mr. Zhao Jindong	Beneficial owner *(Notes 4 and 6)*	8,788,314 (L)	0.51%
Ms. Ma Hua	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Zeng Weizhong	Beneficial owner *(Note 7)*	23,006,000 (L)	1.33%

Notes:

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

2. Mr. Wang 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. Lee & Leung (B.V.I.) Limited 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. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited and Lee & Leung Family Investment Limited are taken to be interested in the number of Shares held by Lee & Leung (B.V.I.) Limited pursuant to Part XV of the SFO.

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

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

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

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

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of 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 2017, the following persons (other than a Director or chief executive of our Company) had an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Lee Lap	Settlor of a discretionary trust *(Note 2)*	337,269,760 (L)	19.53%
HSBC International Trustee Limited	Trustee *(Note 2)*	337,269,760 (L)	19.53%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 2)*	337,269,760 (L)	19.53%
Lee & Leung (B.V.I.) Limited	Beneficial owner *(Note 2)*	335,737,745 (L)	19.44%
	Interest in a controlled corporation *(Note 2)*	1,532,015 (L)	0.09%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
Exceltop Holdings Limited	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	136,303,475 (L)	7.89%
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner	136,303,475 (L)	7.89%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	489,029,619 (L)	28.32%
King Shine	Beneficial owner	488,920,138 (L)	28.32%
UBS Group AG	Person having a security interest in shares *(Note 5)*	91,121,270 (L)	5.28%
UBS AG	Beneficial owner *(Note 6)*	670,857 (L)	0.05%
		670,857 (S)	0.05%
	Person having a security interest in shares *(Note 6)*	70,093,285 (L)	5.68%
Greenwoods Asset Management Holdings Limited	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%
Greenwoods Asset Management Limited	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%
Jiang Jinzhi	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%
Unique Element Corp.	Interest in a controlled corporation *(Note 7)*	62,824,713 (L)	5.08%

Notes:

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

2. Lee & Leung (B.V.I.) Limited directly holds approximately 19.44% of the total number of issued shares of the Company. It also holds approximately 63.99% of the issued share capital in Termbray Industries International (Holdings) Limited ("**Termbray Industries**"), where Termbray Industries directly holds 1,532,015 shares of the Company. Therefore, Lee & Leung (B.V.I.) Limited is taken to be interested in the number of shares of the Company held by Termbray Industries pursuant to Part XV of the SFO. Lee & Leung (B.V.I.) Limited 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. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited and Lee & Leung Family Investment Limited are taken to be interested in the number of Shares held by Lee & Leung (B.V.I.) Limited 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. Therefore, TCL Corporation, TCL HK, Exceltop Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of shares held by Jade Win pursuant to Part XV of the SFO.

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. Information is extracted from the corporate substantial shareholder notice filed by UBS Group AG on 24 November 2017, the interests include 91,121,270 shares in long position.

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

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

Save as disclosed above, as at 31 December 2017, 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 ARE DIRECTORS/EMPLOYEES OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, Mr. Wang Jinlong and Mr. Zhao Jindong are directors of King Shine, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012). There was no outstanding option under the Pre-IPO Share Option Scheme at the beginning of the reporting period and no option was granted during the period under review. Thus, there was no outstanding option under the Pre-IPO Share Option Scheme at the end of the reporting period.

SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. For the period ended 31 December 2017, no share options have been granted under the Share Option Scheme. Set out below are details of the movements of share options during the year ended 31 December 2017:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2017	Options granted since 1 January 2017	Options exercised since 1 January 2017	Options lapsed/ cancelled since 1 January 2017	Options outstanding as at 31 December 2017
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Zhao Jindong	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
	29 May 2015	1.2132 *(adjusted)*	1.28	2,678,833	–	– *(Note 2)*	–	2,678,833
	26 October 2016	0.529	0.520	6,000,000	–	– *(Note 3)*	–	6,000,000
Ko Po Ming	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Lee Tommy	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Ma Hua	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
He Shenghou	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	109,481 *(Note 5)*	0
Tong Hin Wor	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Wong Lap Tat Arthur	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	109,481 *(Note 6)*	0
Zeng Weizhong	1 December 2016	0.530	0.530	17,000,000	–	– *(Note 4)*	–	17,000,000
Employees and senior managements	29 April 2014	2.3803 *(adjusted)*	2.44	19,706,842	–	– *(Note 1)*	4,926,710	14,780,132
	29 May 2015	1.2132 *(adjusted)*	1.28	56,534,067	–	– *(Note 2)*	13,565,604	42,968,463
	26 October 2016	0.529	0.520	62,000,000	–	– *(Note 3)*	9,800,000	52,200,000
Others	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
	29 May 2015	1.2132 *(adjusted)*	1.28	107,153	–	– *(Note 2)*	–	107,153
Total				165,012,224	–	–	28,511,276	136,500,948

Notes:

1. One third of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 April 2015 to 28 April 2019, both dates inclusive.

   Another one third of the share options have been vested on the date falling on the second anniversary of the date of grant and exercisable from 29 April 2016 to 28 April 2019, both dates inclusive.

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

2. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 May 2016 to 28 May 2022, both dates inclusive.

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

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

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

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

3. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 26 October 2017 to 25 May 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 26 October 2018 to 25 May 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 26 October 2019 to 25 May 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 26 October 2020 to 25 May 2023, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 26 October 2021 to 25 May 2023, both dates inclusive.

4. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 1 December 2017 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 1 December 2018 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 1 December 2019 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 1 December 2020 to 30 November 2023, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 1 December 2021 to 30 November 2023, both dates inclusive.

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

6. Mr. Wong Lap Tat Arthur has retired as an independent non-executive director of the Company with effect from 2 June 2017. Thus, as at 2 September 2017, all his 109,481 share options have been lapsed in accordance with the terms of the scheme.

(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 5.79% 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 26 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2017, 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 confirmation from the Termbray 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 2017.

The independent non-executive Directors have noted that the King Shine Controlling Shareholder Group had ceased to beneficially own directly or indirectly more than 30% of the shares of the Company since 30 December 2015. As such, the Deed of Non-competition Undertaking ceased to be binding upon the King Shine Controlling Shareholder Group after 12 months (i.e. 30 December 2016) and the King Shine Controlling Shareholder Group is no longer required to provide annual confirmation to the Company.

The independent non-executive Directors have reviewed the abovementioned undertaking and considered that the Termbray Controlling Shareholder Group has complied with the Deed of Non-competition Undertaking during the financial year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Leung Lin Cheong, Mr. Tong Hin Wor and Mr. Xin Junhe. The principal duties of the audit committee of the Company are to review and approve our Group's financial reporting process, risk management 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 2017.

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 2017.

CONNECTED TRANSACTIONS

The Group has not entered into any connected transaction for the year which should be disclosed pursuant to the requirements of Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 27 to 36.

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

A report on the environmental, social and corporate responsibility adopted by the Company is set out on pages 16 to 26.

COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed in "Corporate Governance Practices", 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 2017.

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, 10 May 2018

* *For identification purpose only*

羅兵咸永道

TO THE SHAREHOLDERS OF PETRO-KING OILFIELD SERVICES LIMITED
(incorporated in the British Virgin Island with limited liability)

OPINION

What we have audited

The consolidated financial statements of Petro-king Oilfield Services Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 65 to 164, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2017, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

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Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that the Group reported a net loss attributable to owners of the Company of approximately HK$180,262,000 and operating cash outflow of approximately HK$30,420,000 during the year ended 31 December 2017. In addition, the Group had borrowings of approximately HK$164,401,000 as at 31 December 2017 that are due within twelve months from the date of the consolidated statement of financial position, including approximately HK$155,576,000 of convertible bonds which the Group did not repay by the original maturity date of 29 March 2018. These conditions, along with other matters as described in Note 2.1.1 to the consolidated financial statements, indicate that the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of property, plant and equipment and goodwill of oilfield project tools and services

- Provision for impairment of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of property, plant and equipment and goodwill of oilfield project tools and services	
Refer to note 4 critical accounting estimates and judgements, note 6 property, plant and equipment and note 7 intangible assets to the consolidated financial statements of the Group. As at 31 December 2017, the carrying amounts of the property, plant and equipment and goodwill of oilfield project tools and services were approximately HK$389,785,000 and HK$210,485,000, respectively, collectively representing approximately 39% of the Group's total assets. Management performed impairment review in respect of these non-financial assets of the oilfield project tools and services using value-in-use calculations. Preparation of the value-in-use calculations supported by cash flow projections involved the use of significant management judgements with respect to the underlying assumptions, such as the average annual growth rates, the pre-tax discount rates and the long term growth rates. Based on the impairment test performed, no impairment charge was recognised for property, plant and equipment and goodwill of oilfield project tools and services for the year ended 31 December 2017. We focused on this area due to the size of the property, plant and equipment and goodwill of the oilfield project tools and services and the material management judgements and estimates used to perform the impairment review.	Our procedures in relation to management's judgements and estimates used to perform the impairment review included: – Identifying the cash-generating unit ("**CGU**") and evaluating the composition of the assets and liabilities allocated to the CGU and assessing the value-in-use calculations methodology used by management; – Comparing the current year actual financial performance and cash flows with the prior year projections to consider the reliability of management's cash flow forecast; – Obtaining the approved cash flow forecasts from management and involving our internal valuation experts to understand and evaluate the valuation methodology adopted by management and assessing the reasonableness of the key assumptions such as the average annual growth rates, the pre-tax discount rates and long-term growth rates, with reference to our knowledge of the business, the Group's past performance and available market data; – Checking, on a sample basis, the input data to supporting evidence, such as, approved sales budgets, management's profit forecasts and secured sales contracts; and – Evaluating management's sensitivity analysis by considering possible adverse changes to the Group's key assumptions. Based upon the above, we found that management's judgements used to perform impairment assessment of goodwill and property, plant and equipment to be supported by available evidence.

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
Provision for impairment of trade receivables	
Refer to note 4 critical accounting estimates and judgements and note 12 trade and other receivables, deposits and prepayments to the consolidated financial statements of the Group. As at 31 December 2017, the Group had gross trade receivables of approximately HK$560,198,000 and provision for doubtful receivables of approximately HK$152,867,000. The Group generally allows a credit period of 90 days after invoice date to its customers. Customers in oilfield services industry generally have a slower settlement pattern and usually settle after the credit terms due to the extended life cycle of oilfield projects. Management performed the impairment assessment of trade receivables based on the information including but not limited to aging of trade receivables, past repayment history, subsequent settlement status and financial capability of the customers. For those debtors where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amounts of trade receivables and present value of the estimated recoverable future cash flows. Based on the impairment assessment, management has recorded provision for doubtful receivables of HK$152,867,000 as at 31 December 2017. We focused on this area due to the significant judgements used to evaluate and measure the estimated amount that the Group can recover in respect of its trade receivables.	Our procedures in relation to management's impairment assessment of trade receivables included: – Understanding the status of each of the material receivables that were past due through discussion with management and the sales team; – Checking the ageing profile of the material receivables as of 31 December 2017 and the corresponding post year-end settlements, on a sample basis, to underlying financial records; – Corroborating management's assessment and explanations on the material receivables that were past due as at 31 December 2017 with supporting evidence, such as payment history of the customers, correspondences with customers, public search of the customers' profiles as we evaluate management's judgements over the recoverability of the relevant trade receivables; and – Checking the future settlement plans of material long-aged receivables and assessing the reasonableness of the key assumptions used in measuring the present value of the estimated recoverable future cash flows. Based upon the above, we found the management judgement used to perform the impairment assessment of trade receivables to be supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Chi Hang, Benson.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 May 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**501,271**	605,608
Intangible assets	*7*	**306,634**	304,435
Land use rights	*8*	**10,452**	9,926
Available-for-sale financial asset	*9*	**5,184**	7,421
Other receivables, deposits and prepayments	*12(b)*	**39,230**	44,975
Deferred tax assets	*20*	**3,724**	7,634
		866,495	979,999
Current assets			
Inventories	*11*	**121,000**	170,816
Trade receivables	*12(a)*	**407,331**	401,750
Other receivables, deposits and prepayments	*12(b)*	**111,849**	86,801
Pledged bank deposits	*13*	**8,457**	4,234
Restricted bank balance	*14*	**–**	5,581
Cash and cash equivalents	*14*	**24,708**	44,927
		673,345	714,109
Assets classified as held for sale	*15*	**–**	29,400
		673,345	743,509
Total assets		**1,539,840**	1,723,508
EQUITY AND LIABILITIES			
Equity			
Share capital	*16*	**2,001,073**	2,001,073
Other reserves	*17*	**83,308**	15,061
Accumulated losses		**(962,556)**	(782,294)
		1,121,825	1,233,840
Non-controlling interests		**1,960**	2,840
Total equity		**1,123,785**	1,236,680

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Note	**2017**	2016
		HK$'000	HK$'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*19*	**47,305**	178,030
Deferred tax liabilities	*20*	**1,025**	6,360
		48,330	184,390
Current liabilities			
Trade payables	*18(a)*	**119,578**	174,210
Other payables and accruals	*18(b)*	**83,746**	109,378
Current income tax liabilities		**–**	2,217
Bank and other borrowings	*19*	**164,401**	16,633
		367,725	302,438
Total liabilities		**416,055**	486,828
Total equity and liabilities		**1,539,840**	1,723,508

The notes on pages 72 to 164 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 65 to 164 were approved by the Board of Directors on 10 May 2018 and were signed on its behalf.

Mr. Wang JinLong
Director

Mr. Zhao JinDong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2017**	2016
		HK$'000	HK$'000
Revenue	*5*	**287,848**	392,442
Other income	*21*	**2,012**	1,912
Operating costs			
Material costs	*11*	**(128,740)**	(165,592)
Depreciation of property, plant and equipment	*6*	**(80,778)**	(93,721)
Amortisation of intangible assets and land use rights	*7,8*	**(1,662)**	(1,768)
Operating lease rental		**(6,849)**	(10,357)
Employee benefit expenses	*22*	**(105,058)**	(112,106)
Distribution expenses		**(5,118)**	(13,008)
Technical service fees		**(13,209)**	(24,674)
Research and development expenses		**(15,396)**	(12,066)
Entertainment and marketing expenses		**(7,790)**	(12,391)
Provision for impairment of trade receivables, net	*12*	**(3,072)**	(16,077)
Other expenses	*23*	**(56,152)**	(76,396)
Impairment loss of goodwill	*7*	**–**	(213,859)
Impairment loss of an available-for-sale financial asset	*9*	**–**	(28,868)
Foreign exchange losses	*29*	**(3,826)**	(14,896)
Other losses, net	*24*	**(542)**	(15,457)
Operating loss		**(138,332)**	(416,882)
Finance income	*27*	**82**	486
Finance costs	*27*	**(44,593)**	(24,555)
Finance costs, net		**(44,511)**	(24,069)
Share of loss of a joint venture		**–**	(241)
Loss before income tax		**(182,843)**	(441,192)
Income tax credit/(expense)	*28*	**1,701**	(4,155)
Loss for the year		**(181,142)**	(445,347)
Other comprehensive income/(loss)			
Items that have been or may be subsequently reclassified to profit or loss:			
Change in fair value of an available-for-sale financial asset	*9*	**(2,237)**	(25,065)
Reclassification of revaluation reserve of an available-for-sale financial asset	*9*	**–**	28,868
Exchange differences on translation of foreign operations	*17*	**58,946**	(34,581)
Other comprehensive income/(loss) for the year, net of tax		**56,709**	(30,778)
Total comprehensive loss for the year		**(124,433)**	(476,125)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Loss for the year attributable to:			
Owners of the Company		**(180,262)**	(443,353)
Non-controlling interests		**(880)**	(1,994)
		(181,142)	(445,347)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(123,553)**	(474,131)
Non-controlling interests		**(880)**	(1,994)
		(124,433)	(476,125)
Loss per share attributable to owners of the Company during the year	*30*		
Basic loss per share (HK cents)		**(10)**	(29)
Diluted loss per share (HK cents)		**(10)**	(29)

The notes on pages 72 to 164 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 17)*	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2017	2,001,073	15,061	(782,294)	1,233,840	2,840	1,236,680
Comprehensive loss						
Loss for the year	–	–	(180,262)	(180,262)	(880)	(181,142)
Other comprehensive loss						
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	(2,237)	–	(2,237)	–	(2,237)
Currency translation differences	–	58,946	–	58,946	–	58,946
Total other comprehensive income for the year, net of tax	–	56,709	–	56,709	–	56,709
Total comprehensive income/(loss) for the year	–	56,709	(180,262)	(123,553)	(880)	(124,433)
Transactions with owners in their capacity as owners						
Recognition of share-based payment	–	11,538	–	11,538	–	11,538
Total transactions with owners, recognised directly in equity	–	11,538	–	11,538	–	11,538
Balance at 31 December 2017	2,001,073	83,308	(962,556)	1,121,825	1,960	1,123,785

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves *(Note 17)*	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2016	1,879,966	36,268	(338,941)	1,577,293	2,011	1,579,304
Comprehensive loss						
Loss for the year	–	–	(443,353)	(443,353)	(1,994)	(445,347)
Other comprehensive loss						
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	(25,065)	–	(25,065)	–	(25,065)
Reclassification of revaluation reserve to profit or loss *(Note 9)*	–	28,868	–	28,868	–	28,868
Currency translation differences	–	(34,581)	–	(34,581)	–	(34,581)
Total other comprehensive loss for the year, net of tax	–	(30,778)	–	(30,778)	–	(30,778)
Total comprehensive loss for the year	–	(30,778)	(443,353)	(474,131)	(1,994)	(476,125)
Transactions with owners in their capacity as owners						
Issuance of ordinary shares from rights issue *(Note 16)*	121,107	–	–	121,107	–	121,107
Recognition of share-based payment	–	11,842	–	11,842	–	11,842
Changes in ownership interests in subsidiaries without change of control	–	(2,271)	–	(2,271)	2,823	552
Total transactions with owners, recognised directly in equity	121,107	9,571	–	130,678	2,823	133,501
Balance at 31 December 2016	2,001,073	15,061	(782,294)	1,233,840	2,840	1,236,680

The notes on pages 72 to 164 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Cash used in operations	*32(a)*	**(26,399)**	(115,262)
Interest paid	*27*	**(1,238)**	(4,554)
Income tax paid		**(2,783)**	(1,986)
Net cash used in operating activities		**(30,420)**	(121,802)
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		**(23,318)**	(35,425)
Proceeds from disposal on equity interest of subsidiaries, net of cash disposed, if any		**–**	552
Cash acquired from acquisition of a subsidiary		**–**	52
Investment in a joint venture		**–**	(5,905)
Proceeds from sales of asset classified as held for sale		**6,835**	13,394
Refund of prepayment for property, plant and equipment and land use rights		**5,851**	84,761
Proceeds from disposal of property, plant and equipment and intangible assets	*32(b)*	**24,750**	14,496
Proceeds from sales of machines classified as held for sale		**7,063**	–
Interest received	*27*	**82**	486
(Decrease)/increase in pledged bank deposits		**(3,792)**	143,524
Net cash generated from investing activities		**17,471**	215,935
Cash flows from financing activities			
Proceeds from bank borrowings		**17,786**	131,342
Repayments of bank borrowings		**(9,802)**	(319,750)
Repayments of finance lease liabilities		**(5,934)**	(5,979)
Repayments of convertible bonds	*19(c)*	**(7,851)**	(7,872)
Net proceeds from rights issue	*16*	**–**	121,107
Net repayments to related parties		**(182)**	(10,487)
Net cash used in financing activities		**(5,983)**	(91,639)
Net (decrease)/increase in cash and cash equivalents		**(18,932)**	2,494
Cash and cash equivalents at beginning of year		**44,927**	43,924
Exchange loss on cash and cash equivalents		**(1,287)**	(1,491)
Cash and cash equivalents at end of year	*14*	**24,708**	44,927

The notes on pages 72 to 164 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 consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. 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 ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset, which is carried at fair value.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern

The consolidated financial information of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"). 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 IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

During the year ended 31 December 2017, the Group reported a net loss attributable to owners of the Company of approximately HK$180,262,000 and operating cash outflow of approximately HK$30,420,000. As at the same date, the Group's total borrowings amounted to HK$211,706,000, including current borrowings of HK$164,401,000, while its cash and cash equivalents amounted to HK$24,708,000 only. In addition, included in the Group's current borrowings were convertible bonds amounted to HK$155,576,000 that the Group had not repaid by the original maturity date of 29 March 2018 (the "Convertible Bonds"). As stipulated in the relevant loan and financing agreement of other bank borrowings amounting to HK$42,594,000 as at 31 December 2017, any default of the Group's borrowings may result in cross-default of these other bank borrowings and will cause these borrowings to become immediately payable pursuant to the cross default terms under the relevant borrowing facilities agreement.

All of the above conditions indicated the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The following plans and measures have been undertaken to mitigate the liquidity pressure and to improve the financial position of the Group:

(i) On 6 March 2018, the Group entered into a loan agreement with an independent third party (the "Lender") for a two-year borrowing with a principal amount of HK$180,000,000, bearing interest at 5.5% per annum (the "2018 Term Loan"). The 2018 Term Loan will be used for repayment of Convertible Bonds and general working capital of the Group. The Group completed a partial drawdown of HK$30,000,000 of the 2018 Term Loan on 16 April 2018 but the drawdown of the remaining HK$150,000,000 principal is subject to the Lender obtaining approval from the relevant government authorities for the release of the funds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

(ii) On 28 March 2018, the Group agreed with certain bondholders to convert the outstanding Convertible Bonds with a total principal amount of HK$47,000,000 as at 28 March 2018 to a term loan facility with a maturity date of 28 September 2019 that bear interest at 10% per annum (the "Bondholder Loans").

(iii) On 29 March 2018, all the remaining bondholders of the Convertible Bonds with a total principal amount of HK$110,000,000 as at 29 March 2018 have agreed in writing to extend the due date for payment of these Convertible Bonds to 13 April 2018 ("First Extended Payment Date"). On 13 April 2018, such remaining bondholders that held Convertible Bonds with aggregate principal amount of HK$71,000,000 and the other remaining bondholder that held Convertible Bonds with principal amount of HK$39,000,000 agreed to further extend the due date for payment of these Convertible Bonds to 11 May 2018 and 30 April 2018 ("Second Extended Payment Dates"), respectively, where the principal amount outstanding together with incremental interest accrued up to the Second Extended Payment Dates will become payable.

(iv) On 26 April 2018, the Group entered into a loan agreement to borrow HK$40,000,000 from a shareholder (the "Shareholder Loan"), which bears interest at 10% per annum, with a maturity date of 26 October 2019. The Shareholder Loan was drawn down on 27 April 2018.

(v) On 27 April 2018, the Group agreed in writing with a bondholder that held Convertible Bonds with principal amount of HK$15,000,000 and had previously agreed to extend the due date for payment of the Convertible Bonds as mentioned in sub-paragraph (iii) above to convert the outstanding Convertible Bonds to the Bondholder Loans. Upon the completion of the conversion, the total principal amount of the Bondholder Loans outstanding increased to HK$62,000,000. At the same time, the principal amount of the Convertible Bonds to be repayable on the Second Extended Payment Dates were reduced from HK$110,000,000 to HK$95,000,000.

(vi) On 27 April 2018, the Group utilised the HK$30,000,000 proceeds from the partial drawdown of the 2018 Term Loan, HK$40,000,000 proceeds from the Shareholder Loan and HK$25,699,000 of the Group's own cash resources to settle outstanding Convertible Bonds with aggregate principal amounts of HK$95,000,000 and accrued incremental interest of HK$699,000.

(vii) The Group is actively looking for additional sources of financing to enhance its financial position and support the plans to expand its operations, including agreements to issue convertible bonds with principal amount of HK$30,000,000 on 10 May 2018 ("2018 Convertible Bonds") (details of which are set out in Note 38).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

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

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 2017. In the opinion of the directors, in light of the above, taking into account the anticipated cash flows to be generated from the Group's operations as well as the above plans and measures, 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 2017. Accordingly, the directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, material uncertainty exist as to whether the Group is able to achieve its plans and measures described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through:

(i) successful drawdown of the remaining principal amount of HK$150,000,000 of the 2018 Term Loan;

(ii) successful raising of additional new sources of financing, including the 2018 Convertible Bonds, as and when needed;

(iii) successful implementation of the measures to improve sales, control costs, contain capital expenditures as well as to accelerate the collection of outstanding trade and other receivables so as to strengthen its working capital position; and

(iv) on-going compliance with the covenants of the 2018 Term Loan, the Bondholder Loans, the Shareholder Loan and other bank borrowings to ensure these borrowings would not become payable prior to their respective original maturity dates.

Should the Group be unable to achieve the above plans and measures such that it would not be operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures

(a) Amendments to standards adopted by the Group

The following amendments to existing standards are effective to the Group for accounting periods beginning on or after 1 January 2017 but did not result in any significant impact on the results and financial position of the Group.

IAS 7 (Amendments)	Disclosure initiative
IAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses
IFRS 12 (Amendments)	Disclosure of interest in other entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

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

A number of new standards and amendments to standards and interpretations are effective for accounting periods beginning on or after 1 January 2018, and have not been applied in preparing these consolidated financial statements.

		Effective for accounting periods beginning on or after
IFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 (Amendments)	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 15 (Amendments)	Clarifications to IFRS 15	1 January 2018
IAS 28 (Amendments)	Investment in associates and joint ventures	1 January 2018
IAS 40 (Amendments)	Transfers of investment property	1 January 2018
Annual improvement project	Annual improvements 2014-2016 cycle	1 January 2018
IFRIC – Int 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
IFRIC – Int 23	Uncertainty over income tax treatments	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate and joint venture	To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

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

IFRS 9 "Financial instruments"

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- equity instruments currently classified as available-for-sale ("**AFS**") for which a fair value through other comprehensive income ("**FVOCI**") election is available and hence there will be no change to the accounting for these assets.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to accumulated losses.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("**ECL**") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects it may result in earlier recognition of credit losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

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

IFRS 9 "Financial instruments" (Continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 "Revenue from contracts with customers"

This standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standards on the Group's consolidated financial statements and has identified the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue generated from the provision of services.

More detailed assessment will be carried out by the Group to estimate the impact of the new rules on the Group's consolidated financial statements.

This new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

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

IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$19,583,000.

The Group has not yet assessed the adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position, respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation (Continued)

(ii) Changes in ownership interests (Continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in consolidated statement of comprehensive income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, 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 or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in consolidated statement of comprehensive income as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in consolidated statement of comprehensive income.

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 remeasurement are recognised in consolidated statement of comprehensive income.

2.4 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.

2.5 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 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 costs, net". 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(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.

2.7 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 2.9).

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)

2.8 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) 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.

(c) 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.

2.9 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 inflow. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Non-current assets held-for-sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out as elsewhere in Note 2.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial asset. 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 2.14), "cash and cash equivalents" (Note 2.15), "restricted bank balance" and "pledged bank deposits" (Note 2.16) in the consolidated statement of financial position.

(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)

2.11 Financial assets (Continued)

2.11.2 Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.11.3 Recognition and measurement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

2.11.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

2.12 Impairment of financial assets

The Group assesses at each of the balance sheet date 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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) Assets carried at amortised cost

For loans and receivables, 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, 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

If there is objective evidence of impairment for available-for-sale financial assets, 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 consolidated statement of comprehensive income – is removed from equity and recognised in the consolidated statement of comprehensive income.

Impairment losses on equity instruments that were recognised in consolidated statement of comprehensive income are not reversed through consolidated statement of comprehensive income in a subsequent period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 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.

2.14 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.

2.15 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 statement of financial position, bank overdrafts are shown within bank and other borrowings in current liabilities.

2.16 Pledged bank deposits and restricted bank balance

Pledged bank deposits represent the amounts of cash pledged as collateral to the banks for project bidding and issuing performance bonds.

Pledged bank deposits and restricted bank balance are separately presented from cash and cash equivalents.

2.17 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.

2.18 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)

2.19 Borrowings

Borrowings are initially recognised 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 reporting period.

2.20 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 capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

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

2.21 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)

2.22 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 remeasured 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.

2.23 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 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)

2.23 Current and deferred income tax (Continued)

(b) Deferred income tax

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 tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 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 contributions to the MPF Scheme are based on minimum statutory contribution requirement of the lower of 5% of eligible employees' relevant aggregate monthly income and HK$1,500. 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 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)

2.24 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.

(c) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.25 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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Share-based payment (Continued)

(a) Equity-settled share-based payment transactions (Continued)

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).

Where options are forfeited due to a failure by the employee to satisfy the service conditions, the accumulated expenses previously recognised in relation to such options are reversed at the date of the forfeiture.

(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.

2.26 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 management's best estimate of the expenditure required to settle the present 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Revenue recognition

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

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

(a) Provision of oilfield project tools and 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 provision of oilfield project tools and 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Revenue recognition (Continued)

(b) Provision of consultancy services (Continued)

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.

2.28 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.

2.29 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 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 the United States dollar ("**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 2017, if HK$ had weakened/strengthened by 1% against the US$ with all other variables held constant, net post-tax loss for the year would have been approximately HK$2,627,000 lower/higher (2016: HK$3,145,000 lower/higher) as a result of foreign exchange gains or losses on translation of US$ denominated net financial assets.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2017, 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 HK$375,000 lower/higher (2016: HK$1,418,000 lower/higher) as a result of foreign exchange gains or losses on translation of Euro denominated net financial assets.

At 31 December 2017, 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 HK$3,239,000 lower/higher (2016: HK$3,198,000 lower/higher) as a result of foreign exchange gains or losses on translation of RMB denominated net financial assets.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank and other borrowings. 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 2017 and 2016, the Group's bank and other borrowings at variable rates were denominated in US$, RMB and Singaporean dollar ("**SGD**").

At 31 December 2017, if interest rate on bank and other borrowings 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$531,000 higher/lower (2016: HK$343,000 higher/lower) mainly as a result of higher/lower interest expense on floating rate bank and other borrowings.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(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.

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. Management 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 2017, management has determined to record provision for doubtful receivables of HK$152,867,000 (2016: HK$409,214,000) which represents the impairment and discounting effect of trade 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.

During the year ended 31 December 2017, the Group reported a net loss attributable to owners of the Company of approximately HK$180,262,000 and operating cash outflow of approximately HK$30,420,000. As at the same date, the Group's total borrowings amounted to HK$211,706,000, including current borrowings of HK$164,401,000, while its cash and cash equivalents amounted to HK$24,708,000 only. In addition, included in the Group's current borrowings are convertible bonds amounted to HK$155,576,000 that the Group did not repay by the original maturity date of 29 March 2018. As stipulated in the relevant loan and financing agreement of other bank borrowings amounting to HK$42,594,000 as at 31 December 2017, any default of the Group's borrowings may result in cross-default of these other bank borrowings and will cause these borrowings to become immediately payable pursuant to the cross default terms under the relevant borrowing facilities agreement.

All of the above conditions indicated the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The plans and measures undertaken to mitigate the liquidity pressure and to improve the financial position of the Group are summarised in Note 2.1.1 of these consolidated financial statements.

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	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 2017					
Trade payables	**119,578**	**–**	**–**	**–**	**119,578**
Other payables	**60,787**	**–**	**–**	**–**	**60,787**
Bank and other borrowings	**165,868**	**5,498**	**15,143**	**34,635**	**221,144**
	346,233	**5,498**	**15,143**	**34,635**	**401,509**
At 31 December 2016					
Trade payables	174,210	–	–	–	174,210
Other payables	70,464	–	–	–	70,464
Bank and other borrowings	17,124	159,615	5,983	27,766	210,488
	261,798	159,615	5,983	27,766	455,162

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 statement of financial position) less total cash (including "pledged bank deposits", "restricted bank balance" and "cash and cash equivalents" as shown in the consolidated statement of financial position). Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

During 2018, the Group's strategy, which was unchanged from 2016, was to maintain a gearing ratio within 10% and 15%. The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
	HK$'000	HK$'000
Bank and other borrowings *(Note 19)*	**211,706**	194,663
Less:		
Pledged bank deposits *(Note 13)*	**(8,457)**	(4,234)
Restricted bank balance *(Note 14)*	**–**	(5,581)
Cash and cash equivalents *(Note 14)*	**(24,708)**	(44,927)
Net debt	**178,541**	139,921
Total equity	**1,123,785**	1,236,680
Total capital	**1,302,326**	1,376,601
Gearing ratio	**14%**	10%

The increase in gearing ratio for the year ended 31 December 2017 resulted primarily from increase in bank and other borrowings and decrease in cash and cash equivalents.

As at 31 December 2017 and 2016, banking facilities of approximately HK$53,000,000 (2016: HK$41,000,000) were granted by banks to the subsidiaries of the Group, all of which have been utilised during the year. The Group is in compliance with all banking facilities (2016: Same) (Note 19(a)).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value at 31 December 2017 and 2016, 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).

	Level 3	
	2017	2016
	HK$'000	HK$'000
Asset		
Available-for-sale financial asset – listed equity security	**5,184**	7,421

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

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.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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 listed equity security is determined based on cash flows discounted with the pre-tax discount rate 19% (2016: 19%) which reflect specific risks related to the listed equity security. Management has taken into account the factor of minority interest in the fair value of the listed equity security.

The following table presents the changes in level 3 instruments for the years ended 31 December 2017 and 2016.

	2017 **HK$'000**	2016 HK$'000
At 1 January	**7,421**	32,486
Change in fair value recognised in other comprehensive loss *(Note 9)*	**(2,237)**	(25,065)
At 31 December	**5,184**	7,421
Total losses for the year included in profit or loss at the end of the year	**–**	(28,868)

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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, property, plant and equipment, 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 2.9. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) 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).

(c) Provision for inventories loss

Provision for inventories loss is determined based on an assessment of the realisability of inventories. Provision for inventories loss 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 inventories in the period which estimate has been changed.

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 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.

(a) Revenue

Revenue recognised during the years ended 31 December 2017 and 2016 is as follows:

	2017	2016
	HK$'000	HK$'000
Oilfield project tools and services		
– Drilling work	**46,687**	24,146
– Well completion work	**148,472**	264,378
– Production enhancement work	**48,478**	52,272
Total oilfield project tools and services	**243,637**	340,796
Consultancy services	**44,211**	51,646
Total revenue	**287,848**	392,442

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

The segment information for the years ended 31 December 2017 and 2016 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Year ended 31 December 2017			
Total segment revenue	**243,637**	**44,211**	**287,848**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**243,637**	**44,211**	**287,848**
Segment results	**(69,343)**	**26,665**	**(42,678)**
Net unallocated expenses			**(140,165)**
Loss before income tax			**(182,843)**
Other information:			
Amortisation of intangible assets	**(1,369)**	**–**	**(1,369)**
Depreciation	**(69,621)**	**–**	**(69,621)**
Provision for impairment of trade and other receivables, net *(Note 12)*	**(3,072)**	**–**	**(3,072)**
Impairment loss of goodwill *(Note 7)*	**–**	**–**	**–**
Provision for inventories loss	**(21,126)**	**–**	**(21,126)**
Income tax expense	**(249)**	**–**	**(249)**
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 and other receivables, net *(Note 12)*	(16,077)	–	(16,077)
Impairment loss of goodwill *(Note 7)*	(213,859)	–	(213,859)
Provision for inventories loss	(3,639)	–	(3,639)
Income tax expense	(2,179)	–	(2,179)

5 SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

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:

	2017 **HK$'000**	2016 HK$'000
Segment results	**(42,678)**	(215,842)
Other income	**2,012**	1,912
Depreciation of property, plant and equipment	**(11,157)**	(11,375)
Amortisation of intangible assets and land use rights	**(293)**	(643)
Operating lease rental	**(4,366)**	(6,504)
Employee benefit expenses	**(76,445)**	(76,060)
Entertainment and marketing expenses	**(7,021)**	(12,043)
Other expenses	**(25,034)**	(53,850)
Impairment loss of an available-for-sale financial asset	**–**	(28,868)
Foreign exchange losses, net	**(3,826)**	(14,896)
Other gain/(losses), net	**8,729**	(560)
Finance income	**82**	486
Finance costs	**(22,846)**	(22,708)
Share of loss of a joint venture	**–**	(241)
Loss before income tax	**(182,843)**	(441,192)

The segment results included material costs, technical service fees, depreciation of property, plant and equipment, 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, net and finance costs, net, allocated to each operating segment.

5 SEGMENT INFORMATION (Continued)

(b) Assets

The segment assets as at 31 December 2017 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
As at 31 December 2017			
Segment assets	**1,223,809**	**133,655**	**1,357,464**
Unallocated assets			**182,376**
Total assets			**1,539,840**
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	**3,701**	**–**	**3,701**

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

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total 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 amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the consolidated 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, inventories, trade and other receivables, deposits and prepayments, pledged bank deposits and cash and cash equivalents.

5 SEGMENT INFORMATION (Continued)

(b) Assets (Continued)

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

	2017 HK$'000	2016 HK$'000
Segment assets for reportable segments	**1,357,464**	1,492,278
Unallocated assets		
– Unallocated property, plant and equipment	**111,486**	113,889
– Unallocated intangible assets	**262**	525
– Unallocated land use rights	**10,452**	9,926
– Unallocated available-for-sale financial asset	**5,184**	7,421
– Unallocated other receivables, deposits and prepayments	**39,082**	21,135
– Unallocated deferred tax assets	**3,724**	7,634
– Unallocated restricted bank balance	**–**	5,581
– Unallocated cash and cash equivalents	**12,186**	35,719
– Unallocated assets classified as held for sale	**–**	29,400
Total assets per consolidated statement of financial position	**1,539,840**	1,723,508

(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:

	2017 HK$'000	2016 HK$'000
The PRC	**153,303**	266,052
The Middle East	**117,242**	118,336
Others	**17,303**	8,054
	287,848	392,442

5 SEGMENT INFORMATION (Continued)

(c) Geographical information (Continued)

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:

	2017 HK$'000	2016 HK$'000
The PRC	**692,659**	721,305
The Middle East	**109,345**	185,005
Singapore	**55,525**	57,437
Others	**58**	74
	857,587	963,821

(d) Information about major customers

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

	2017 HK$'000
Customer A	**74,801**
Customer B	**73,991**
Customer C	**28,568**
	177,360

	2016 HK$'000
Customer D	71,449
Customer E	50,925
Customer A	43,625
	165,999

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

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 2016								
Cost	2,572	160,228	11,119	694,635	14,877	6,182	15,861	905,474
Accumulated depreciation	–	(8,112)	(3,141)	(118,650)	(10,229)	(3,506)	(3,908)	(147,546)
Net book amount	2,572	152,116	7,978	575,985	4,648	2,676	11,953	757,928
Year ended 31 December 2016								
Opening net book amount	2,572	152,116	7,978	575,985	4,648	2,676	11,953	757,928
Additions	281	7,771	–	15,440	124	67	981	24,664
Depreciation	–	(7,471)	(1,516)	(79,846)	(1,459)	(837)	(2,592)	(93,721)
Transferred (out)/in	(1,878)	1,878	–	–	–	–	–	–
Disposals *(Note 32(b))*	–	(275)	–	(29,104)	(1,658)	(350)	–	(31,387)
Written-off *(Note 24)*	–	–	–	(1,533)	–	–	–	(1,533)
Provision for impairment *(Note 23)*	(538)	(422)	–	(3,072)	(53)	(14)	(21)	(4,120)
Transferred to assets held for sale *(Note 15)*	–	–	–	(15,830)	–	–	–	(15,830)
Exchange differences	(437)	(11,598)	(75)	(17,291)	(354)	(141)	(497)	(30,393)
Closing net book amount	–	141,999	6,387	444,749	1,248	1,401	9,824	605,608
At 31 December 2016								
Cost	–	158,208	10,736	614,427	7,590	5,100	15,259	811,320
Accumulated depreciation	–	(16,209)	(4,349)	(169,678)	(6,342)	(3,699)	(5,435)	(205,712)
Net book amount	–	141,999	6,387	444,749	1,248	1,401	9,824	605,608

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

	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
Year ended 31 December 2017							
Opening net book amount	141,999	6,387	444,749	1,248	1,401	9,824	605,608
Additions	–	–	3,701	164	115	102	4,082
Depreciation	(7,794)	(1,466)	(67,475)	(567)	(519)	(2,957)	(80,778)
Disposals *(Note 32(b))*	–	–	(61,832)	(139)	(11)	(949)	(62,931)
Written-off *(Note 24)*	–	–	(174)	–	(139)	–	(313)
Exchange differences	10,962	634	22,891	90	118	908	35,603
Closing net book amount	145,167	5,555	341,860	796	965	6,928	501,271
At 31 December 2017							
Cost	170,638	11,786	539,620	8,094	4,854	14,956	749,948
Accumulated depreciation	(25,471)	(6,231)	(197,760)	(7,298)	(3,889)	(8,028)	(248,677)
Net book amount	145,167	5,555	341,860	796	965	6,928	501,271

Bank borrowings are secured by the buildings of the subsidiaries of the Group of HK$140,970,000 (2016: HK$43,673,000) (Note 19).

As at 31 December 2017, the segment assets of the segments of oilfield project tools and services and consultancy services include property, plant and equipment of HK$389,785,000 (2016: HK$491,719,000) and Nil (2016: Nil), respectively.

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2017 HK$'000	2016 HK$'000
Cost – capitalised finance leases	**24,174**	22,458
Accumulated depreciation	**(6,200)**	(3,518)
Net book amount	**17,974**	18,940

The Group leases plant and machineries under non-cancellable secured finance lease agreements. The lease terms are 3 years and ownership of the assets lie within the Group.

7 INTANGIBLE ASSETS

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
At 1 January 2016			
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

7 INTANGIBLE ASSETS (Continued)

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2017			
Opening net book amount	302,346	2,089	304,435
Amortisation	–	(1,438)	(1,438)
Exchange differences	3,595	42	3,637
Closing net book amount	305,941	693	306,634
At 31 December 2017			
Cost	520,687	8,343	529,030
Accumulated amortisation and impairment	(214,746)	(7,650)	(222,396)
Net book amount	305,941	693	306,634

Impairment assessment 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	Impairment HK$'000	Closing HK$'000
Year ended 31 December 2017				
Oilfield project tools and services	206,890	3,595	–	210,485
Consultancy services	95,456	–	–	95,456
	302,346	3,595	–	305,941
Year ended 31 December 2016				
Oilfield project tools and services	421,444	(695)	(213,859)	206,890
Consultancy services	95,456	–	–	95,456
	516,900	(695)	(213,859)	302,346

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.

7 INTANGIBLE ASSETS (Continued)

Impairment assessment of goodwill (Continued)

For each of the CGUs with significant amount of goodwill, the key assumptions including average annual growth rate, pre-tax discount rate and terminal growth rate used in the value-in-use calculations in 2017 and 2016 are as follows:

Year ended 31 December 2017

	Oilfield project tools and services	Consultancy services
Average annual growth rate	**29%**	**18%**
Pre-tax discount rate	**19%**	**19%**
Terminal growth rate	**3%**	**3%**

Year ended 31 December 2016

	Oilfield project tools and services	Consultancy services
Average annual growth rate	22%	16%
Pre-tax discount rate	19%	19%
Terminal growth rate	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 the management's expectations of the market development. The terminal growth rates used are largely in line with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

The low oil price during the year ended 31 December 2016 has caused oil and gas companies to substantially reduce 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 evaluated by the Group, the recoverable amount of the oilfield project tools and services segment was lower than the carrying amount of the CGU. This shortfall leads to the recognition of impairment loss of goodwill of HK$213,859,000 in the oilfield project tools and segment services during the year ended 31 December 2016.

In connection with the impairment assessment for the year ended 31 December 2017, management expects the oilfield services industry to recover noticeably on the back of rebound in crude oil prices and capital investment of oil and gas companies. As such, more new orders are expected from new and existing customers to support the high growth and no impairment of goodwill is recognised for the year ended 31 December 2017.

The management has performed sensitivity analysis over each CGU. There will not be any headroom in 2017 against the goodwill in the oilfield project tools and services CGU and the consultancy services CGU if the pre-tax discount rate had been 3 and 8 percentage points higher than the management's estimates or the average annual growth rate of revenue had been 2 and 6 percentage points lower than management's estimates, respectively.

8 LAND USE RIGHTS

	2017 HK$'000	2016 HK$'000
For the year ended 31 December		
Opening net book amount	**9,926**	25,442
Amortisation	**(224)**	(348)
Transferred to assets classified as held for sale *(Note 15)*	**–**	(13,570)
Exchange differences	**750**	(1,598)
Closing net book amount	**10,452**	9,926

9 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2017 HK$'000	2016 HK$'000
Listed equity security in the PRC – non-current	**5,184**	7,421

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

	2017 HK$'000	2016 HK$'000
At 1 January	**7,421**	32,486
Change in fair value recognised in other comprehensive loss	**(2,237)**	(25,065)
At 31 December	**5,184**	7,421

The fair value of the available-for-sale financial asset is determined based on cash flows discounted with the pre-tax discount rate 19% (2016: 19%) which reflect specific risks related to the listed equity security. Management has taken into account the factor of minority interest in the fair value of the listed equity security.

On 5 July 2016, the equity security was listed in the PRC with no quoted transaction price for the equity security since then. The fair value is within the level 3 of the fair value hierarchy (Note 3.3).

Due to a significant decline in fair value of the available-for-sale financial asset below its cost, an impairment loss of HK$28,868,000 was recognised in profit or loss for the year ended 31 December 2016.

10 FINANCIAL INSTRUMENTS BY CATEGORY

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

	2017 HK$'000	2016 HK$'000
Assets as per consolidated statement of financial position		
Loans and receivables		
Trade receivables *(Note 12)*	**407,331**	401,750
Other receivables and deposits	**57,448**	24,419
Pledged bank deposits *(Note 13)*	**8,457**	4,234
Restricted bank balance *(Note 14)*	**–**	5,581
Cash and cash equivalents *(Note 14)*	**24,708**	44,927
Available-for-sale financial asset		
Listed equity security *(Note 9)*	**5,184**	7,421
Total	**503,128**	488,332
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortised costs		
Trade payables *(Note 18)*	**119,578**	174,210
Other payables	**60,787**	70,464
Bank and other borrowings *(Note 19)*	**211,706**	194,663
Total	**392,071**	439,337

11 INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**6,183**	1,315
Assembling materials	**105,955**	156,695
Work in progress	**4,992**	5,609
Finished goods	**3,870**	7,197
	121,000	170,816

For the year ended 31 December 2017, the cost of inventories recognised as expense and included in "material costs" amounted to HK$128,740,000 (2016: HK$165,592,000).

For the year ended 31 December 2017, inventories with cost of HK$21,126,000 (2016: HK$3,639,000) were considered as obsolete and recorded as provision for inventories loss. The amount has been included in "other expenses" in the consolidated statement of comprehensive income (Note 23).

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	2017	2016
	HK$'000	HK$'000
Trade receivables	**560,198**	810,964
Less: provision for impairment of trade receivables	**(152,867)**	(409,214)
Trade receivables – net	**407,331**	401,750

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

	2017	2016
	HK$'000	HK$'000
Up to 3 months	**78,229**	114,372
3 to 6 months	**57,397**	10,691
6 to 12 months	**104,564**	141,507
Over 12 months	**320,008**	544,394
Trade receivables	**560,198**	810,964
Less: provision for impairment of trade receivables	**(152,867)**	(409,214)
Trade receivables – net	**407,331**	401,750

As at 31 December 2017, trade receivables of HK$329,102,000 (2016: HK$287,378,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is as follows:

	2017	2016
	HK$'000	HK$'000
Up to 3 months	**57,397**	10,691
3 to 6 months	**52,282**	121,251
6 to 12 months	**104,029**	50,895
Over 12 months	**115,394**	104,541
	329,102	287,378

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.

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

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

	2017	2016
	HK$'000	HK$'000
US$	**308,741**	297,346
RMB	**89,633**	70,436
Euro	**8,957**	33,968
	407,331	401,750

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 2017 amounted to HK$152,867,000 (2016: HK$409,214,000), which represents the provision for impairment and discounting effect of total receivable due from the Group's certain debtors. The ageing of these receivables by services completion or delivery date at the respective balance sheet dates is as follows:

	2017	2016
	HK$'000	HK$'000
Over 12 months	**152,867**	409,214

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

	2017	2016
	HK$'000	HK$'000
At 1 January	**409,214**	412,262
Provision for receivables impairment	**36,667**	37,204
Reversal of provision for receivables impairment	**(13,053)**	(21,127)
Written off of receivables	**(288,610)**	(12,272)
Exchange differences	**8,649**	(6,853)
As at 31 December	**152,867**	409,214

As at 31 December 2017, the recognition of provision for receivables impairment had been included in "provision for impairment of trade receivables, net" of HK$3,072,000 (2016: HK$16,077,000) and "finance costs" of HK$20,542,000 (2016: Nil).

During the year ended 31 December 2017, the management have written off the receivables from a single customer which have been previously fully provided of approximately HK$288,610,000.

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

(b) Other receivables, deposits and prepayments

	2017 HK$'000	2016 HK$'000
Deposits and other receivables – third parties	**18,201**	24,083
Receivables from disposal of machines *(Note (i))*	**33,809**	–
Receivables on land bidding in the PRC	**2,908**	2,232
Value-added tax recoverable	**76,868**	74,007
Rental deposits	**1,086**	902
Cash advances to staff	**4,992**	2,827
Advance to the Directors and senior management *(Note 35(b))*	**1,444**	470
Prepayments for materials	**8,410**	18,132
Prepayments for rents and others	**3,361**	3,687
Prepayment for land use rights	**–**	5,436
	151,079	131,776
Less:		
Non-current value-added tax recoverable	**(39,230)**	(38,416)
Non-current deposit and others	**–**	(1,123)
Non-current prepayment for land use rights	**–**	(5,436)
Non-current portion	**(39,230)**	(44,975)
Current portion	**111,849**	86,801

Note (i):

As at 31 December 2017, the recognition of provision of receivables impairment of the disposal of machineries had been included in "finance costs" of HK$4,179,000 (2016: Nil) (Note 27).

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

	2017 HK$'000	2016 HK$'000
RMB	**102,422**	112,679
US$	**44,142**	2,926
HK$	**400**	10,419
Others	**4,115**	2,484
	151,079	128,508

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 bidding and performance bonds.

	2017	2016
	HK$'000	HK$'000
Pledged bank deposits		
– Bidding	**6,726**	2,618
– Performance bonds *(Note 33)*	**1,731**	1,616
	8,457	4,234

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

	2017	2016
	HK$'000	HK$'000
HK$	**7,150**	–
RMB	**1,307**	4,234
	8,457	4,234

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rate 0.3% (2016: 0.3%) per annum. These deposits have an average maturity of 4.80 months (2016: 4.14 months) for the year.

As at 31 December 2017, Group has pledged bank deposits amounting to HK$8,457,000 (2016: HK$4,234,000) which are denominated in RMB and HK$ and held in the PRC. These pledged bank deposits are subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

14 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCE

	2017	2016
	HK$'000	HK$'000
Restricted bank balance *(Note (i))*	**–**	5,581
Cash at bank	**24,457**	44,695
Cash on hand	**251**	232
	24,708	50,508

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

	2017	2016
	HK$'000	HK$'000
US$	**18,615**	15,911
RMB	**4,508**	31,586
HK$	**152**	1,007
SGD	**983**	1,608
Others	**450**	396
	24,708	50,508

As at 31 December 2017, the Group has cash at bank and on hand amounting to HK$3,592,000 (2016: HK$8,105,000) which are denominated in different currencies 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.

Note (i):

As at 31 December 2016, HK$5,581,000 are restricted deposits reserved at bank under litigation claim (Note 33). The litigation claim had been closed and the amount had been released by the bank during the year ended 31 December 2017.

15 ASSETS CLASSIFIED AS HELD FOR SALE

	2017 **HK$'000**	2016 HK$'000
Transferred from property, plant and equipment *(Note (i))*	–	15,830
Transferred from land use rights *(Note (ii))*	–	13,570
	–	29,400

Notes:

(i) On 12 October 2016 and 14 October 2016, the Group entered into agreements to transfer the ownership of certain machineries totalling HK$15,830,000 to an independent third party. The transfer was completed on 12 January 2017 (Note 6).

(ii) 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$13,570,000 (Note 8) to an independent third party. The transfer was completed on 10 January 2017.

16 SHARE CAPITAL

	Number of shares '000	**Total** HK$'000
Issued and fully paid:		
At 1 January 2016	1,328,211	1,879,966
Rights issue of ordinary shares *(Note (i))*	398,463	121,107
At 31 December 2016 and 2017	1,726,674	2,001,073

Note:

(i) On 8 July 2016, the Group completed the rights issue of 398,463,000 ordinary shares of the Company at HK$0.31 per rights share and obtained net proceeds of HK$121,107,000.

17 OTHER RESERVES

	Translation reserve	Statutory reserve *(Note (i))*	Convertible bonds reserve	Share-based payment reserve	Capital reserve	Available-for-sale financial asset reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2016	14,871	17,912	28,462	27,961	(49,135)	(3,803)	36,268
Other comprehensive loss							
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	–	–	–	–	(25,065)	(25,065)
Reclassification of revaluation reserve to profit or loss *(Note 9)*	–	–	–	–	–	28,868	28,868
Currency translation differences	(34,581)	–	–	–	–	–	(34,581)
Total comprehensive (loss)/ income for the year	(34,581)	–	–	–	–	3,803	(30,778)
Total transactions with owners in their capacity as owners							
Recognition of share-based payment	–	–	–	11,842	–	–	11,842
Changes in ownership interests in subsidiaries without change of control	–	–	–	–	(2,271)	–	(2,271)
Total transactions with owners in their capacity as owners	–	–	–	11,842	(2,271)	–	9,571
Balance at 31 December 2016	(19,710)	17,912	28,462	39,803	(51,406)	–	15,061

17 OTHER RESERVES (Continued)

	Translation reserve	Statutory reserve *(Note (i))*	Convertible bonds reserve	Share-based payment reserve	Capital reserve	Available-for-sale financial asset reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2017	**(19,710)**	**17,912**	**28,462**	**39,803**	**(51,406)**	**–**	**15,061**
Other comprehensive loss							
Change in fair value of an available-for-sale financial asset *(Note 9)*	–	–	–	–	–	(2,237)	(2,237)
Currency translation differences	58,946	–	–	–	–	–	58,946
Total comprehensive income/ (loss) for the year	58,946	–	–	–	–	(2,237)	56,709
Total transactions with owners in their capacity as owners							
Recognition of share-based payment	–	–	–	11,538	–	–	11,538
Total transactions with owners in their capacity as owners	–	–	–	11,538	–	–	11,538
Balance at 31 December 2017	**39,236**	**17,912**	**28,462**	**51,341**	**(51,406)**	**(2,237)**	**83,308**

Note (i):

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.

18 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

(a) Trade payables

	2017	2016
	HK$'000	HK$'000
Trade payables	**119,578**	174,210

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

	2017	2016
	HK$'000	HK$'000
Up to 3 months	**25,968**	25,901
3 to 6 months	**2,916**	8,999
6 to 12 months	**6,823**	3,186
Over 12 months	**83,871**	136,124
	119,578	174,210

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

	2017	2016
	HK$'000	HK$'000
US$	**60,958**	63,462
RMB	**55,125**	97,274
Others	**3,495**	13,474
	119,578	174,210

(b) Other payables and accruals

	2017	2016
	HK$'000	HK$'000
Other payables		
– Third parties	**59,293**	68,586
– Related parties *(Note 35(b))*	**2,670**	1,878
Receipt in advance	**3,733**	1,003
Deposits received from sales of asset held for sale *(Note 15)*	**–**	13,394
Accrued payroll and welfare	**10,821**	15,887
Other tax and surcharge payables	**7,229**	8,630
	83,746	109,378

18 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:

	2017	2016
	HK$'000	HK$'000
RMB	**40,277**	74,003
HK$	**28,684**	23,885
US$	**11,815**	7,768
Others	**2,970**	3,722
	83,746	109,378

19 BANK AND OTHER BORROWINGS

	2017	2016
	HK$'000	HK$'000
Non-current		
Bank borrowings *(Note a)*	**47,305**	37,479
Finance lease liabilities *(Note b)*	**–**	2,810
Convertible bonds – liability component *(Note c)*	**–**	137,741
	47,305	178,030
Current		
Bank borrowings *(Note a)*	**5,801**	3,901
Finance lease liabilities *(Note b)*	**3,024**	5,373
Convertible bonds – liability component *(Note c)*	**155,576**	7,359
	164,401	16,633
	211,706	194,663

19 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings

Bank borrowings bear average coupon rate of 3.9% as at 31 December 2017 (2016: 3.7%).

The maturities of bank borrowings in accordance with the repayment schedules are as follows:

	2017 **HK$'000**	2016 HK$'000
Within 1 year	**5,801**	3,901
Between 1 and 2 years	**4,240**	1,840
Between 2 and 5 years	**12,546**	5,825
Over 5 years	**30,519**	29,814
	53,106	41,380

As at 31 December 2017, the Group's bank borrowings were under floating interest rates (2016: 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:

	2017 **HK$'000**	2016 HK$'000
6 months or less	**1,620**	2,085
Over 6 months	**51,486**	39,295
	53,106	41,380

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

19 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings (Continued)

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

	2017 HK$'000	2016 HK$'000
US$	**1,620**	2,085
RMB	**10,512**	–
SGD	**40,974**	39,295
	53,106	41,380

The Group's bank borrowings were all secured (2016: Same).

As at 31 December 2017 and 2016, banking facilities of approximately HK$53,000,000 (2016: HK$41,000,000) were granted by banks to the subsidiaries of the Group, all of which have been utilised during the year. The facilities are secured by:

(a) corporate guarantee given by the Company and its subsidiary;

(b) personal guarantee by directors of a subsidiary of the Group; and

(c) buildings of the Group (Note 6).

The Group does not have undrawn borrowing facilities as at 31 December 2017 and 2016.

19 BANK AND OTHER BORROWINGS (Continued)

(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.

	2017	2016
	HK$'000	HK$'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**3,078**	5,719
Later than 1 year and no later than 5 years	**–**	2,860
	3,078	8,579
Future finance charges on finance leases	**(54)**	(396)
Present value of finance lease liabilities	**3,024**	8,183
The present value of finance lease liabilities are as follows:		
No later than 1 year	**3,024**	5,373
Later than 1 year and no later than 5 years	**–**	2,810
	3,024	8,183

The finance lease liabilities are denominated in RMB.

As at 31 December 2017, finance lease liabilities were secured by certain machineries of the Group amounting to HK$17,974,000 (2016: HK$18,940,000) (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 is 29 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.

19 BANK AND OTHER BORROWINGS (Continued)

(c) Convertible bonds (Continued)

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 17). 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 *(Note 17)*	(28,462)
Liability component at initial recognition	125,398

Movements in convertible bonds are analysed as follows:

	2017 **HK$'000**	2016 HK$'000
Opening amount	**145,100**	134,245
Interest expenses *(Note 27)*	**18,327**	18,727
Interest paid	**(7,851)**	(7,872)
Closing amount	**155,576**	145,100
Less: Non-current convertible bonds – liability component	**–**	(137,741)
Current portion	**155,576**	7,359

The Group have subsequently completed the repayment of the outstanding Convertible Bonds on 27 April 2018 (Note 38).

20 DEFERRED INCOME TAX

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

	2017 **HK$'000**	2016 HK$'000
Deferred tax assets:		
– To be recovered within 12 months	**(3,724)**	(7,634)
Deferred tax liabilities:		
– To be realised after 12 months	**1,025**	6,360
Deferred tax assets, net	**(2,699)**	(1,274)

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

	2017 **HK$'000**	2016 HK$'000
At 1 January	**(1,274)**	(2,394)
Exchange difference	**27**	(690)
(Credited)/charged to consolidated statement of comprehensive income *(Note 28)*	**(1,452)**	1,810
At 31 December	**(2,699)**	(1,274)

20 DEFERRED INCOME TAX (Continued)

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

	Deferred tax liabilities			Deferred tax assets		
	Undistributed profits of a subsidiary established in the PRC ***(Note (i))***	**Temporary difference on reinstatement**	**Decelerated tax depreciation**	**Tax losses**	**Unrealised profit on inventory**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	9,956	722	568	(11,095)	(2,545)	(2,394)
Exchange difference	–	(498)	(192)	–	–	(690)
(Credited)/charged to consolidated statement of comprehensive income	(3,806)	(224)	(166)	5,002	1,004	1,810
At 31 December 2016	6,150	–	210	(6,093)	(1,541)	(1,274)
Exchange difference	–	–	27	–	–	27
(Credited)/charged to consolidated statement of comprehensive income	(5,362)	–	–	3,900	10	(1,452)
At 31 December 2017	**788**	**–**	**237**	**(2,193)**	**(1,531)**	**(2,699)**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$45,893,000 (2016: HK$89,967,000) in respect of tax losses amounting to HK$246,811,000 (2016: HK$214,238,000). Unrecognised tax losses of HK$28,778,000 (2016: HK$21,394,000) have no expiry date and the remaining tax losses will expire at various dates up to and including 2022 (2016: 2021).

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 2017 and 2016, no deferred tax liabilities were recognised 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 2017 amounting to HK$788,000 (2016: HK$6,150,000).

21 OTHER INCOME

	2017	2016
	HK$'000	HK$'000
Rental income	**2,012**	1,912

22 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2017	2016
	HK$'000	HK$'000
Wages, salaries and bonus	**88,274**	90,347
Pension costs	**6,685**	7,147
Share options granted to directors, senior management and employees *(Note 26)*	**11,538**	11,842
Other staff benefits	**6,351**	8,412
Less: employee benefit expenses attributable for research and development	**(7,790)**	(5,642)
	105,058	112,106

As at 31 December 2017, there are no forfeited contributions available to offset future retirement benefit obligations of the Group (2016: Nil).

23 OTHER EXPENSES

	2017 HK$'000	2016 HK$'000
Auditor's remuneration		
– Audit services	2,888	3,100
– Non-audit services	357	250
Communication	1,390	2,341
Professional service fee	6,022	4,952
Motor vehicle expenses	1,194	3,633
Travelling	9,405	19,264
Insurance	1,235	1,157
Office utilities	6,459	17,567
Other tax-related expenses and custom duties	1,633	3,480
Bank charges	751	831
Logistic service fee	–	5,025
Provision for inventories loss *(Note 11)*	21,126	3,639
Provision for impairment of property, plant and equipment *(Note 6)*	–	4,120
Provision for impairment of other receivables	–	781
Others	3,692	6,256
	56,152	76,396

24 OTHER LOSSES, NET

	2017 HK$'000	2016 HK$'000
Losses on disposals of property, plant and equipment *(Note 32(b))*	(7,836)	(16,891)
Gain on disposals of assets classified as held for sale	5,535	–
Write off of property, plant and equipment *(Note 6)*	(313)	(1,533)
Government grant	1,568	2,031
Others	504	936
	(542)	(15,457)

25 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2017 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 HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive director							
Wang JinLong	–	1,143	–	–	8	77	1,228
Zhao JinDong	–	934	–	–	691	77	1,702
Non-executive director							
Lee Tommy	–	135	–	–	8	–	143
Ma Hua	–	135	–	–	8	–	143
Ko PoMing	–	225	–	–	8	–	233
Independent non-executive director							
Tong Hin Wor	–	153	–	–	8	–	161
Wong Lap Tat Arthur *(Note (iv))*	–	107	–	–	–	–	107
He Sheng Hou *(Note (v))*	–	38	–	–	–	–	38
Leung Lin Cheong *(Note (vi))*	–	139	–	–	–	–	139
Xin JinHe *(Note (vi))*	–	117	–	–	–		117
Chief executive							
Zeng WeiZhong	–	834	–	–	1,173	77	2,084
	–	3,960	–	–	1,904	231	6,095

25 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

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

The remuneration of every director and the chief executive for the year ended 31 December 2016 is set out below:

Name	Fee	Salary	Discretionary bonus	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive director and chief executive							
Wang JinLong *(Note (i))*	–	835	–	–	32	55	922
Zhao JinDong *(Note (ii))*	–	731	–	–	590	55	1,376
Non-executive director							
Lee Tommy	–	135	–	–	32	–	167
Ma Hua	–	135	–	–	32	–	167
Ko Po Ming	–	225	–	–	32	–	257
Independent non-executive director							
Tong Hin Wor	–	153	–	–	32	–	185
Wong Lap Tat Arthur	–	255	–	–	32	–	287
He ShengHou	–	153	–	–	32	–	185
Chief executive							
Zeng WeiZhong *(Note (iii))*	–	70	–	–	151	3	224
	–	2,692	–	–	965	113	3,770

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 (2016: Nil). No consideration was provided to or receivable by third parties for making available directors' services (2016: Nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2016: None).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Group'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 (2016: None).

25 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

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

Note:

(i) Resigned as chief executive on 25 April 2016.

(ii) Appointed as chief executive on 25 April 2016 and resigned on 1 December 2016.

(iii) Appointed as chief executive on 1 December 2016.

(iv) Retired as independent non-executive director on 2 June 2017.

(v) Resigned as independent non-executive director on 27 March 2017.

(vi) Appointed as independent non-executive directors on 2 June 2017 and 27 March 2017, respectively.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2016: one) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2016: four) individuals during the year are as follows:

	2017	2016
	HK$'000	HK$'000
Salary	**4,222**	2,722
Employer's contribution to pension scheme	**202**	128
Share-based payment	**3,237**	3,162
	7,661	6,012

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emoluments band		
– Nil to HK$1,000,000	**–**	1
– HK$1,000,001 – HK$1,500,000	**1**	1
– Over HK$1,500,000	**3**	2
	4	4

26 SHARE-BASED PAYMENTS

The Company adopted a share option scheme ("**Share Option Scheme**"). The purposes of the Share Option Scheme are to attract, retain and motivate the grantees to strive for future developments and expansion of the Group.

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

The Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme. Details of share options granted under the Share Option Scheme are as follows:

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

For the share options granted on 29 April 2014, the vesting period of the share options ranges from one to three years. All the options are conditional in which only one-third and two-third are vested and exercisable after one and two years from the grant date, respectively. The remaining options are vested and exercisable after three years from the grant date.

For the other share options granted, the vesting period of the share options ranges from one to five years. All the options are conditional in which one-fifth is vested and exercisable on every anniversary since the grant date of the respective share options.

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

26 SHARE-BASED PAYMENTS (Continued)

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

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

Note:

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

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

Adjustments were made to the exercise prices and the number of share options which were outstanding after the completion of the rights issue (Note 16).

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.

26 SHARE-BASED PAYMENTS (Continued)

Note: (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 31 December 2017 are as follow:

	Number of share options		
	As at 1 January 2017	**Forfeited/ lapsed during the year**	**As at 31 December 2017**
Grant date			
29 April 2014	**20,692,171**	**(5,145,672)**	**15,546,499**
29 May 2015	**59,320,053**	**(13,565,604)**	**45,754,449**
26 October 2016	**68,000,000**	**(9,800,000)**	**58,200,000**
1 December 2016	**17,000,000**	**–**	**17,000,000**
Total	**165,012,224**	**(28,511,276)**	**136,500,948**
Weighted average exercise price (HK$)			
Grant date			
29 April 2014	**2.38**	**–**	**2.38**
29 May 2015	**1.21**	**–**	**1.21**
26 October 2016	**0.53**	**–**	**0.53**
1 December 2016	**0.53**	**–**	**0.53**

26 SHARE-BASED PAYMENTS (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 31 December 2016 are as follow:

	Exercise price per share option		Number of share options				
	Before adjustment for rights issue during the year HK$	After adjustment for rights issue during the year HK$	As at 1 January 2016	Granted during the year	Adjustment for rights issue	Forfeited/ lapsed during the year	As at 31 December 2016
Grant date							
29 April 2014	2.55	2.38	19,617,336	–	1,381,356	(306,521)	20,692,171
29 May 2015	1.30	1.21	59,200,000	–	4,148,899	(4,028,846)	59,320,053
26 October 2016	N/A	0.53	–	68,000,000	–	–	68,000,000
1 December 2016	N/A	0.53	–	17,000,000	–	–	17,000,000
Total			78,817,336	85,000,000	5,530,255	(4,335,367)	165,012,224
Weighted average exercise price (HK$)							
Grant date							
29 April 2014			2.55	–	–	–	2.38
29 May 2015			1.30	–	–	–	1.21
26 October 2016			–	0.53	–	–	0.53
1 December 2016			–	0.53	–	–	0.53

During the year ended 31 December 2017, share-based payment expense of HK$11,538,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (2016: HK$11,842,000) (Note 22).

27 FINANCE INCOME AND COSTS

	2017 HK$'000	2016 HK$'000
Interest expenses:		
– Bank borrowings	**(1,238)**	(4,554)
– Convertible bonds *(Note 19(c))*	**(18,327)**	(18,727)
– Finance lease liabilities	**(307)**	(689)
– Net foreign exchange losses on financing activities *(Note 29)*	**–**	(585)
– Provision for impairment of trade receivables *(Note 12(a))*	**(20,542)**	–
– Provision for impairment of other receivables	**(4,179)**	–
Finance costs	**(44,593)**	(24,555)
Finance income:		
– Interest income from bank deposits	**82**	486
Finance costs, net	**(44,511)**	(24,069)

28 INCOME TAX (CREDIT)/EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax		
– Singapore corporate tax	**–**	2,242
(Over)/under provision in prior years		
– Singapore corporate tax	**(249)**	103
Deferred tax *(Note 20)*	**(1,452)**	1,810
Income tax (credit)/expense	**(1,701)**	4,155

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2016: 16.5%) during the year.

28 INCOME TAX (CREDIT)/EXPENSE (Continued)

(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 2017, 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% (2016: 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 2017 (2016: 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:

	2017	2016
	HK$'000	HK$'000
Loss before income tax	**(182,843)**	(441,192)
Tax calculated at domestic tax rates applicable to profit/loss in the respective entities	**(17,408)**	(22,951)
– (Over)/under provision for prior years	**(249)**	103
– Income not subject to tax	**(628)**	(3,971)
– Expenses not deductible for tax purposes	**16,853**	22,705
– Reversal of withholding tax on undistributed profits of a subsidiary established in the PRC *(Note 20)*	**(5,362)**	(3,806)
– Tax losses for which no deferred tax assets was recognised	**5,093**	12,075
Income tax (credit)/expense	**(1,701)**	4,155

The weighted average applicable tax rate was 10% (2016: 5%). The increase is primarily due to changes in the profitability of the group companies in the respective jurisdictions.

29 FOREIGN EXCHANGE LOSSES

	2017 HK$'000	2016 HK$'000
Foreign exchange losses	**(3,826)**	(14,896)
Net foreign exchange losses on financing activities *(Note 27)*	**–**	(585)
	(3,826)	(15,481)

30 LOSS PER SHARE

	2017	2016
Loss attributable to owners of the Company (HK$'000)	**(180,262)**	(443,353)
Weighted average number of ordinary shares in issue (Number of shares in thousand)	**1,726,674**	1,536,351
Basic loss per share (HK cents)	**(10)**	(29)
Diluted loss per share (HK cents)	**(10)**	(29)

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 increase loss per share.

Diluted loss per share for the year ended 31 December 2017 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2016: 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.

31 DIVIDEND

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash used in operations

	2017 **HK$'000**	2016 HK$'000
Loss before income tax	**(182,843)**	(441,192)
Adjustments for:		
– Depreciation *(Note 6)*	**80,778**	93,721
– Amortisation *(Notes 7 and 8)*	**1,662**	1,768
– Share-based payment *(Note 22)*	**11,538**	11,842
– Provision for impairment of trade receivables, net *(Note 12)*	**3,072**	16,077
– Provision for inventories loss *(Note 23)*	**21,126**	3,639
– Provision for impairment of other receivables *(Note 23)*	**–**	781
– Provision for impairment of property, plant and equipment *(Note 23)*	**–**	4,120
– Loss on disposals of property, plant and equipment *(Note b)*	**7,836**	16,891
– Gain on disposals of assets classified as held for sale *(Note 24)*	**(5,535)**	–
– Write off of property, plant and equipment *(Note 24)*	**313**	1,533
– Impairment loss of goodwill *(Note 7)*	**–**	213,859
– Impairment loss of an available-for-sale financial asset *(Note 9)*	**–**	28,868
– Net finance costs	**44,511**	23,484
– Foreign exchange loss	**(1,647)**	(2,936)
	(19,189)	(27,545)
Changes in working capital:		
– Inventories	**36,552**	66,418
– Restricted bank balance	**5,581**	–
– Trade and other receivables, deposits and prepayments	**(9,421)**	72,787
– Trade, other payables and accruals	**(39,922)**	(226,922)
Cash used in operations	**(26,399)**	(115,262)

32 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 disposals of property, plant and equipment comprise:

	2017	2016
	HK$'000	HK$'000
Net book amount *(Note 6)*	**62,931**	31,387
Loss on disposals of property, plant and equipment *(Note 24)*	**(7,836)**	(16,891)
Receivables from disposal of property, plant and equipment, gross	**(30,345)**	–
Proceeds from disposals of property, plant and equipment	**24,750**	14,496

(c) Net debt reconciliation

	2017	2016
	HK$'000	HK$'000
Pledged bank deposits	**8,457**	4,234
Restricted bank balance	**–**	5,581
Cash and cash equivalents	**24,708**	44,927
Bank and other borrowings	**(211,706)**	(194,663)
	(178,541)	(139,921)

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(c) Net debt reconciliation (Continued)

Details and the movement of the net debt as at 31 December 2017 are as follow:

	Cash and cash equivalents HK$'000	Restricted bank balance HK$'000	Pledged bank deposits HK$'000	Bank and other borrowings – finance lease liabilities HK$'000	Bank and other borrowings – bank borrowings HK$'000	Bank and other borrowings – convertible bonds HK$'000	Total HK$'000
As at 31 December 2016	44,927	5,581	4,234	(8,183)	(41,380)	(145,100)	(139,921)
Cash flows	(18,932)	(5,581)	3,792	5,934	7,984	7,851	1,048
Foreign exchange adjustments	(1,287)	–	431	(468)	(19,710)	–	(21,034)
Other non-cash movements	–	–	–	(307)	–	(18,327)	(18,634)
As at 31 December 2017	24,708	–	8,457	(3,024)	(53,106)	(155,576)	(178,541)

33 CONTINGENCIES

	2017 HK$'000	2016 HK$'000
Performance bonds *(Note (i))*	**1,731**	1,616
Litigation claim *(Note (ii))*	**–**	26,972

Note (i):

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

Note (ii):

During 2014, a contracting party initiated legal proceedings against the Group alleging a failure to provide stipulated amount of drilling works under the contracts entered in 2012 and 2013 and claimed for a total amount of RMB25,000,000. The case was concluded on 1 June 2015 in which the judgement of the court is in favour of the Group and has dismissed the claim of the contracting party. During the year ended 31 December 2017, the appeal raised by the contracting party has been concluded in favour of the Group by the judgement of the court as well. Restricted deposits amounting to HK$5,581,000 has been released with no cash held at bank as reserve as at 31 December 2017 (2016: HK$5,581,000) (Note 14).

34 COMMITMENTS

(a) 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 29 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

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

	2017	2016
	HK$'000	HK$'000
No later than 1 year	**5,456**	5,384
Later than 1 year and no later than 5 years	**4,356**	7,176
Later than 5 years	**9,771**	11,131
	19,583	23,691

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 2017 and 2016, and balances arising from related party transactions as at 31 December 2017 and 2016.

Name	**Relationships**
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Mr. Zeng WeiZhong	Senior management
Ms. Sun JinXia	Senior management
Mr. Shu WaTung Laurence	Senior management
Mr. Lin JingYu	Senior management
Mr. Zhang TaiYuan	Senior management
Mr. Yuan FuCun	Senior management
Mr. Ren WenSheng	Senior management

(a) Key management compensation

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

	2017 **HK$'000**	2016 HK$'000
Salaries and other short-term employee benefits	**9,538**	7,407
Share-based payments	**5,041**	5,912
	14,579	13,319

35 RELATED PARTY TRANSACTIONS (Continued)

(b) Amounts from/(to) related parties

	2017 **HK$'000**	2016 HK$'000
Amounts due from related parties *(Note 12) (Note (i))*	**1,444**	470
Amounts due to related parties *(Note 18) (Note (ii))*	**(2,670)**	(1,878)

As at 31 December 2017 and 2016, the balances are interest-free, unsecured, receivable or repayable on demand and approximate to their fair values.

Note (i):

The balances mainly comprise of advance to the Directors and senior management.

Note (ii):

The balances mainly comprise of expenses paid on behalf by the Directors and senior management.

36 SUBSIDIARIES

As at 31 December 2017, 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, kind of legal entity and 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%	Provision for oilfield project tools and services and consultancy services in the PRC, Russia and the Middle East, etc.	Hong Kong, Limited liability company 14 July 2003	HK$5,000,000 issued share capital
深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited)	–	100%	Provision for oilfield project tools and services and consultancy services in the PRC, etc.	The PRC, Limited liability company (wholly foreign owned enterprise) 26 April 2002	Registered capital of RMB76,000,000
德州嘉誠石油裝備有限公司 (Dezhou Jiacheng Oil Tools Co., Limited)	–	100%	Dormant in the PRC	The PRC, Limited liability company 3 April 2007	Registered capital of RMB10,000,000
Wellsharp Group Limited	–	100%	Dormant in BVI	BVI, Limited liability company 11 April 2008	100 ordinary shares at no par value for 1 US$ 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

36 SUBSIDIARIES (Continued)

As at 31 December 2017, 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, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
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
Petro-king Oilfield Technology (South America) Holdings Limited	–	100%	Investment holding 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

36 SUBSIDIARIES (Continued)

As at 31 December 2017, 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, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
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
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

36 SUBSIDIARIES (Continued)

As at 31 December 2017, 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, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
Petro-King Turbo Pte. Ltd.	–	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 1 August 2013	Registered capital of 100 ordinary shares of SGD1 each
Petro-king International Holdings Limited	–	100%	Dormant in Hong Kong	Hong Kong, Limited liability company 13 May 2013	HK$10,000 issued share capital
百勤石油(深圳)有限公司	–	100%	Dormant in the PRC	The PRC, Limited liability company 8 November 2013	Registered capital of RMB10,000,000
Petro-king Group Middle East Corporation FZE	–	100%	Trading of oilfield tools and equipment in the Middle East	The United Arab Emirates, Limited liability company 9 June 2014	100 shares of AED1,000 each
Petro-king International Australia PTY. LTD.	–	100%	Trading of oilfield tools and equipment in the Australia	Australia, Limited liability company 6 January 2014	1 ordinary shares of AUD1 each
百勤鑽井技術(惠州)有限公司	–	100%	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 2017, 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, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
PT. Petro Synergy Industry	–	41% *(Note (i))*	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
百勤能源科技(惠州)有限公司	–	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 USD20,000,000
百勤特米奧(深圳)投資基金管理有限公司	–	100% *(Note (ii))*	Provision for financial services in the PRC	The PRC, Limited liability company 25 February 2016	Registered capital of RMB10,000,000
Petro-King Turbo FZCO	–	100%	Provision of oilfield tools and equipment technology services and research and development in the Middle East	The United Arab Emirates, Limited liability company 22 November 2017	Registered capital of AED100,000

36 SUBSIDIARIES (Continued)

As at 31 December 2017, 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, kind of legal entity and date of incorporation	Particulars of issued share capital/ registered capital
河南省百勤能源科技有限公司	–	100%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling, well completion equipment in the PRC	The PRC, Limited liability company 26 December 2016	Registered capital of RMB5,000,000
深圳百勤金盆地能源技術有限公司	–	50%	Research & Development of Petroleum engineering equipment and repair & maintenance of drilling, well completion equipment in the PRC	The PRC, Limited liability company 8 July 2016	Registered capital of RMB20,000,000

Note:

(i) Although the Group owns less than half of the equity interests in the company, it is able to gain power over more than one half of the voting rights and consolidates the company.

(ii) On 30 November 2016, the Group obtained the remaining 50% of the equity interest of joint venture (i.e.百勤特米奧(深圳)投資基金管理有限公司) upon the divestment of the other joint venture partner. The Group effectively holds 100% equity interest in the company and the company become a wholly owned subsidiary of the Group.

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
ASSETS		
Non-current asset		
Investments in subsidiaries	**907,998**	1,083,814
Current assets		
Other receivables and prepayments	**114,347**	117,981
Cash and cash equivalents	**93**	528
Total current assets	**114,440**	118,509
Total assets	**1,022,438**	1,202,323
EQUITY AND LIABILITIES		
Equity		
Share capital	**2,001,073**	2,001,073
Other reserves	**79,803**	68,265
Accumulated losses	**(1,226,424)**	(1,023,391)
Total equity	**854,452**	1,045,947
LIABILITIES		
Non-current liability		
Convertible bonds – liability component	**–**	137,741
Current liabilities		
Other payables and accruals	**12,410**	11,276
Convertible bonds – liability component	**155,576**	7,359
	167,986	18,635
Total liabilities	**167,986**	156,376
Total equity and liabilities	**1,022,438**	1,202,323

The statement of financial position of the Company was approved by the Board of Directors on 10 May 2018 and was signed on its behalf.

Mr. Wang JinLong
Director

Mr. Zhao JinDong
Director

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Reserve movement of the Company

	Share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000
At 1 January 2016	27,961	28,462	(726,301)
Loss for the year	–	–	(297,090)
Recognition of share-based payment	11,842	–	–
At 31 December 2016	39,803	28,462	(1,023,391)
At 1 January 2017	**39,803**	**28,462**	**(1,023,391)**
Loss for the year	**–**	**–**	**(203,033)**
Recognition of share-based payment	**11,538**	**–**	**–**
At 31 December 2017	**51,341**	**28,462**	**(1,226,424)**

38 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

(i) On 6 March 2018, the Group entered into a loan agreement with an independent third party for a two-year borrowing with a principal amount of HK$180,000,000, bearing interest at 5.5% per annum. The 2018 Term Loan will be used for repayment of Convertible Bonds and general working capital of the Group. The Group completed a partial drawdown of HK$30,000,000 of the 2018 Term Loan on 16 April 2018 but the drawdown of the remaining HK$150,000,000 principal is subject to the Lender obtaining approval from the relevant government authorities for the release of the funds.

(ii) On 28 March 2018, the Group agreed with certain bondholders to convert the outstanding Convertible Bonds with a total principal amount of HK$47,000,000 as at 28 March 2018 to a term loan facility with a maturity date of 28 September 2019 that bear interest at 10% per annum.

(iii) On 29 March 2018, all the remaining bondholders of the Convertible Bonds with a total principal amount of HK$110,000,000 as at 29 March 2018 have agreed in writing to extend the due date for payment of these Convertible Bonds to 13 April 2018. On 13 April 2018, such remaining bondholders that held Convertible Bonds with aggregate principal amount of HK$71,000,000 and the other remaining bondholder that held Convertible Bonds with principal amount of HK$39,000,000 agreed to further extend the due date for payment of these Convertible Bonds to 11 May 2018 and 30 April 2018, respectively, where the principal amount outstanding together with incremental interest accrued up to the Second Extended Payment Dates will become payable.

38 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE (Continued)

(iv) On 26 April 2018, the Group entered into a loan agreement to borrow HK$40,000,000 from a shareholder, which bears interest at 10% per annum, with a maturity date of 26 October 2019. The Shareholder Loan was drawn down on 27 April 2018.

(v) On 27 April 2018, the Group agreed in writing with a bondholder that held Convertible Bonds with principal amount of HK$15,000,000 and had previously agreed to extend the due date for payment of the Convertible Bonds as mentioned in sub-paragraph (iii) above to convert the outstanding Convertible Bonds to the Bondholder Loan. Upon the completion of this conversion, the total principal amount of the Bondholder Loan outstanding increased to HK$62,000,000. At the same time, the principal amount of the Convertible Bonds to be repayable on the Second Extended Payment Dates were reduced from HK$110,000,000 to HK$95,000,000.

(vi) On 27 April 2018, the Group utilised the HK$30,000,000 proceeds from the partial drawdown of the 2018 Term Loan, HK$40,000,000 proceeds from the Shareholder Loan and HK$25,699,000 of the Group's own cash resources to settle outstanding Convertible Bonds with aggregate principal amounts of HK$95,000,000 and accrued incremental interest of HK$699,000.

(vii) On 10 May 2018, the Company entered into two subscription agreements with each of Asian Equity Special Opportunities Portfolio Master Fund Limited and Ms. Ng Man Chi (the "Subscribers"), pursuant to which the Company conditionally agreed to issue and the Subscribers conditionally agreed to subscribe for the 18-month 8% convertible bonds in the aggregate principal amount of HK$30,000,000 (the "2018 Convertible Bonds"). The net proceeds from the proposed issuance of 2018 Convertible Bonds will be used for general working capital purpose.