Annual Report 2018

PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178

Petro-king

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FINANCIAL HIGHLIGHT

Operating Figures

For the year ended 31 December	**2018 HK$'000**	2017 HK$'000	Change	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**258,932**	287,848	-10.0%	392,442	631,014	705,172
Operating loss	**(602,681)**	(138,332)	335.7%	(416,882)	(344,188)	(398,000)
Loss for the year	**(624,071)**	(181,142)	244.5%	(445,347)	(391,759)	(418,148)
Loss per share						
Basic (HK$ cents)	**(36)**	(10)	260.0%	(29)	(31)	(38)
Diluted (HK$ cents)	**(36)**	(10)	260.0%	(29)	(31)	(38)

Consolidated Balance Sheet

As at 31 December	**2018 HK$'000**	2017 HK$'000	Change	2016 HK$'000	2015 HK$'000	2014 HK$'000
Total assets	**983,897**	1,539,840	-36.1%	1,723,508	2,500,519	3,162,095
Non-current assets	**535,771**	866,495	-38.2%	979,999	1,497,705	1,563,767
Current assets	**448,126**	673,345	-33.4%	743,509	1,002,814	1,598,328
Total liabilities	**520,277**	416,055	25.1%	486,828	921,215	1,367,167
Non-current liabilities	**216,690**	48,330	348.4%	184,390	185,992	55,458
Current liabilities	**303,587**	367,725	-17.4%	302,438	735,223	1,311,709
Net current assets	**144,539**	305,620	-52.7%	441,071	267,591	286,619
Net assets	**463,620**	1,123,785	-58.7%	1,236,680	1,579,304	1,794,928

Financial Indicators

For the year ended 31 December	**2018**	2017	2016	2015	2014
Trade receivables turnover days	**432**	513	405	279	461
Inventory turnover days	**335**	414	457	505	552
Trade payables turnover days	**352**	378	467	347	334
Current ratio	**1.48**	1.83	2.46	1.36	1.22
Gearing ratio *(Note 1)*	**33.9%**	13.7%	10.2%	10.4%	21.4%
Return on Equity *(Note 2)*	**-78.6%**	-15.3%	-31.6%	-23.2%	-20.8%

Note 1: Based on net debt over total capital.

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

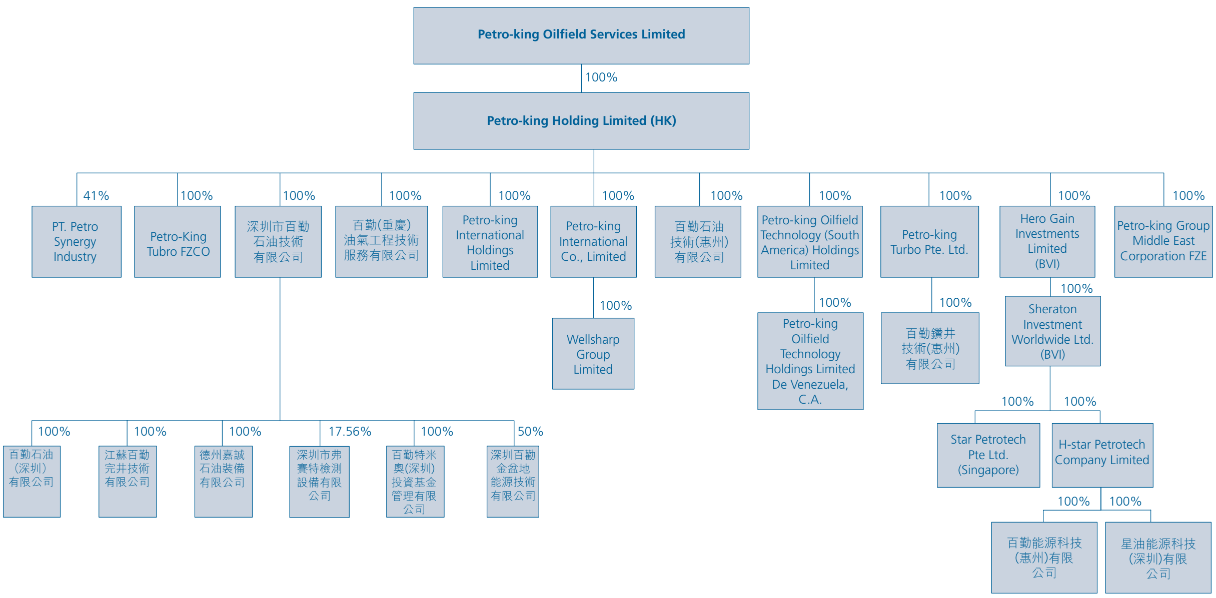
CORPORATE PROFILE

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 and gas field services.

We provide oilfield and gas field technology services covering various stages in the life cycle of oilfields and gas fields including drilling, well completion and production enhancement as well as trading and manufacturing of oilfield and gas field related products.

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



WANG JINLONG
Chairman

On behalf of the board of directors (the "**Board**") of the Company, I hereby present to the shareholders of the Company (the "**Shareholders**") the annual report of the Group for the year ended 31 December 2018.

RESULTS

During the year ended 31 December 2018 (the "**Year**" or "**2018**"), the Group's revenue decreased by approximately 10.0% from approximately HK$287.8 million in 2017 to approximately HK$258.9 million in 2018. Such decrease in revenue was mainly due to the decrease in income from sales of well completion and drilling tools to the Middle East and the China markets, while partly offset by the increase in income from the provision of fracturing services in the China market. The decrease in sales of well completion tools also contributed to the decrease in revenue from the Middle East geographical market. During the Year, the Group has provided more fracturing services to certain national oil companies in China, which resulted in an increase in revenue in the production enhancement services and contributed to the increase in revenue from the China geographical market.

During the Year, operating loss has increased by approximately 335.8% to approximately HK$602.7 million (2017: HK$138.3 million) which was mainly due to an increase in net impairment loss on financial asset of approximately HK$160 million, an increase in write-off of inventories of approximately HK$56.2 million, an increase in provision for impairment of goodwill of approximately HK$209.7 million and an increase in write-off of property, plant and equipment of approximately HK$61.8 million.

During the Year, net finance costs of the Group has decreased by approximately 54.0% to approximately HK$20.5 million (2017: HK$44.5 million). Such decrease was mainly attributable to the reduction in finance costs relating to certain trade and other receivables (2017: HK$24.7 million).

OUTLOOK

International crude oil price has been quite volatile during 2018. The Brent crude oil price started at approximately US$66/barrel at the beginning of the Year, topping at approximately US$87/barrel in October 2018 and dropped to approximately US$53/barrel at the end of 2018. Brent crude oil price has rebound to approximately US$67/barrel as at the date of this report. Notwithstanding the fluctuation in International crude oil price throughout the Year, the average monthly Brent crude oil price has increased from approximately US$56/barrel in 2017 to approximately US$71/barrel in 2018.

With the continual stabilisation in international crude oil price and China's national policy to secure national energy safety and to encourage shale gas consumption for environmental protection, owners of shale gas fields in the People's Republic of China (the "**PRC**") (mostly major national oil companies) have started to accelerate their construction plans for their shale gas projects and such accelerating trend has become more obvious since the fourth quarter of 2018. During the Year, the Group has acquired additional fracturing equipment which will enable the Group to participate in large-scale shale gas projects to enhance the Group's revenue and profit. The Group's fracturing equipment is now under full utilisation. We believe the increasing demand for fracturing services from the construction of shale gas fields will continue in 2019 and will enhance the profitability of our Group's production enhancement business segment in 2019.

As a result of the continual stabilisation in international crude oil price, there are also increasing demands for the Group's well completion tools and production enhancement tools from both domestic and overseas markets which shall enhance the Group's revenue and profitability in 2019. For overseas market, the Group will continue to explore market opportunities in the Middle East, African and South American regions.

Looking ahead to 2019, we will continue to put efforts into the marketing and promotion of the Group's oilfield services, tools and technologies so as to increase our market penetration. 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 to provide high-end oilfield services in the China and overseas markets. In addition, the Group will continue to explore other investment opportunities that have earning potentials to expand its existing operations and to diversify its business. With the committed efforts of our staff and management, we are confident and optimistic on the prospects of the Group.

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, 27 March 2019

GEOGRAPHICAL MARKET ANALYSIS

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

	2018 (HK$ million)	2017 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2018 (%)**	Approximate percentage of total revenue in 2017 (%)
China market	**182.5**	153.3	19.0%	**70.5%**	53.3%
Overseas market	**76.4**	134.5	-43.2%	**29.5%**	46.7%
Total	**258.9**	287.8	-10.0%	**100%**	100%

The Group's revenue from the China market increased by approximately HK$29.2 million or approximately 19.0% to approximately HK$182.5 million in 2018 from approximately HK$153.3 million in 2017. The increase in revenue from the China market was mainly due to increased demand of fracturing services from customers.

The Group's revenue from the overseas market decreased by approximately HK$58.1 million or approximately 43.2% to approximately HK$76.4 million in 2018 from approximately HK$134.5 million in 2017. The decrease in revenue from overseas markets was mainly due to the reduction in demand of well completion tools in the Middle East.

REVENUE FROM THE CHINA MARKET

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

	2018 (HK$ million)	2017 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue from the China market in 2018 (%)**	Approximate percentage of total revenue from the China market in 2017 (%)
Northern China	**19.4**	6.6	193.9%	**10.6%**	4.3%
Southwestern China	**68.0**	23.0	195.7%	**37.3%**	15.0%
Other regions in China	**95.1**	123.7	-23.1%	**52.1%**	80.7%
Total	**182.5**	153.3	19.0%	**100%**	100%

In 2018, the Group's revenue from Northern China amounted to approximately HK$19.4 million; which has increased by approximately HK$12.8 million or approximately 193.9% from approximately HK$6.6 million in 2017. The increase in revenue was mainly due to the increase in sales of dissolvable plug and an increased demand for fracturing services from a major customer in Northern China.

The revenue from Southwestern China amounted to approximately HK$68.0 million in 2018, which has increased by approximately HK$45.0 million or approximately 195.7% from approximately HK$23.0 million in 2017. The increase in revenue was mainly due to the increase in demand for fracturing services.

The revenue from other regions in China amounted to approximately HK$95.1 million in 2018, which has dropped by approximately HK$28.6 million or approximately 23.1% from approximately HK$123.7 million in 2017. The decrease in revenue was mainly due to a decrease in sales of well completion tools in other regions in China and a drop in drilling services provided to a key customer in 2018.

REVENUE FROM THE OVERSEAS MARKET

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

	2018 *(HK$ million)*	2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the overseas market in 2018** *(%)*	Approximate percentage of total revenue from the overseas market in 2017 *(%)*
The Middle East	**46.8**	117.2	-60.1%	**61.3%**	87.1%
Others	**29.6**	17.3	71.1%	**38.7%**	12.9%
Total	**76.4**	134.5	-43.2%	**100%**	100%

The revenue from the Middle East amounted to approximately HK$46.8 million in 2018, which has dropped by approximately HK$70.4 million or approximately 60.1%, from approximately HK$117.2 million in 2017. The decrease was mainly due to the slow-down in sales of well completion tools and the decline in consultancy services in the Middle East.

The revenue from other overseas regions amounted to approximately HK$29.6 million in 2018, which has increased by approximately HK$12.3 million or approximately 71.1% from approximately HK$17.3 million in 2017. The increase in revenue was mainly due to the increase in sales of well completion tools, drill bit, non-rotating casing protector business in other areas.

OPERATING SEGMENT ANALYSIS

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

	2018 *(HK$ million)*	2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2018** *(%)*	Approximate percentage of total revenue in 2017 *(%)*
Oilfield project tools and services	**226.8**	243.6	-6.9%	**87.6%**	84.6%
Consultancy services	**32.1**	44.2	-27.4%	**12.4%**	15.4%
Total	**258.9**	287.8	-10.0%	**100%**	100%

In 2018, the Group's revenue from oilfield project tools and services amounted to approximately HK$226.8 million, which has decreased by approximately HK$16.8 million or approximately 6.9% from approximately HK$243.6 million in 2017. The decrease was mainly due to the declines in well completion tools revenue in the Middle East and drilling service revenue in China in 2018, which was partly offset by the revenue increase in fracturing projects in China.

The Group's revenue from consultancy services amounted to approximately HK$32.1 million in 2018, which has decreased by approximately HK$12.1 million or approximately 27.4%, from approximately HK$44.2 million in 2017. The revenue decreased mainly because of the completion of certain consultancy services in 2017.

Oilfield Project Tools and Services

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

	2018 **(HK$ million)**	2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from oilfield project tools and services in 2018** ***(%)***	Approximate percentage of total revenue from oilfield project tools and services in 2017 *(%)*
Drilling	**20.5**	46.7	-56.1%	**9.1%**	19.2%
Well completion	**75.6**	148.4	-49.1%	**33.3%**	60.9%
Production enhancement	**130.7**	48.5	169.5%	**57.6%**	19.9%
Total	**226.8**	243.6	-6.9%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to approximately HK$20.5 million in 2018, which has decreased by approximately HK$26.2 million or approximately 56.1% from approximately HK$46.7 million in 2017. The decrease was mainly due to the drop of sales of drilling tools to customers in the Middle East and the decrease in the provision of drilling services in China.

In 2018, the Group completed drilling services for 7 wells. The drilling services were mainly provided in Southwest and Northwest China.

Well Completion

In 2018, the Group's revenue from well completion amounted to approximately HK$75.6 million, which has decreased by approximately HK$72.8 million or approximately 49.1% from approximately HK$148.4 million in 2017. The decrease was mainly due to decline in well completion tool sales to key customers in the Middle East and other regions in the China market in 2018.

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

Production Enhancement

In 2018, the Group's revenue from production enhancement amounted to approximately HK$130.7 million, which has increased by approximately HK$82.2 million or approximately 169.5% from approximately HK$48.5 million in 2017. The increase was mainly due to the increase of fracturing projects in the China market.

In 2018, the Group provided production enhancement services for 119 wells in the China market.

CUSTOMER ANALYSIS

Customer	2018 *(HK$ million)*	2017 *(HK$ million)*	Approximate percentage change *(%)*	Approximate percentage of total revenue in 2018 *(%)*	Approximate percentage of total revenue in 2017 *(%)*
Customer 1	**87.0**	28.6	204.2%	**33.6%**	9.9%
Customer 2	**33.5**	74.8	-55.2%	**12.9%**	26.0%
Customer 3	**33.0**	21.1	56.4%	**12.7%**	7.3%
Customer 4	**21.5**	21.6	-0.5%	**8.3%**	7.5%
Customer 5	**8.7**	–	N/A	**3.4%**	0.0%
Customer 6	**8.4**	74.0	-88.6%	**3.3%**	25.7%
Customer 7	**8.1**	–	N/A	**3.1%**	0.0%
Customer 8	**6.4**	4.8	33.3%	**2.5%**	1.7%
Other customers	**52.3**	62.9	-16.9%	**20.2%**	21.9%
Total	**258.9**	287.8	-10%	**100%**	100%

The revenue from customer 1 amounted to approximately HK$87.0 million in 2018, which has increased by approximately HK$58.4 million or approximately 204.2% from HK$28.6 million in 2017. The increase in revenue from this customer was mainly attributable to the increased demand in fracturing services in southwestern China. The revenue from customer 2 amounted to approximately HK$33.5 million in 2018, which has decreased by approximately HK$41.3 million or approximately 55.2% from approximately HK$74.8 million in 2017. This decrease was mainly due to the drop in sales of well completion tools in the China market. The revenue from customer 3 amounted to approximately HK$33.0 million in 2018, which has increased by approximately HK$11.9 million or approximately 56.4% from approximately HK$21.1 million in 2017. Such increase was mainly attributable to an increased demand of production enhancement services in the Northern China market. The revenue from customer 4 amounted to approximately HK$21.5 million in 2018, which has decreased by approximately HK$0.1 million or approximately 0.5% from approximately HK$21.6 million in 2017. The revenue from customer 5 amounted to approximately HK$8.7 million in 2018 (2017: Nil), which was attributable to the Group's sales of well completion tools in the China market. The revenue from customer 6 amounted to approximately HK$8.4 million in 2018, which has decreased by approximately HK$65.6 million or approximately 88.6% from HK$74.0 million in 2017. This decrease was mainly due to the drop in sales of well completion tools in the Middle East. Revenue from Customer 7 amounted to approximately HK$8.1 million in 2018 (2017: Nil), which was generated from the provision of certain consultancy service in the Middle East. Revenue from Customer 8 amounted to approximately HK$6.4 million in 2018, which has increased by approximately HK$1.6 million or approximately 33.3% from approximately HK$4.8 million in 2017, This increase was mainly attributable to the sales of well completion tools in other markets. The revenue from other customers amounted to approximately HK$52.3 million in 2018, which has dropped by approximately HK$10.6 million or approximately 16.9% from approximately HK$62.9 million in 2017.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself on introducing innovative products and services in various oilfield service lines, such as directional drilling, multistage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 2018, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

- Successfully designed and tested second generation of $5^{1}/_{2}$" dissolvable bridge plug, which has been applied in the Group's production enhancement project in the second half of 2018. This kind of tool can substantially shorten the operation time and in turn save operation cost for multistage perforation fracturing operations.

- Successfully designed and tested a new $4^{1}/_{2}$" tubing retrievable safety valve which can withstand working pressure of 20,000 Psi. This kind of tool can be used in wells with extra-high pressure and high temperatures. Most of the safety valve suppliers in the market can only provide safety valve that can withstand working pressure of up to 10,000 Psi.

- Successfully designed and tested $4^{1}/_{2}$" and big bore dissolvable bridge plug, which has been applied in the Group's production enhancement project in the second half of 2018. This kind of tool can substantially shorten the operation time and in turn save operation cost for multistage perforation fracturing operations.

- Continued to focus on the development and testing of $3^{1}/_{2}$" big bore dissolvable bridge plug to meet the demand of the China and overseas markets.

The Group pays great attention to the registration of patents and always encourages employees to apply for patents. As at 31 December 2018, the Group had 20 utility model patents and 9 innovation patents and was applying for 4 utility model patents and 15 innovation patents.

During the Year, the Group has been granted the API Certificate for Specification for Completion Accessories and the V0 Validation Level Certificate by the American Petroleum Institute. These certificates are accreditation of the Group's product quality and high production standards. The granting of such certificates will expand the Group's customer base and enable the Group to supply products to customers with stringent product quality requirements.

In 2019, the Group will continue to focus on the research and development of down-hole completion tools and technologies, as well as certain specific high-end drilling tools and technologies, including $9^{5}/_{8}$" 5,000 Psi electric submersible pump packer, 7" 5,000 Psi electric submersible pump packer, $4^{1}/_{2}$" slimline tubing retrievable safety valve. In order to maintain its leading position in the high-end oilfield service sector, the Group will continue its effort in developing oilfield service tools and technologies through in-house research and development and through 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 arranged for a series of training courses that cover technical update of drilling and completion technology, blast management, control at wells and environment management. We also worked with external organisations such as unions and consultants to provide training for the specific needs of the operations. The Group has arranged 49 trainings, more than 9,500 hours in total and 260 employees attended these training programs in 2018. Besides, the company implemented new talents selection system to expand the 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 340 employees as at 31 December 2018, remained nearly flat as compared to that of 334 employees as at 31 December 2017.

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 2018 encouraging staff ownership and team spirit.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately HK$258.9 million, which has decreased by approximately 10.0% as compared to that of approximately HK$287.8 million in 2017, representing a decrease of approximately HK$28.9 million. The decrease in revenue was mainly due to the decline in the sales of oilfield project tools in the Middle East and the China markets which offset the revenue increase from the provision of fracturing services in the China market.

Material Costs

During the Year, the Group's material costs were approximately HK$110.0 million, which has decreased by approximately HK$18.7 million or approximately 14.5% as compared to that of approximately HK$128.7 million in 2017. Material Costs representing approximately 42.5% of the revenue in 2018, which was lower than that of 44.7% in 2017. As the Group generated more revenue from the provision of fracturing services in 2018 which utilise fewer materials than other projects, the overall material costs as a percentage of revenue decreased in 2018.

Depreciation of Property, Plant and Equipment

During the Year, the depreciation of property, plant and equipment amounted to approximately HK$72.2 million, which has decreased by approximately HK$8.6 million or approximately 10.6% as compared to that of approximately HK$80.8 million in 2017, primarily resulted from the write-off of certain service equipment in 2018.

Employee Benefit Expenses

During the Year, the Group's employee benefit expenses were approximately HK$101.4 million, which has dropped by approximately HK$3.7 million or approximately 3.5% as compared to that of approximately HK$105.1 million in 2017. The decrease in employee benefit expenses mainly resulted from the optimisation of staff structure and the strengthening of cost control in the harsh market environment.

Distribution Expenses

During the Year, the Group's distribution expenses amounted to approximately HK$4.1 million, which has decreased by approximately HK$1.0 million or approximately 19.6% from approximately HK$5.1 million in 2017. The decrease in distribution expenses was mainly due to the decline in the sales of oilfield project tools in 2018.

Technical Service Fees

During the Year, the Group's technical service fees amounted to approximately HK$18.1 million, which has increased by approximately HK$4.9 million or approximately 37.1% from approximately HK$13.2 million in 2017. The increase in technical service fees was mainly due to the procurement of high-quality technical support service to improve service quality in the China market.

Net Impairment Loss on Financial Assets/Provision for Impairment of Trade and Other Receivables, Net

During the Year, net impairment loss on financial assets amounted to approximately HK$160.0 million, which has increased by approximately HK$156.9 million from approximately HK$3.1 million in 2017. Net impairment loss on financial assets in 2018 was mainly relating to certain customers in the Middle East and the China market.

Write-off of Inventories

During the Year, the write-off of inventories amounted to approximately HK$56.2 million, (2017: Nil). Such increase in write-off of inventories was resulted from the increased quantity of obsolete inventories during 2018.

Provision for impairment of Goodwill

During the Year, the Group's provision for impairment of goodwill amounted to approximately HK$209.7 million (2017: Nil), mainly because the Group's performance in relation to the oilfield project tools and services has been adversely affected by the long term low oil price and the economics and industry downturn.

Write-off of property, plant and equipment

During the Year, the write-off of property, plant and equipment amounted to approximately HK$62.1 million (2017: HK$313,000). The write-off of property, plant and equipment was due to the damage of certain drilling service equipment during 2018.

Other Expenses

During the Year, the Group's other expenses were approximately HK$44.9 million, which has increased by approximately HK$9.9 million or approximately 28.3% from approximately HK$35.0 million in 2017, mainly attributable to the increase in professional service fee and motor vehicle expenses in relation to the provision of fracturing services in the China market.

Operating Loss

As a result of the foregoing, the Group's operating loss in 2018 amounted to approximately HK$602.7 million, which has increased by approximately HK$464.4 million as compared to that of approximately HK$138.3 million in 2017.

Net Financing Costs

During the Year, the Group's net financing costs amounted to approximately HK$20.5 million, which has decreased by approximately HK$24.0 million or approximately 53.9% as compared to that of approximately HK$44.5 million in 2017. Such decrease in 2018 was mainly attributable to the reduction in finance costs relating to certain trade and other receivables.

Loss for the Year

As a result of the foregoing, the Group's loss for the Year amounted to approximately HK$624.1 million, which has increased by approximately HK$443.0 million or approximately 244.6% as compared to that of approximately HK$181.1 million in 2017.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company in 2018 was approximately HK$623.1 million, which has increased by approximately HK$442.8 million or approximately 245.6% as compared to that of approximately HK$180.3 million in 2017.

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 2018, the Group's property, plant and equipment amounted to approximately HK$384.4 million, which has decreased by approximately HK$116.9 million or approximately 23.3% from approximately HK$501.3 million as at 31 December 2017. The decrease was primarily due to the depreciation of the property, plant and equipment and the write-of of certain drilling equipment in 2018.

Intangible Assets

As at 31 December 2018, the Group's intangible assets amounted to approximately HK$95.5 million, representing a decrease of approximately HK$211.1 million or approximately 68.9% from approximately HK$306.6 million as at 31 December 2017. The decrease was mainly due to a provision for impairment of goodwill of approximately HK$209.7 million, which has been recognised against the goodwill of the oilfield project tools and services segment.

Inventories

As at 31 December 2018, the Group's inventories amounted to approximately HK$81.0 million, representing a drop of approximately HK$40.0 million or approximately 33.1% as compared to that of approximately HK$121.0 million as at 31 December 2017. The average turnover days of inventories decreased from approximately 414 days in 2017 to approximately 335 days in 2018. The decrease of inventories turnover days was mainly due to the increase in written off of inventories in 2018.

Trade Receivables

As at 31 December 2018, the Group's trade receivables amounted to approximately HK$206.0 million, representing a decrease of approximately HK$201.3 million or approximately 49.4% as compared to that of approximately HK$407.3 million as at 31 December 2017. The average turnover days of trade receivables were approximately 432 days in 2018, representing a decrease of approximately 81 days as compared to that of approximately 513 days in 2017. The decrease in turnover days of trade receivables was mainly due to the provision for impairment of trade receivables during 2018 and the improvements in trade receivables settlement from customers in the China market.

Trade Payables

As at 31 December 2018, the Group's trade payables were approximately HK$127.8 million, which has increased by approximately HK$8.2 million or approximately 6.9% as compared to that of approximately HK$119.6 million as at 31 December 2017. The average turnover days of trade payables decreased from approximately 378 days in 2017 to approximately 352 days in 2018, representing a decrease of approximately 26 days. The decrease in turnover days of trade payables was mainly due to the quicker payments to the suppliers in 2018.

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 2018, the Group's cash and cash equivalents amounted to approximately HK$39.3 million, representing an increase of approximately HK$14.6 million as compared to that of approximately HK$24.7 million as at 31 December 2017. The cash and cash equivalents were mainly held in Hong Kong dollars, Renminbi and US dollars.

As at 31 December 2018, the Group's bank and other borrowings amounted to approximately HK$288.7 million (31 December 2017: HK$211.7 million), of which approximately 25.0% (31 December 2017: 77.7%) was repayable within one year. As at 31 December 2018, the Group's bank and other borrowings were denominated in Hong Kong dollars, Renminbi and Singapore dollars whilst approximately 85.5% (31 December 2017: 74.9%) of such borrowings bore interest at fixed lending rate.

As at 31 December 2018, certain buildings and machineries of the Group with carrying values of approximately HK$128.8 million and HK$16.9 million, respectively, (31 December 2017: HK$141.03 million and Nil) were pledged to secure general banking facilities and instalment loan granted to the Group.

Gearing ratio

As at 31 December 2018, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 33.9% (31 December 2017: 13.7%). 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" 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$ 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.

As the Group conducts business transactions principally in Hong Kong dollars, Renminbi and US dollars, the management considered that the Group's exposure to exchange rate risk at the operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the Year. Nevertheless, management will continue to monitor its foreign exchange exposure and is prepared to take prudent measures such as hedging when appropriate actions are required.

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 28 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 approximately HK$16.0 million as at 31 December 2018 (2017: HK$19.6 million).

Capital Commitment

As at 31 December 2018, the Group did not have any capital commitment (2017: Nil).

Contingent Liabilities

Details of contingent liabilities of the Group as at 31 December 2018 are set out in note 32 to the consolidated financial statements.

Off-balance Sheet Arrangements

As at 31 December 2018, the Group did not have any off-balance sheet arrangements (31 December 2017: Nil).

SCOPE AND REPORTING PERIOD

This is the third Environmental, Social, and Governance (ESG) report of Petro-King Oilfield Services Limited and its subsidiaries (hereafter the "**Group**"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited.

The Group principally engaged in the provision of oilfield and gas field technology services covering various stages in the life cycle of oilfields and gas fields including drilling, well completion and production enhancement as well as trading and manufacturing of oilfield and gas field related products. This ESG report covers the Group's overall performance in two subject areas, namely, the environmental and social aspects of its subsidiaries stated below in the PRC and Singapore from 1 January 2018 to 31 December 2018 (the "**Reporting Period**"), unless otherwise stated.

- The Group's headquarter office in Shenzhen, the PRC (hereafter "**Shenzhen office**")
- Petro-king Oilfield Technology (Huizhou) Holdings Limited in Huizhou, the PRC (hereafter "**Huizhou plant**")
- Star Petrotech Pte. Ltd. in Singapore (hereafter "**Singapore plant**")

The above three locations and subsidiaries were identified as the major operational sites for the Group during the Reporting Period. In addition to the Shenzhen office, Huizhou and Singapore plants were added in this report, resulting in an enlarged scope compared with that of the last reporting period. Correspondingly, the benchmark on intensity with that of the previous reporting period was not provided.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group engages with key stakeholders such as board members, managers, supervisors, frontline workers, suppliers, and customers to understand their needs and concerns. The Group communicates with stakeholders via various communication channels such as written memos, regular meetings, personal interviews.

During this Reporting Period, the Group has put in extra effort to discuss with internal key stakeholders in the hope of establishing an ESG committee. The Group is now fully prepared to formally launch the committee in the upcoming year. The ESG committee will ensure that appropriate and effective ESG risk management and internal control system are in place and will help the Group continuously to identify opportunities for improving performance and creating values for stakeholders.

In order to identify the most significant ESG aspects, the Group distributed quantitative surveys to stakeholders. Through the stakeholder surveys carried out during this Reporting Period, key material issues raised by the stakeholders mainly focused on the social aspects, while environmental aspects were considered less material for the Group. Following topics have been deemed as the most important by stakeholders:

- Customer Privacy
- Customer Service
- Product/Service Quality
- Anti-corruption
- Occupational Health and Safety

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at ir@petro-king.cn.

THE GROUP'S SUSTAINABILITY MISSION AND VISION

The Group incorporates ESG into daily management in order to achieve the optimum balance on profit, environmental protection, social responsibility, and satisfaction for stakeholders. During the Reporting Period, key challenges identified by the Group included higher standards set by customers to meet Quality, Health, Safety, and Environmental (QHSE) requirements, higher product delivery standards, and compliance with laws and regulations. Correspondingly, the Group continues to ensure strict compliance with any applicable regulations, laws, guidelines, and standards to manage its key operational risks, and to strive to achieve low pollution, zero injury operations.

In addition to complying with external regulations, the Group strives for achieving best industrial practices especially regarding QHSE matters. The Group aims to have a QHSE performance that the Group can be proud of by continuous improvement, to earn the confidence of customers, shareholders and society at large. The Group is committed to:

- Pursue to the goal of injury free to people in operation;
- Protect the environment;
- Use material and energy efficiently to provide our products and services;
- Apply the best safety practice in the industry in our activity proactively;
- Manage Health, Safety, and Environmental (HSE) matters as a critical business activity; and
- Promote a culture which all Petro-king employees acknowledge above commitment.

As a result of continuous improvement on management excellence, the Group has renewed and/or achieved following certificates and membership during the Reporting Period:

- A Member of the International Association of Drilling Contractors;
- ISO 9001 Quality Management System;
- American Petroleum Institute (API) Quality Certification;
- ISO 14001 Environmental Management System; and
- OHSAS 18001 Occupational Health and Safety Management System

A. ENVIRONMENTAL

The Group has obtained ISO14001 Environmental Management System certification and has formulated "Environmental Protection Management Procedure", "Waste Management Procedure" and "Oilfield Environmental Protection Management System" to manage environmental issues.

The Group stringently complies with national and local laws and regulations concerning environmental protection and pollution control, including but not limited to the followings:

- Environmental Protection Law of the PRC;
- Law of the PRC on the Prevention and Control of Atmospheric Pollution;
- Cleaner Production Promotion Law;
- Law of the PRC on Appraising of Environment Impacts;
- Water Pollution Prevention and Control Law of the PRC;
- Soil Pollution Prevention and Control Law of the PRC; and
- Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste had been identified during the Reporting Period.

A1. Emissions

A1.1 Air Emissions

The manufacturing processes utilized compressed air and dust from cutting processes were generated. Fume was also generated from combustion of Liquefied Petroleum Gas (LPG) in canteen in Huizhou plant. All on-site air emissions were collected and exhausted through designated pipes, and the concentration level were all below the permissible level set by applicable local regulations, e.g., GB16297 Integrated Emission Standards of Air Pollutants.

	Air emissions (non-GHG) from the stationary fuel combustion	
Stationary fuel source	NO_x (kg)	SO_x (kg)
LPG	0.63	<0.01

Note: Emission factors for calculations on environmental parameters throughout the report were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Passenger cars operated on gasoline was used for daily business operations. Singapore plant also consumed diesel for medium goods vehicles. Their combustion generated several air emissions include nitrogen oxides (NO_x), sulphur oxides (SO_x) and respiratory suspended particles (PM).

	Air emissions (non-GHG) from the vehicle operations		
Mobile fuel source	NO_x (kg)	PM (kg)	SO_x (kg)
Gasoline and diesel	25.21	3.01	0.80

A1.2 Greenhouse Gas (GHG) Emissions

GHG emissions were generated directly from the consumption of stationary fuel (i.e. LPG), the mobile fuel (i.e. gasoline and diesel for group-owned vehicles). Indirect GHG emissions – due to the Group's activity but owned or controlled by another entity – were also generated from the consumption of purchased electricity, processing of freshwater and sewage, landfilling of waste papers, and business air travel.

There were 964.99 tonnes of carbon dioxide equivalent (CO_2eq.) GHG (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation during the Reporting Period. The overall intensity of the GHG emissions for the Group was 0.13 $tCO_2eq./m^2$. The intensity was calculated based on total floor areas instead of other measurement (e.g., headcounts), because the scope was enlarged for this Reporting Period by including manufacturing plants other than the office building.

The GHG reported included following activities and scope:

- Direct (scope 1) GHG emissions from the consumption of gasoline, diesel and LPG;
- Energy indirect (scope 2) GHG emissions from purchased electricity;
- Other indirect (scope 3) GHG emissions from business air travel, municipal freshwater and sewage processing, and paper waste disposed at landfills

Scope of GHG emissions	**Emission sources**		**GHG Emission** *(in tCO_2e)*	**Sub-total** *(in tCO_2e)*	**Total GHG emission** *(in percentage)*
Scope 1 Direct emission 1	Combustion of fuels in stationary sources	LPG	10.26	155.77	16%
	Combustion of fuels in mobile sources	Diesel	7.03		
		Petrol	138.48		
Scope 2 Energy indirect emission 2	Purchased electricity		334.60	334.60	35%
Scope 3 Other indirect emission	Paper waste disposed at landfills		1.79	474.62	49%
	Electricity used for processing fresh water by government departments/third parties		0.79		
	Electricity used for processing sewage by government departments/third parties		0.40		
	Business air travel by employees 3		471.64		
Total				964.99	100%

Note 1: Emission factors were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Combined margin emission factor of 0.63 tCO2eq./MWh and 0.4105 $tCO_2eq./MWh$ was used for purchased electricity in Guangdong Province, the PRC, and Singapore.

Note 3: Emissions were calculated using the online tool provided by International Civil Aviation Organization.

A1.3 Hazardous Waste

The Group generated a total of 1.72 tonnes of hazardous waste during the Reporting Period. The major type of hazardous waste generated at Huizhou plant was production waste containing waste oil. They were generated from manufacturing processes in Huizhou and Singapore plants. They were securely stored in designated areas on-site, and then collected by licensed waste collectors for downstream treatment.

Hazardous waste	Annual waste amount (in tonnes)	Waste treatment method
Production waste containing waste oils from Huizhou plant	0.04	Collected by licenced hazardous waste collectors for further treatment
Production waste containing waste oils from Singapore plant	1.66	
Non-production waste from Singapore plant (e.g., batteries, computer hardware, lighting waste)	0.02	

A1.4 Non-hazardous Waste

The Group generated a total of 31.19 tonnes of non-hazardous waste during the Reporting Period. Two major categories of non-hazardous waste – industrial waste and domestic waste – were generated. Sources of industrial waste were mainly scrap materials from production. Domestic waste mainly included waste papers for all operational sites and organic waste from canteen at Huizhou plant.

Non-hazardous waste	Annual waste amount (in tonnes)	Waste treatment method
Production waste (e.g., scraps) from Huizhou plant	12	Recycled by external collectors
Canteen organic waste from Huizhou plant	8	Collected by local farmers for animal feeds
Office waste from Huizhou plant and Shenzhen office	2.72	Collected by external collectors or property management office for downstream recycling and/or municipal waste treatment
Production waste (e.g., scraps and cardboard) from Singapore plant	8.47	Recycled by external collectors

A1.5 Measures to Mitigate Emissions

Direct air emissions (e.g., dust) generated on-site were mitigated via various controlling schemes such as checking and arranging regular sampling and monitoring activities, reinforcing proper maintenance for production facilities.

To reduce emissions from vehicles, employees are encouraged to use public transport and reimburse their transportation fees for business trips. When traveling using the Group's vehicles, schedule and route should be planned in advance to avoid unnecessary congestion. When a vehicle remaining idle at one place for over 10 minutes, engine must be turned off.

For indirect emissions, the largest source of GHG emissions for the Group was due to employees' business air travel, this was due to the business nature of the Group as frequent travels to the work sites are needed for services provided to clients. To reduce emissions related to business travel, the Group encourages employees to take public buses, trains, and high-speed trains. In cases of urgent business matters, or restricted by traffic conditions, employees may apply for flight, which needs further approvals from the department heads.

A1.6 Wastes Reduction and Initiatives

The Group recycled production waste to the maximum rate for resource saving, which also brings economic benefits for the Group. And on-site industrial waste generation was largely reduced by re-using production scraps during manufacturing. In Singapore plant, just-in-time philosophy was implemented as no extra raw materials were bought to keep stock, such practices extensively reduced unnecessary inventory.

The Group highly advocates paperless office. Office Automation (OA) was applied for electronic/paperless office operation, documents and information are transmitted electronically to avoid paper consumption. When printing has to be involved, paper should be printed on both sides whenever possible. In Shenzhen office and Huizhou plant, recycling bins for waste paper were provided.

A2. Use of Resources

A2.1 Energy Consumption

Total electricity consumption by the Group was 610,382 Kilowatt-hour (kWh). Due to the different nature of the business, the intensity was calculated separately for each site. And the Group achieved an overall intensity of 82.16 kWh/m^2.

Direct electricity consumption	Consumption *(kWh)*	Intensity *(kWh/m^2)*
Shenzhen office	52,908	44.12
Huizhou plant	329,354	94.10
Singapore plant	228,120	83.56
The Group total	610,382	82.16

Consumption of gasoline, diesel, and LPG were also converted to kWh unit.

Other energy source	Direct consumption	Consumption in kWh
Gasoline	51,371 (in litres)	468,232.58
Diesel	2,665 (in litres)	26,863.48
LPG	3,400 (in kg)	44,672.23
The Group total		539,768.29

Note: Conversion factors were made with reference to IEA Energy Statistics Manual and 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

A2.2 Water Consumption

The total water consumption for the Group was 1,957 m^3. Water was sourced from municipal tap-water. No issues on sourcing water were reported during the Reporting Period.

Site	Water consumption *(m^3)*	Intensity *(m^3/m^2)*
Shenzhen office	136	0.11
Huizhou plant	991	0.28
Singapore plant	830	0.30
The Group total	1,957	0.26

A2.3 Energy Use Efficiency Initiatives

The Group formulated the Environmental Protection Management Procedure to ensure the rational use of energy resources. Office air conditioning is set at 26 degrees Celsius in summer. When purchasing new equipment (e.g., air conditioners), the most energy efficient model is selected. The use of generators is avoided for manufacturing processes by scheduling production work in advance to maximally utilizing local public power supply.

A2.4 Water Use Efficiency Initiatives

The Group continuously conserves water resources. Production water was reused at the maximum rate. Auto-induction type of water faucets were installed at Shenzhen office and Huizhou plant to ensure no water was wasted. All water taps at the Singapore plant were fitted with water-saving filters.

A2.5 Packaging Material

A total amount of 5.65 tonnes of packaging materials were consumed during the Reporting Period. Wooden boxes were used to pack and deliver goods to customers. Huizhou plant has assigned a designated workshop to make and renovate wooden boxes on-site, the raw materials used to make the wooden boxes were environment-friendly composite boards. At Singapore plant, wooden pallets were reused as long as they are in good condition.

A3. The Environment and Natural Resources

A3.1 Significant Impacts of Activities on the Environment

The Group's business activities do not generate major impacts on the environment, other than minor impacts due to resource consumption, noise from production workshop, and run-off from the oilfield.

Correspondingly, the Group has formulated and implemented various controlling schemes such as installing water-saving faucets in the office; reusing and recycling water for production; setting air conditioning temperature in summer; improving equipment maintenance and management; monitoring noise level and ensuring within permissible level set by Emission Standard for Industrial Enterprises Noise at Boundary (GB 12348-2008); laying impervious membrane on the ground of oilfield to prevent oil run-off causing potential contamination to surrounding water bodies.

The Group will continuously monitor air emission, solid waste generation, wastewater discharge, and noise level to ensure the minimum impacts on the surrounding environment and to create a healthy environment for its workers. The Group did not receive any complaints from the surrounding community regarding air pollution, odor, noise, or other environmental pollution incidents during the Reporting Period.

The Group has formulated "Environmental Protection Management Procedure" to regulate the consumption of resources. The Administration department is responsible to keep track of monthly water and electricity consumption. All production and operational processes were also monitored to reduce unnecessary consumption of resources.

B. SOCIAL

1. Employment and labour practices

The Group stringently complies with national and local laws and regulations concerning employment and labour practices, including but not limited to the followings:

- Labour Law of the PRC
- Labour Contract Law of the PRC
- Regulation on Paid Annual Leave for Employees
- Provisions on the Prohibition of Using Child Labour
- Singapore Labour Law – Employment Act

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare had been identified during the Reporting Period.

B1. Employment

The Group had a total number of 340 employees as of 31 December 2018. All of them were full-time employees.

The labour contracts outline remuneration and promotion policy, compensation and dismissal policy, holiday/paid/sick/compassionate leave policies, working attendance policy, appraisal, rewarding and penalty, development and training, and occupational health and safety.

The Group continues to provide a competitive salary for employees, which includes basic salary and year-end bonus. The termination of labour contracts includes different types and categories, such as resignation, dismissal, and termination under various situations. The recruitment procedure is guided by Recruitment Process Procedure. The appraisal, promotion, and rewarding and penalty system are outlined in the labour contracts and all employees have the opportunity to be promoted, especially based on their annual performance review.

The Group ensures employees' benefits and welfare have been provided under applicable laws and regulations. Employees are entitled to paid annual leave, sick leave, marriage leave, maternity leave, paternity leave, injury leave, compensation leave and breastfeeding breaks. The Group's Chinese operations have offered annual body-check to employees. Huizhou plant has implemented an "appeal mechanism" whereas a Wechat group was formulated to facilitate timely employee feedback to the top management. Singapore plant arranged several celebration events to reflect on employees' teamwork and appreciate employee's achievements.

B2. Employee Health and Safety

The Group highly values the importance of providing a safe and accident-free working environment to employees. Personal protection equipment has been provided to all frontline staff. All fire equipment has been checked regularly by government approved licensed contractors. Fire drill has also been conducted for all operational sites.

The Group has in place the "HSE Risk Management Procedure" and "Occupational Health Management Procedure" to manage the potential occupational disease risks. The procedures require that the potential risks being fully assessed and corresponding control measures being formulated for all operation activities. For example, Singapore plant conducted risk assessments for all activities to ensure compliance with local WSH (Workplace Safety and Health) regulations.

All employees must receive adequate safety education and training. They can directly report any potential workplace hazards found to QHSE department through safety cards, and QHSE shall evaluate the problems and submit them to the responsible departments for rectification.

The Group strictly follows relevant laws and regulations such as Law of the PRC on the Prevention and Control of Occupational Diseases, and Law on Safety Production. To the best of the information and knowledge of the directors of the Group, there was no material non-compliance with the applicable laws and regulations relating to occupational health and safety which had a material impact on the Group.

Occupational Health and Safety Data during the Reporting Period

Work-related fatality	0
Lost days due to work injury	212 days
Work injury cases ≤3 days	0
Work injury cases >3 days	0

B3. Development and Training

The Group provides comprehensive career development and training to employees. Training needs are first identified through systematic evaluation such as the tailored "Post Competence Model". The human resources department then formulates corresponding training and development plans according to the training needs of post competence. The following categories of training have been carried out:

Management training (external):

- EMBA Training by China Europe International Business School

Management training (internal):

- Post grading management training
- Annual performance evaluation management training

Technical training:

- Well completion and lifting technical training (internal and external training)
- Measure While Drilling (MWD) technical training (external training)
- International Association of Drilling Contractors (IADC), well control, safety, hydrogen sulphide protection, pressure vessel operation, aerial work, electrician training (external training)

Professional training:

- Seminar on social security (external training)
- Procurement cost control training (external training)
- SolidWorks software training (external training)
- ISO45001: Training of Internal Auditors for the Occupational Health and Safety System (external training)

To ensure the training effectiveness, various methods were applied for training evaluation. Questionnaires, interviews, observations and other practical methods, combined with feedback information from multiple levels were used to evaluate the training effect. Trainees' response and evaluation of the training project were inspected. The interpersonal and behavioural changes, and performance before and after training were measured to evaluate the training effect.

During the Reporting Period, 9,500 training hours were completed for a total of 260 employees. 76% of employees received training with an average training hour of 27.9 hours for each employee.

B4. Labour Standards

Screening and background check have been performed when recruiting new employees. The Group strictly follows relevant laws and regulations such as Provisions on the Prohibition of Using Child Labour for Chinese sites, the Part VIII of the Employment Act and the Employment of Children and Young Persons Regulations for Singapore plant.

No child labour, forced, or compulsory labour was reported and/or identified within any sites of the Group during the Reporting Period. There are no major risks associated with incidents of child labor, forced or compulsory labour within the Group's operation sites.

Upon finding any suspicious cases, candidates will be rejected or the contract will be terminated immediately. The Group will consider reporting any violation to legal entities such as the Ministry of Manpower in Singapore or the Labour and Social Security Bureau in China.

2. Operating Practices

B5. Supply Chain Management

The Group signs the HSE Management Agreement with contractors to ensure they have implemented adequate management policies regarding their social and environmental impacts. The service providers shall comply with the safety and environmental protection requirements per our HSE Management Agreement. The Group will send designated personnel to supervise and monitor the providers' performance to ensure that they meet our requirements.

During the Reporting Period, a total of 288 suppliers were engaged, most of them were located in mainland China offering raw materials for production.

Region	Number of suppliers	Type of the suppliers
Mainland China	172	Raw materials, machinery and service providers;
Singapore	99	Raw materials, machinery and service standardized components providers; auxiliary materials (e.g., chemical, hydraulic oil) providers; general hardware, stationery, and general items providers
Other regions	17	Raw materials, machinery and service providers; auxiliary materials (e.g., springs, shear pins & screws) providers

B6. Product Responsibility

Product Labelling, Health and Safety, and Advertising

The Group highly regards the safety of products. Due to our business nature, many of the products follow specific product requirements set by customers. Any product labeling and advertising activities strictly follow applicable laws and regulations such as the Trademark Law of the PRC, Anti-Unfair Competition Law of the PRC. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labeling and privacy matters relating to products and services provided had been identified during the Reporting Period.

Quality Assurance

The Group formulated policies for both quality assurance and quality control and product recalls and customer complaints. These policies continue to ensure high-quality products being delivered to clients. In Huizhou plant, the Product Sampling and Measurement Procedure and the Equipment Sampling, Measuring, and Monitoring Procedure guide the product quality control processes. Processes on dealing with product recall and customer complaints follow the Control Procedure on non-compliance Product and the Control Procedure on Production and Service Provision.

Singapore plant has renewed the Quality Procedure Manual – Receiving Inspection during the Reporting Period, to strengthen the inspection and quality control on receiving materials and parts, in order to meet purchase requirements. The Quality Procedure Manual – Final Inspection/Customer Satisfaction and Feedback remains in force and continue to serve the purpose of ensuring proper inspection prior to products delivery, and efficient handling of customers' complaints with corrective actions when necessary.

Data Protection

The Group has applied information technology management rules to guide the Information Technology management, network security, and data security and to ensure the stability of the network, hardware, and software.

The Group has established and continuously improves the network and information security management system to strengthen network security. In addition, the Group adopts advanced network management technology such as by selecting state-of-the-art network tools and equipment. During the Reporting Period, no complaints about violations of customer privacy were received.

Intellectual Property

The Group extensively invests in technology advancement and prides itself on introducing innovative products and services in various oilfield service lines. Correspondingly, the Group pays great attention to protect its intellectual property (IP) rights. As at 31 December 2018, the Group was applying for four utility model patents and fifteen innovation patents. For example, a new dissolvable bridge plug has obtained innovation patent and has been applied in oilfield to enhance the Group's production.

The IP clauses set out in labour contracts continues to guide the protection of IP rights and business confidentiality of the Groups and its business partners. All employees shall protect the Group's IP rights (including but not limited to the Group's invention patents, utility model patents, design patents, registered trademarks, brand names and other trademarks, proprietary technologies, and any other intellectual achievements that are not known to the public). The research & development results of all employees shall be owned by the Group, whom can make full use of these inventions, creations, computer software, and other trade secrets within its business scope to reproduce, operate or transfer them to third parties. After an employee left the Group, he/she must obtain the Group's permission in the hope of continuing to improve the technical results of any research & development project(s) that he/she handled during the employment with the Group.

B7. Anti-corruption

The Group requires that internal employees and external partners follow ethical behaviours to conduct businesses. All parties shall also conform to the Anti-Unfair Competition Law of the PRC, Criminal Law of the PRC, and other laws, regulations and regulatory documents related to commercial bribery.

The Group's whistle-blowing policy states that all employees can be whistle-blowers and report directly to the board members upon finding any suspicious activities, either in person or by email. All information of whistle-blowers will be kept confidential.

The Group has not aided, abetted, assisted or colluded with an individual who has committed, or conspired to commit any unlawful activities. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, fraud and money laundering had been identified during the Reporting Period.

B8. Community Investment

The Group strives to implement corporate social responsibility and actively participates in public welfare activities and will consider formulating formal policies on community engagement in the near future. During the Reporting Period, the Group has actively participated in social security campaign organized by the community. Shenzhen office has engaged with the Trade Union of Yuehai Street, Nanshan District, Shenzhen for several cultural events, including supporting free movie nights and organizing autumn outing activities. Huizhou plant has also participated in tree planting activities with local communities; organized several public recruitment activities to solve local employment issues; and engaged in community fire drills and fire safety educational activities.

CORPORATE GOVERNANCE PRACTICES

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

The Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**Code Provision(s)**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). During the reporting period, the Company has compiled with the Code Provisions, save for the deviation discussed below.

Pursuant to Code Provision A.6.7, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Xin Junhe and Mr. Tong Hin Wor, being independent non-executive Directors, and Ms. Ma Hua, being a non-executive Director, could not attend the annual general meeting of the Company held on 28 June 2018 because of their respective other business commitments; aiming for compliance with this Code Provision, the Company will continue to furnish all Directors with appropriate information on all general meetings and take all reasonable measures to arrange the schedule in such a cautious way to enable all Directors to attend the general meetings as far as possible.

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 was due to additional time required to finalise the annual results for year ended 31 December 2017 and has constituted non-compliance with Rules 13.46(2)(a), 13.49(1) and 13.49(2) of the Listing Rules. The Company had published its annual results announcement and annual report for the financial year ended 31 December 2017 on 10 May 2018 and 24 May 2018, respectively.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has 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 its 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 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

(i) On 31 January 2019, the Group entered into a sales and purchase agreement with a third party in relation to the purchase of a unit of hydraulic fracturing truck at a consideration of RMB7,500,000 (equivalent to approximately HK$8,776,000). Further details of this purchase were disclosed in the Company's announcement dated 31 January 2019.

(ii) On 20 March 2019, the Group has entered into a loan agreement with a third party to borrow HK$20,000,000 (the "**Equipment Loan**") for a term up to 30 June 2020. The loan will be secured by certain equipment of the Group and bears interest at 10% per annum. Such loan has not yet been drawn down as of the date of this report.

(iii) On 21 March 2019, the Group has agreed in writing with all the bondholders of the Group's 2018 Convertible Bonds with a total principal amount of HK$30,000,000 to redeem such bonds in full and at the same time, the Group issued new convertible bonds, expiring on 23 May 2021, with a total principal amount of HK$30,000,000 to the same bondholders. Further details of this transaction were disclosed in the Company's announcement dated 21 March 2019.

(iv) On 25 March 2019, the Group has entered into a loan agreement to borrow HK$20,000,000 from a shareholder (the "**Shareholder Loan**") for a term of 18 months from the date of drawdown. Such loan is unsecured and bears interest at 10% per annum. The Group had drawn down the entire amount as of the date of this report.

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, 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 oversees 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 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 2018, the Board has held board meetings regularly for at least four times at approximately quarterly intervals. The matters covered in the board meetings include, among others, the approval of the final results of the Group for the year ended 31 December 2017, the approval of the interim results of the Group for the six months ended 30 June 2018, and the review and discussion of financial performance of the Group.

Details of the attendance of the Directors in the board meetings, board committee meetings and general meetings held during 2018 are as follows:

	Meetings attended/Meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Sanction Oversight Committee	2018 Annual General Meeting
Executive Directors						
Wang Jinlong	13/13	–	2/2	1/1	2/2	1/1
Zhao Jindong	13/13	–	–	–	–	1/1
Ko Po Ming (Resigned on 31 March 2018)	4/4	–	–	–	–	N/A
Non-executive Directors						
Lee Tommy	13/13	–	2/2	1/1	–	1/1
Ma Hua	13/13	–	–	–	–	0/1
Independent non-executive Directors						
Tong Hin Wor	13/13	3/3	2/2	1/1	–	0/1
Xin Junhe	13/13	3/3	2/2	1/1	2/2	0/1
Leung Lin Cheong	13/13	3/3	2/2	1/1	2/2	1/1

TERM OF OFFICE FOR NON-EXECUTIVE DIRECTORS

The initial term of office for each of the non-executive Directors (including independent non-executive Directors) is three years, subject to retirement and re-election at an annual general meeting pursuant to the articles of association of the Company.

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 Code Provisions. 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 2018, three meetings of the Audit Committee were held on 31 March 2018, 10 May 2018 and 9 August 2018 to review and consider, among others, the financial statements of the Company for the year ended 31 December 2017 and for the six months ended 30 June 2018, 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 2018.

Remuneration Committee

The Remuneration Committee was established on 18 February 2013 with written terms of reference in compliance with the Code Provisions. The primary duties of the Remuneration Committee are to review and determine the policy and the terms of remuneration packages, bonuses and other compensations payable to the Directors and senior management of the Group, to assess the performance of executive directors and to 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 2018, two meetings of the Remuneration Committee was held on 10 May 2018 and 31 July 2018 to discuss, among others, the level of salaries of each of the executive Directors, non-executive Directors, independent non-executive Directors and the senior management of the Company, and to consider and recommend to the Board 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), 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, the emolument of the members of the senior management (excluding the Directors) paid by the Group by band for the year ended 31 December 2018 is set out below:

Emolument band	Number of individuals
HK$1,000,001 – HK$2,000,000	3
HK$2,000,001 – HK$3,000,000	1

Further particulars regarding Directors' and chief executive's emoluments and the five highest paid employees are set out in note 25 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 Code Provisions. 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 2018, one meeting of the Nomination Committee was held on 10 May 2018 to review the structure, size and composition (including the skills, knowledge and experience) of the Board, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to assess the independence of independent non-executive Directors, to discuss the re-election of Directors in the annual general meeting according to the articles of association of the Company. All members of the Nomination Committee attended the meeting.

Pursuant to Code Provision A.5.6, 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. 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 2018, two meetings of the Sanction Committee were held on 10 May 2018 and 9 August 2018 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 services for the year ended 31 December 2018 amounted to HK$3,800,000. No non-audit services were rendered by the external auditors during the year.

THE COMPANY SECRETARY

The Company engaged an external service provider, Mr. Tung Tat Chiu, Michael as its company secretary. Mr. Chan Kwok Yuen Elvis, our Chief Financial Officer, is the key contact person with whom Mr. Tung can contact. For the year ended 31 December 2018, 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 ended 31 December 2018, the Group has complied with the principle of Code Provision C.2 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 2018, 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 2018, no significant control deficiency was identified.

Internal auditors

The Company currently does not have an internal audit function. During the year ended 31 December 2018, 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 2018 to 31 December 2018. 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 Suite 1603A, 16/F, Tower 1, 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. Proposals 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 of the Company (http://www.petro-king.cn). There are no significant changes in the Company's constitutional documents during the year ended 31 December 2018.

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 2018, 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 53, 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, the roles of chairman and the CEO should be separate and should not be performed by the same individual. Mr. Wang was performing both the roles of chairman and 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 55, 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 42, 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 a 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 43, 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 62, 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 73, 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 65, 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 55, 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 specialising in oil drilling engineering.

Ms. Sun Jinxia (孫金霞) ("Ms. Sun"), aged 44, 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. Chan Kwok Yuen Elvis (陳國源) ("Mr. Chan"), aged 46, is our Chief Financial Officer. He joined the Group in July 2018 and is responsible for the accounting, financial, and investor relation affairs of the Group. He has over 22 years of experience in the field of accounting and finance. Mr.Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a Chartered Financial Analyst of the CFA Institute and a member of the Hong Kong Society of Financial Analysts. Mr. Chan obtained a bachelor's degree in commerce from Queen's University in Canada in 1995 and a master of science degree in corporate governance and directorship from the Hong Kong Baptist University in 2013.

Mr. Huang Yu (黄瑜) ("Mr. Huang"), aged 55, is our Vice President, mainly responsible for the market development, large-scale project operation management and financing management. He joined the Group in December 2018. Mr. Huang has over 30 years of experience in the oilfield services industry. Mr. Huang graduated from Southwest Petroleum University in July 1989 with a master's degree and obtained an Executive Master of Business Administration degree from the School of Economics and Management, Tsinghua University in 2011. Mr. Huang holds the professional tittle of senior engineer in petroleum engineering and professor-level senior economist, and has accumulated rich experience in international cooperation in the oil and gas fields. Before joining the Group, Mr. Huang served as the chief executive officer of Polytec Resources Ltd. from December 2007 to December 2013. Mr. Huang acted as the vice president and chief economist of China's Oil and Gas Exploration and Development Company ("**CNODC**") from June 1999 to July 2007, and was responsible for company planning, business development and mergers and acquisitions business. From January 1997 to May 1999, Mr. Huang worked as the chief economist in CNPC Sudan 1/2/4 District Projects of CNPC International (Nile) Ltd.. From July 1989 to December 1996, Mr. Huang worked in Zhongyuan Oilfield and served as senior reservoir engineer of the Development Research Institute of Zhongyuan Petroleum Exploration Bureau and the director of the International Cooperation Department of Zhongyuan Petroleum Exploration Bureau.

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗) ("Mr. Tung"), aged 56, 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) and Mega Expo Holdings Limited (stock code: 1360), 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. Chan Kwok Yuen Elvis (**陳國源**), 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. Lee Tommy (李銘浚)
Ms. Ma Hua (馬華)
Mr. Ko Po Ming (高寶明)
(Resigned on 31 March 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Lin Cheong (梁年昌)
Mr. Tong Hin Wor (湯顯和)
Mr. Xin Junhe (辛俊和)

AUDIT COMMITTEE

Mr. Leung Lin Cheong (梁年昌) (Chairman)
Mr. Tong Hin Wor (湯顯和)
Mr. Xin Junhe (辛俊和)

REMUNERATION COMMITTEE

Mr. Xin Junhe (辛俊和) (Chairman)
Mr. Tong Hin Wor (湯顯和)
Mr. Leung Lin Cheong (梁年昌)
Mr. Wang Jinlong (王金龍)
Mr. Lee Tommy (李銘浚)

NOMINATION COMMITTEE

Mr. Wang Jinlong (王金龍) (Chairman)
Mr. Lee Tommy (李銘浚)
Mr. Xin Junhe (辛俊和)
Mr. Tong Hin Wor (湯顯和)
Mr. Leung Lin Cheong (梁年昌)

SANCTION OVERSIGHT COMMITTEE

Mr. Leung Lin Cheong (梁年昌) (Chairman)
Mr. Wang Jinlong (王金龍)
Mr. Xin Junhe (辛俊和)

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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Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Nanshan District
Shenzhen
Guangdong
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

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P.O. Box 3140
Road Town, Tortola
British Virgin Islands
VG1110

HONG KONG SHARE REGISTRAR

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Wanchai
Hong Kong

PRINCIPAL BANKERS

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Hong Kong

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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

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 2018.

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 35 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 6 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 2018 are set out in the consolidated statement of comprehensive income on pages 71 to 72.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2018. No dividends were declared or paid in respect of the year ended 31 December 2018.

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.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2018 are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 16 to the consolidated financial statements.

USE OF PROCEEDS FROM ISSUE OF CONVERTIBLE BONDS

On 24 May 2018, the Company has completed the issue of convertible bonds to Asian Equity Special Opportunities Portfolio Master Fund Limited and Ms. Ng Man Chi in the principal amount of HK$17,000,000 and HK$13,000,000, respectively. These convertible bonds were convertible into shares of the Company at an initial conversion price of HK$0.47 per conversion share. Further details of these convertible bonds were disclosed in the Company's announcements dated 10 May 2018 and 24 May 2018.

The aggregate net proceeds from the issue of these convertible bonds were approximately HK$29,500,000 and have been fully used by the Group for general working capital purpose.

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 2018, 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 2018, 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 70.9% of the Group's total revenue. The amount of revenue to the Group's largest customer represented approximately 33.6% of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 38.0% of the Group's total purchases. The amount of purchases to the Group's largest supplier represented approximately 14.5% 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
Mr. Ko Po Ming *(resigned on 31 March 2018)*

Independent Non-executive Directors:

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

Mr. Wang Jinlong, Mr. Zhao Jindong and Mr. Lee Tommy will retire at the forthcoming annual general meeting of the Company (the "**AGM**") in accordance with Article 75 of the Company's articles of association and, being eligible, will offer themselves for re-election.

The Company has received annual confirmation of independence pursuant to Rule 3.13 of 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 2018, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

Our Company

Name of Director	**Capacity/ Nature of interest**	**Number of shares** *(Note 1)*	**Approximate percentage of interest in the Company**
Mr. Wang Jinlong	Interest in a controlled corporation *(Note 2)*	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. Zhao Jindong	Beneficial owner *(Notes 4 and 5)*	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 6)*	26,006,000 (L)	1.51%

Notes:

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

2. Mr. Wang Jinlong 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 Jinlong is taken to be interested in the number of shares of the Company 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 of the Company that they are entitled to subscribe for subject to the exercise of the share options granted.

5. 2,500,000 share options were conditionally granted to Mr. Zhao Jindong on 29 May 2015 and became unconditional on 7 September 2015 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 further 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 of the Company that he is entitled to subscribe for subject to the exercise of the share options granted.

6. 17,000,000 share options were granted to Mr. Zeng Weizhong on 1 December 2016. 3,000,000 share options were further granted to Mr. Zeng Weizhong on 28 June 2018. Therefore under Part XV of the SFO, Mr. Zeng Weizhong is taken to be interested in the underlying shares of the Company 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 2018, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons (other than a Director or chief executive of our Company) had an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interest	Number of Shares interested *(Note 1)*	Approximate percentage of the issued share capital of the Company
Mr. Lee Lap	Founder of a discretionary trust *(Note 2)* Interest in a controlled corporation *(Note 8)*	337,269,760 (L) 488,920,138 (L)	19.53% 28.32%
aEasy Finance Holdings Limited	Interest in a controlled corporation *(Note 8)*	488,920,138 (L)	28.32%
Zero Finance Group Holdings Limited	Interest in a controlled corporation *(Note 8)*	488,920,138 (L)	28.32%
Earth Axis Investment Limited	Interest in a controlled corporation *(Note 8)*	488,920,138 (L)	28.32%
aEasy Credit Investment Limited	Interest in a controlled corporation *(Note 8)*	488,920,138 (L)	28.32%
Zero Finance Hong Kong Limited ("**Zero Finance**")	Person having a security interest *(Note 8)*	488,920,138 (L)	28.32%
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)* Interest in a controlled corporation *(Note 2)*	335,737,745 (L) 1,532,015 (L)	19.44% 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) 670,857 (S)	0.05% 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 Investment Limited. Therefore, TCL Corporation, TCL HK, Exceltop Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of shares of the Company held by Jade Win Investment Limited pursuant to Part XV of the SFO.

4. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the shares of the Company 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 21 November 2017.

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.

8. On 26 April 2018, King Shine has charged the Shares held by it to Zero Finance. Zero Finance is wholly-owned by aEasy Credit Investment Limited, which is wholly-owned by Earth Axis Investment Limited, which is wholly-owned by Zero Finance Group Holdings Limited, which is wholly-owned by aEasy Finance Holdings Limited, which is wholly-owned by Mr. Lee Lap. Therefore, Mr. Lee Lap, aEasy Finance Holdings Limited, Zero Finance Group Holdings Limited, Earth Axis Investment Limited and aEasy Credit Investment Limited are taken to be interested in the number of Shares in which Zero Finance is interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2018, 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 2018, (i) Mr. Wang Jinlong and Mr. Zhao Jindong are directors of King Shine, and (ii) Mr. Lee Tommy is a director of aEasy Finance Holdings Limited, Zero Finance Group Holdings Limited, Earth Axis Investment Limited, aEasy Credit Investment Limited and Zero Finance, companies which have 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 financial year ended 31 December 2018, a total of 8,000,000 share options have been granted to the CEO, Mr. Zeng Weizhong, and a senior management of the Company on 28 June 2018 and 16 August 2018 respectively under the Share Option Scheme. Set out below are details of the movements of share options during the financial year ended 31 December 2018:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2018	Options granted since 1 January 2018	Options exercised since 1 January 2018	Options lapsed/ cancelled since 1 January 2018	Options outstanding as at 31 December 2018
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 (resigned on 31 March 2018)	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	–	109,481 *(Note 4)*	–
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
Tong Hin Wor	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Zeng Weizhong	1 December 2016	0.530	0.530	17,000,000	–	– *(Note 5)*	–	17,000,000
	28 June 2018	0.381	0.350	–	3,000,000	– *(Note 6)*	–	3,000,000
Employees and senior managements	29 April 2014	2.3803 *(adjusted)*	2.44	14,780,132	–	– *(Note 1)*	10,291,353	4,488,779
	29 May 2015	1.2132 *(adjusted)*	1.28	42,968,463	–	– *(Note 2)*	10,715,328	32,253,135
	26 October 2016	0.529	0.520	52,200,000	–	– *(Note 3)*	12,340,000	39,860,000
	16 August 2018	0.326	0.32	–	5,000,000	– *(Note 7)*	–	5,000,000
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				136,500,948	8,000,000	–	33,456,162	111,044,786

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 have been 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 October 2023, 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 26 October 2018 to 25 October 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 October 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 October 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 October 2023, both dates inclusive.

4. Mr. Ko Po Ming has resigned as a non-executive director of the Company with effect from 31 March 2018. Thus, as at 30 June 2018, all his 109,481 share options have been lapsed in accordance with the terms of the scheme.

5. 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 have been 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.

6. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 28 June 2019 to 27 June 2025, 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 28 June 2020 to 27 June 2025, 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 28 June 2021 to 27 June 2025, 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 28 June 2022 to 27 June 2025, 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 28 June 2023 to 27 June 2025, both dates inclusive.

7. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 16 August 2019 to 15 August 2025, 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 16 August 2020 to 15 August 2025, 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 16 August 2021 to 15 August 2025, 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 16 August 2022 to 15 August 2025, 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 16 August 2023 to 15 August 2025, both dates inclusive.

(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 123,473,129 shares, being 10% of the total number of Shares in issue as at the date of passing the resolution approving the refreshment of the scheme mandate limit of the Share Options Scheme and approximately 7.15% 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 2018, 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 2018.

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 2018.

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 2018.

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 2018.

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 31 to 40.

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 30.

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 2018.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. There has been no change of auditor in the last three years.

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

Hong Kong, 27 March 2019

* *For identification purpose only*

羅兵咸永道

To the Shareholders of Petro-king Oilfield Services Limited
(incorporated in the British Virgin Islands 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 69 to 184, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of 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.

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$623,070,000 and operating cash outflow of approximately HK$17,000,000 during the year ended 31 December 2018. As at the same date, the Group had borrowings of approximately HK$72,248,000 that are due within twelve months from the date of the consolidated statement of financial position. In addition, the Group did not comply with one of the financial covenant requirements of a bank borrowing with carrying amount of approximately HK$33,819,000 as at 31 December 2018. On 27 March 2019, the Group agreed with the relevant bank to early repay the entire outstanding amount by several instalments from 28 March 2019 to 30 September 2019. These conditions, along with other matters as described in Note 2.1.1 to the consolidated financial statements, indicate 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

- 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 2018, the carrying amounts of the property, plant and equipment and goodwill of oilfield project tools and services were approximately HK$287,667,000 and HK$209,732,000, respectively, before the provision for impairment of the property, plant and equipment and goodwill. Management performed impairment review in respect of these non-financial assets of 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, an impairment charge of HK$209,732,000 was recognised against goodwill of oilfield project tools and services for the year ended 31 December 2018. We focused on this area due to the size of the property, plant and equipment and goodwill of 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; – 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)
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 2018, the Group had gross trade receivables of approximately HK$420,559,000 and provision for doubtful receivables of approximately HK$214,602,000. 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 and 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$214,602,000 as at 31 December 2018. 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 2018 and the corresponding post year-end settlements, on a sample basis, to underlying financial records; – Assessing the appropriateness of the expected credit loss provisioning methodology; – Challenging the information used to determine the expected credit losses by considering the cash collection performance against historical trends, the level of credit loss charges and the reasonableness of forward-looking information; and – Discussing with management the recoverability of individually significant receivables, corroborating management explanation by checking to the status of underlying projects and information about contracted parties and subsequent settlement, if any. 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 of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 the directors 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 the directors, 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, 27 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**384,354**	501,271
Intangible assets	*7*	**95,485**	306,634
Land use rights	*8*	**9,731**	10,452
Financial asset at fair value through profit or loss	*9*	**5,184**	–
Available-for-sale financial asset	*9*	**–**	5,184
Other receivables and deposits	*12(b)*	**38,824**	39,230
Deferred tax assets	*20*	**2,193**	3,724
		535,771	866,495
Current assets			
Inventories	*11*	**80,951**	121,000
Trade receivables	*12(a)*	**205,957**	407,331
Contract assets	*15*	**7,059**	–
Other receivables and deposits	*12(b)*	**79,442**	100,078
Prepayments	*12(b)*	**23,700**	11,771
Pledged bank deposits	*13*	**11,702**	8,457
Cash and cash equivalents	*14*	**39,315**	24,708
		448,126	673,345
Total assets		**983,897**	1,539,840
EQUITY AND LIABILITIES			
Equity			
Share capital	*16*	**2,001,073**	2,001,073
Other reserves	*17*	**34,872**	83,308
Accumulated losses		**(1,573,284)**	(962,556)
		462,661	1,121,825
Non-controlling interests		**959**	1,960
Total equity		**463,620**	1,123,785

		As at 31 December	
	Note	**2018**	2017
		HK$'000	HK$'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*19*	**216,460**	47,305
Deferred tax liabilities	*20*	**230**	1,025
		216,690	48,330
Current liabilities			
Trade payables	*18(a)*	**127,803**	119,578
Other payables and accruals	*18(b)*	**95,087**	83,746
Contract liabilities	*15*	**8,449**	–
Bank and other borrowings	*19*	**72,248**	164,401
		303,587	367,725
Total liabilities		**520,277**	416,055
Total equity and liabilities		**983,897**	1,539,840

The notes on pages 76 to 184 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 69 to 184 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Mr. Wang JinLong
Director

Mr. Zhao JinDong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Revenue	5	**258,932**	287,848
Other income	21	**1,685**	2,012
Operating costs			
Material costs	11	**(110,029)**	(128,740)
Depreciation of property, plant and equipment	6	**(72,220)**	(80,778)
Amortisation of intangible assets and land use rights	7,8	**(887)**	(1,662)
Operating lease rental		**(6,413)**	(6,849)
Employee benefit expenses	22	**(101,363)**	(105,058)
Distribution expenses		**(4,088)**	(5,118)
Technical service fees		**(18,117)**	(13,209)
Research and development expenses		**(13,198)**	(15,396)
Entertainment and marketing expenses		**(10,440)**	(7,790)
Other expenses	23	**(44,928)**	(35,026)
Net impairment loss on financial assets	12	**(160,023)**	–
Provision for impairment of trade and other receivables, net	12	**–**	(3,072)
Provision for inventories losses	11	**–**	(21,126)
Write-off of inventories	11	**(56,230)**	–
Provision for impairment of goodwill	7	**(209,732)**	–
Write-off of property, plant and equipment	6	**(62,097)**	(313)
Other gains/(losses), net	24	**6,467**	(4,055)
Operating loss		**(602,681)**	(138,332)
Finance income	27	**93**	82
Finance costs	27	**(20,564)**	(44,593)
Finance costs, net		**(20,471)**	(44,511)
Loss before income tax		**(623,152)**	(182,843)
Income tax (expense)/credit	28	**(919)**	1,701
Loss for the year		**(624,071)**	(181,142)
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss:			
Change in fair value of an available-for-sale financial asset	9	**–**	(2,237)
Exchange differences on translation of foreign operations	17	**(33,864)**	58,946
Other comprehensive (loss)/income for the year, net of tax		**(33,864)**	56,709
Total comprehensive loss for the year		**(657,935)**	(124,433)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018 HK$'000	 2017 HK$'000
Loss for the year attributable to:			
Owners of the Company		**(623,070)**	(180,262)
Non-controlling interests		**(1,001)**	(880)
		(624,071)	(181,142)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(656,934)**	(123,553)
Non-controlling interests		**(1,001)**	(880)
		(657,935)	(124,433)
Loss per share attributable to owners of the Company during the year	*29*		
Basic loss per share (HK cents)		**(36)**	(10)
Diluted loss per share (HK cents)		**(36)**	(10)

The notes on pages 76 to 184 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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2018 as originally presented	**2,001,073**	**83,308**	**(962,556)**	**1,121,825**	**1,960**	**1,123,785**
– Change in accounting policies *(Note 2.2)*	–	2,237	(16,120)	(13,883)	–	(13,883)
Restated total equity as at 1 January 2018	**2,001,073**	**85,545**	**(978,676)**	**1,107,942**	**1,960**	**1,109,902**
Comprehensive loss						
Loss for the year	–	–	(623,070)	(623,070)	(1,001)	(624,071)
Other comprehensive loss						
Currency translation differences	–	(33,864)	–	(33,864)	–	(33,864)
Total comprehensive loss for the year	**–**	**(33,864)**	**(623,070)**	**(656,934)**	**(1,001)**	**(657,935)**
Transactions with owners in their capacity as owners						
Maturity of convertible bonds	–	(28,462)	28,462	–	–	–
Issuance of convertible bonds *(Note 19(d))*	–	3,715	–	3,715	–	3,715
Recognition of share-based payment	–	7,938	–	7,938	–	7,938
Total transactions with owners, recognised directly in equity	**–**	**(16,809)**	**28,462**	**11,653**	**–**	**11,653**
Balance at 31 December 2018	**2,001,073**	**34,872**	**(1,573,284)**	**462,661**	**959**	**463,620**

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
	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 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

The notes on pages 76 to 184 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash used in operations	*31(a)*	**(10,147)**	(26,399)
Interest paid		**(6,676)**	(1,238)
Income tax paid		**(177)**	(2,783)
Net cash used in operating activities		**(17,000)**	(30,420)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(34,605)**	(23,318)
Proceeds from sales of asset classified as held for sale		**–**	6,835
Refund of prepayment for land use right		**–**	5,851
Proceeds from disposal of property, plant and equipment	*31(b)*	**1,042**	24,750
Proceeds from sales of machines classified as held for sale		**–**	7,063
Interest received	*27*	**93**	82
Increase in pledged bank deposits		**(3,650)**	(3,792)
Net cash (used in)/generated from investing activities		**(37,120)**	17,471
Cash flows from financing activities			
Proceeds from bank and other borrowings – term loan		**140,000**	–
Proceeds from bank and other borrowings – shareholder loan		**40,000**	–
Proceeds from bank and other borrowings, others		**29,277**	17,786
Repayments of bank and other borrowings, others		**(11,151)**	(9,802)
Repayments of bank and other borrowings – shareholder loan		**(40,000)**	–
Repayments of bank and other borrowings – bondholders loans		**(11,000)**	–
Repayments of finance lease liabilities		**(3,092)**	(5,934)
Repayments of convertible bonds issued in 2014 ("2014 Convertible Bonds")	*19(d)*	**(99,570)**	(7,851)
Proceeds from issuance of convertible bonds issued in 2018 ("2018 Convertible Bonds")	*19(d)*	**30,000**	–
Repayments of 2018 Convertible Bonds		**(1,247)**	–
Transaction costs of 2018 Convertible Bonds	*19(d)*	**(500)**	–
Net repayments to related parties		**(2,790)**	(182)
Net cash generated from/(used in) financing activities		**69,927**	(5,983)
Net increase/(decrease) in cash and cash equivalents		**15,807**	(18,932)
Cash and cash equivalents at beginning of year		**24,708**	44,927
Exchange loss on cash and cash equivalents		**(1,200)**	(1,287)
Cash and cash equivalents at end of year	*14*	**39,315**	24,708

The notes on pages 76 to 184 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Petro-king Oilfield Services Limited (the "**Company**") was incorporated in the 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 services covering various stages in the life cycle of oilfields including drilling, well completion and production enhancement as well as trading and manufacturing of oilfield related products.

The Company has its primary listing on the 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 financial asset at fair value through profit or loss, 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

During the year ended 31 December 2018, the Group reported a net loss attributable to owners of the Company of approximately HK$623,070,000 and operating cash outflow of approximately HK$17,000,000. As at the same date, the Group's total borrowings amounted to HK$288,708,000, including current borrowings of HK$72,248,000, while its cash and cash equivalents amounted to HK$39,315,000 only.

The Group did not comply with one of the financial covenant requirements of a bank borrowing with carrying amount of approximately HK$33,819,000 as at 31 December 2018. On 27 March 2019, the Group agreed with the relevant bank to early repay the entire outstanding amount by several instalments from 28 March 2019 to 30 September 2019 and the relevant bank agreed to waive the relevant financial covenant requirement.

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 (the "**Directors**") 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 20 March 2019, the Group has entered into a loan agreement with a third party to borrow HK$20,000,000 ("**Equipment Loan**") for a term up to 30 June 2020. The loan will be secured by certain equipment of the Group and bears interest at 10% per annum. Such loan has not yet been drawn down as of the date of this report;

(ii) On 21 March 2019, the Group has agreed in writing with all the bondholders of the Group's 2018 Convertible Bonds with a total principal amount of HK$30,000,000 to redeem such bonds in full and at the same time, the Group issued new convertible bonds, expiring on 23 May 2021, with a total principal amount of HK$30,000,000 to the same bondholders;

(iii) On 25 March 2019, the Group has entered into a loan agreement to borrow HK$20,000,000 from a shareholder (the "**Shareholder Loan**") for a term of 18 months from the date of drawdown. Such loan is unsecured and bears interest at 10% per annum. The Group had drawn down the entire amount as of the date of the report;

(iv) The Group continues its efforts to implement measures to strengthen its working capital position by expediting collection of outstanding trade receivables and had agreed with certain customers on the repayment plan for the outstanding trade receivables during the year;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

(v) The Group continues its efforts to implement measures to generating cash from new sales or service contracts, and to further control capital and operating expenditures to strengthen its working capital; and

(vi) The Group is actively looking for additional sources of financing to enhance its financial position and support the plans to expand its operations.

The Directors have reviewed the Group's cash flow projections prepared by management, which cover a period of twelve months from 31 December 2018. 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 2018. 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 draw down of the Equipment Loan as and when needed;

(ii) successful implementation of measures to accelerate the collection of outstanding trade receivables and the other financial assets at amortised cost and successful collection of the trade receivables according to the relevant agreed repayment plan;

(iii) successful implementation of the measures to improve sales, control costs, contain capital expenditures so as to strengthen its working capital position;

(iv) on-going compliance with the covenants of the Group's bank and other borrowings to ensure these borrowings would not become payable prior to their respective original maturity dates; and

(v) successful raising of additional new sources of financing as and when needed.

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 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

IAS 40 (Amendment)	Transfers of Investment Property
IFRS 2 (Amendment)	Classification and Measurement of Share-Based Payment Transactions
IFRS 4 (Amendment)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendment)	Clarifications to IFRS 15
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements Project (Amendment)	Annual Improvements 2014 – 2016 Cycle

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15 which are disclosed in Note 2.2. The adoption of other new and amended standards did not have any material impact on the current period or any prior period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.3 New and amended standards and interpretations not yet adopted by the Group

The following new and amended standards and new interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group.

		Effective for accounting year beginning on or after
IAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 9 (Amendment)	Prepayment Features with Negative Compensation	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 or Joint Venture	To be determined
IFRIC-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements Project (Amendment)	Annual Improvements 2015 – 2017 Cycle	1 January 2019
IAS 1 and IAS 8 (Amendment)	Definition of Material	1 January 2020
IFRS 3 (Amendment)	Definition of Business	1 January 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.3 New and amended standards and interpretations not yet adopted by the Group (Continued)

The Group will adopt the new and amended standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new and amended standards and new interpretations, none of which is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 16 "Leases"

Impact

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$15,964,000 (Note 33). Of these commitments, approximately HK$4,081,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon the application of IFRS 16, the Group will result in increase in a right-of-use asset and corresponding liability of approximately HK$6,604,000 in respect of all these leases in the Group's consolidated statements of financial position unless they qualify for low value or short-term leases. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The Directors expected that, such changes would increase the consolidated asset and liabilities of the Group, but would not result in a significant impact to the consolidated statements of comprehensive income. Operating cash flows will increase and financing cash flows will decrease by approximately HK$810,000 in 2019 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on the adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures

This note explains the impact of the adoption of IFRS 9 and IFRS 15 on the Group's consolidated financial statements.

(a) Impact on financial information

IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening of the consolidated statement of financial position on 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Impact on financial information (Continued)

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 December 2017 As originally presented HK$'000	IFRS 9 HK$'000	IFRS 15 HK$'000	**1 January 2018 Restated HK$'000**
Non-current assets				
Financial asset at fair value through profit or loss ("**FVTPL**")	–	5,184	–	**5,184**
Available-for-sale financial asset ("**AFS**")	5,184	(5,184)	–	**–**
	5,184	–	–	**5,184**
Current assets				
Trade receivables	407,331	(12,503)	–	**394,828**
Contract assets	–	–	274	**274**
Other receivables, deposits and prepayments	111,849	(1,654)	–	**110,195**
	519,180	(14,157)	274	**505,297**
Contract liabilities				
Other payables and accruals	3,733	–	(3,733)	**–**
Contract liabilities	–	–	3,733	**3,733**
	3,733	–	–	**3,733**
Equity				
Other reserves	83,308	2,237	–	**85,545**
Accumulated losses	(962,556)	(16,394)	274	**(978,676)**
	(879,248)	(14,157)	274	**(893,131)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in Note 2.12 below.

The total impact on the Group's accumulated losses as at 1 January 2018 is as follows:

	Note	**Audited** HK$'000
Closing accumulated losses as at 31 December 2017 – IAS 39/IAS 18		(962,556)
Reclassification of financial asset	*(i)*	(2,237)
Increase in provision for impairment on trade and other receivables	*(ii)*	(14,157)
Opening accumulated losses as at 1 January 2018 – IFRS 9 (before restatement for IFRS 15)		**(978,950)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) IFRS 9 "Financial Instruments" (Continued)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Measurement Category under IAS 39	Measurement Category under IFRS 9
Financial assets		
Trade receivables	Amortised cost	Amortised cost
Other receivables and deposits	Amortised cost	Amortised cost
Pledged bank deposits	Amortised cost	Amortised cost
Cash and cash equivalents	Amortised cost	Amortised cost
Available-for-sale financial asset ("**AFS**")/Financial assets at fair value through profit or loss ("**FVTPL**")	Fair value through other comprehensive income	Fair value through profit or loss
Financial liabilities		
Trade payables	Amortised cost	Amortised cost
Other payables and accruals	Amortised cost	Amortised cost
Bank and other borrowings	Amortised cost	Amortised cost

	Audited	
	FVTPL	**AFS**
	HK$'000	HK$'000
Closing balance as at 31 December 2017 – IAS 39	–	5,184
Reclassify non-trading equities from AFS to FVTPL	5,184	(5,184)
Opening balance as at 1 January 2018 – IFRS 9	**5,184**	**–**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) IFRS 9 "Financial Instruments" (Continued)

(i) Classification and measurement (Continued)

The impact of change on the Group's equity is as follows:

	Audited	
	Effect on AFS reserve HK$'000	Effect on accumulated loss HK$'000
Closing balance as at 31 December 2017 – IAS 39	(2,237)	–
Reclassify non-trading equities from AFS to FVTPL	2,237	(2,237)
Opening balance as at 1 January 2018 – IFRS 9	**–**	**(2,237)**

The Group elected to present in consolidated statement of comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale. As a result, assets with a fair value of HK$5,184,000 were reclassified from available-for-sale financial asset to financial asset at FVTPL and fair value losses of HK$2,237,000 were reclassified from the AFS reserve to the accumulated losses on 1 January 2018.

(ii) Impairment of financial assets

The Group has five types of assets subject to IFRS 9's new expected credit loss model:

- trade receivables;
- contract assets;
- other receivables and deposits;
- cash and cash equivalents; and
- pledged bank deposits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) IFRS 9 "Financial Instruments" (Continued)

(ii) Impairment of financial assets (Continued)

While cash and cash equivalents and pledged bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For other receivables and deposits, the Group applied the expected credit loss model resulted in the recognition of a loss allowance of HK$1,654,000 on 1 January 2018.

For trade receivables and contract assets without financing components, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected losses for all trade receivables and contract assets. For trade receivables with financing component, the Group choose to recognise lifetime expected losses or assets if there is any significant increase in credit risk over the life of instrument. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables. The details of the expected credit losses of the trade receivables are set out in Note 3.1(b).

The loss allowances for trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Audited Trade receivables and contract assets HK$'000
At 31 December 2017 – calculated under ISA 39	152,867
Amount restated through opening accumulated losses	12,503
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	**165,370**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(c) IFRS 15 "Revenue from Contracts with Customer"

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As such, comparatives for the 2017 financial year would not be restated but contracts which have remaining obligations as of the effective date will enter an adjustment to the opening balance of the accumulated losses as at 31 December 2017. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under IFRS 15.

In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application on 1 January 2018.

	Audited	
	Contract liabilities HK$'000	**Receipt in advance** HK$'000
Consolidated statement of financial position (extract)		
Closing balance as at 31 December 2017	–	3,733
Reclassify receipt in advance to contract liabilities	3,733	(3,733)
Opening balance as at 1 January 2018	**3,733**	**–**

The impact of change on the Group's equity is as follows:

	Audited HK$'000
Opening accumulated losses as at 1 January 2018 – after IFRS 9 restatement (Note 2.2(b))	**(978,950)**
Recognition of contract assets for services rendered	**274**
Opening accumulated losses as at 1 January 2018 – after IFRS 9 and IFRS 15	**(978,676)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation

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.

2.4 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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.

2.5 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 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.

The 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.

2.7 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(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.

2.8 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Property, plant and equipment (Continued)

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 2.11).

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

2.9 Intangible assets

(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 operating 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 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.

2.11 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.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "other gains/(losses), net". Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses and impairment expenses are presented in "other gains/(losses), net". Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated statements of comprehensive income within "other gains/(losses), net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.2 Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in the consolidated statements of comprehensive income.

2.12.3 Impairment

The Group has five types of assets subject to IFRS 9's new expected credit loss model:

- trade receivables;
- contract assets;
- other receivables and deposits;
- cash and cash equivalents; and
- pledged bank deposits

While cash and cash equivalents and pledged bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial because the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC.

For other receivables and deposits, the expected credit losses are assessed according to change in credit quality since the initial recognition, details refer to Note 3.1(b). For trade receivables and contract assets without financing components, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected losses for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.4 Derecognition

Financial assets

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("**pass through**" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

Other financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in the following categories:

- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period. See Note 10 for details about each type of financial asset.

(a) Reclassification

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017 (Continued)

(b) Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income

- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

(c) Impairment

The Group assessed at each of the statement of financial position date whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could 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 was considered an indicator that the assets are impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.5 Accounting policies applied until 31 December 2017 (Continued)

(c) Impairment (Continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognised in the consolidated statement of comprehensive income.

Assets classified as available-for-sale

If there was 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 – was 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 were not reversed through consolidated statement of comprehensive income in a subsequent period.

2.12.6 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 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 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customers. The combination of those rights and performance obligations give rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract. Conversely, the contract is a liability and recognised as contract liabilities if the Group has obligation to transfer goods or services to a customer for which the entity has received consideration or the amount is due from customer.

Contract assets are assessed for expected credit losses in accordance with the policy set out in Note 2.12.3 and are reclassified to receivables when the right to the consideration has become unconditional.

2.15 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.

2.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Pledged bank deposits

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

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

2.18 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.

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.20 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.

2.21 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 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.

2.23 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.

2.24 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 statement of financial position 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)

2.24 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 substantively enacted by the statement of financial position 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 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)

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

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

(iii) Singapore

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 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.

2.26 Share-based payment

(a) Equity-settled share-based payment transactions

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

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

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Share-based payment (Continued)

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

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.

2.27 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)

2.28 Revenue recognition

Revenue is recognised when or as the control of the goods or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may transfer over time or at a point in time.

Control of the goods or service is transferred over time if the Group's performance:

(i) provides all of the benefits received and consumed simultaneously by the customer; or

(ii) creates and enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains the control of the goods or services.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

(i) direct measurements of the value transferred by the Group to the customer; or

(ii) the Group's efforts or inputs to the satisfaction of the performance obligation.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant. The Group generally does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. However, owing to the market environment on the oil and gas industry, especially in the Middle East, oil and gas companies normally allow a longer than normal settlement from customers, which may last for over 1-2 years. In view of these type of customers, the respective financing components of these sales have been considered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Revenue recognition (Continued)

In determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal who obtains control any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The following is a description of the accounting policy for the principal revenue streams of the Group.

(a) Provision of oilfield project tools and services

The Group provides services on oilfield projects 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. The Group also assembles and sells oilfield project tools to the customers.

Revenue from providing services is recognised in the accounting period in which the services are rendered. The customer simultaneously receives and consumes the benefits provided by the Group over the period. The performance obligation is satisfied over time with reference to the Group's inputs to the satisfaction of the performance obligation of the projects. The customer pays a fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Revenue recognition (Continued)

(a) Provision of oilfield project tools and services (Continued)

Revenue from the sales of the project tools are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Provision of consultancy services

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

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

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

Revenue from consultancy services is recognised in the accounting period when the Group provides the service and all of the benefits are received and consumed simultaneously by the customer throughout the contract period. Thus, the Group satisfies a performance obligation and recognises revenue over time based on the time incurred to provide the services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.30 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.31 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)

2.32 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$**") 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 2018, 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$1,008,000 lower/higher (2017: HK$2,627,000 lower/higher) as a result of foreign exchange gains or losses on translation of US$ 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 2018, 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$2,821,000 lower/higher (2017: HK$3,239,000 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 2018 and 2017, the Group's bank and other borrowings at variable rates were denominated in US$, RMB and Singaporean dollar ("**SGD**").

At 31 December 2018, 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$702,000 higher/lower (2017: HK$531,000 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.

(i) Risk management

To manage risk arising from cash and cash equivalents and pledged bank deposits, the Group only transacts with state-owned or reputable financial institutions in the PRC and the reputable international financial institutions outside of the PRC. There has been no history of default in relation to these financial institutions.

To manage risk arising from trade receivables, 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, such as its financial position, past experience and other factors, 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 credit risk of the other receivables is managed on Group basis, taking into account the historical default experience and the future prospectus of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default in each of these counterparties, as well as the loss upon default in each case.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

The Group has five types of financial assets that are subject to the expected credit loss model:

- trade receivables;
- contract assets;
- other receivables and deposits;
- pledged bank deposit; and
- cash and cash equivalents.

Cash and cash equivalents and pledged bank deposits are also subject to the impairment requirements under IFRS 9, yet the identified impairment loss is immaterial because the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC.

Contract assets are also subject to the impairment requirements under IFRS 9, yet the identified impairment loss is immaterial because the balance of contract assets is immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets without financing components.

To measure the expected credit losses, trade receivables have been grouped based on the settlement profiles of customers, shared credit risk characteristics and the days past due.

The Group divided trade receivables into two categories by the settlement pattern of customers to measure the expected loss rates. Category 1 is for customers conducting business in the Middle East. Category 2 is for customers conducting business in the PRC and other regions. With different types of customers, the Group calculated the expected loss rate respectively.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

For category 1, the expected credit losses for these customers are measured at individual basis with the receivables of such customers assessed individually for provision for impairment allowance. Trade receivables more than 24 months overdue are 100% provided for.

For category 2, the expected credit losses rate for the trade receivables is determined according to a provision matrix where balances that are less than 12 months overdue are provided for at expected losses rate of 1-14% and trade receivables more than 12 months overdue are 100% provided for.

On that basis, the loss allowance as at 31 December 2018 was determined as follows for trade receivables.

Category 1: Customers conducting business in the Middle East

	Current HK$'000	Up to 3 months past due HK$'000	3 to 6 months past due HK$'000	6 to 12 months past due HK$'000	Over 12 months past due HK$'000	Total HK$'000
31 December 2018						
Gross carrying amount – trade receivables	4,425	2,998	18,638	40,656	163,225	229,942
Loss allowance	(929)	(630)	(4,473)	(12,196)	(124,321)	(142,549)
Net carrying amount – trade receivables	3,496	2,368	14,165	28,460	38,904	87,393

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Category 2: Customers conducting business in PRC and other regions

	Current HK$'000	Up to 3 months past due HK$'000	3 to 6 months past due HK$'000	6 to 12 months past due HK$'000	Over 12 months past due HK$'000	Total HK$'000
31 December 2018						
Gross carrying amount – trade receivables	77,889	21,922	10,718	12,464	67,624	190,617
Loss allowance	(1,033)	(771)	(890)	(1,735)	(67,624)	(72,053)
Net carrying amount – trade receivables	76,856	21,151	9,828	10,729	–	118,564

Total:

	Current HK$'000	Up to 3 months past due HK$'000	3 to 6 months past due HK$'000	6 to 12 months past due HK$'000	Over 12 months past due HK$'000	Total HK$'000
31 December 2018						
Gross carrying amount – trade receivables	82,314	24,920	29,356	53,120	230,849	420,559
Loss allowance	(1,962)	(1,401)	(5,363)	(13,931)	(191,945)	(214,602)
Net carrying amount – trade receivables	80,352	23,519	23,993	39,189	38,904	205,957

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Group.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other receivables and deposits

Other receivables and deposits are measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, impairment is measured as lifetime expected credit losses. The Group recognised provision for impairment in respect of HK$15,581,000 receivables from the disposal of certain machineries during the year ended 31 December 2018.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of receiving additional cash.

(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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

During the year ended 31 December 2018, the Group reported a net loss attributable to owners of the Company of approximately HK$623,070,000 and operating cash outflow of approximately HK$17,000,000. As at the same date, the Group's total borrowings amounted to HK$288,708,000, including current borrowings of HK$72,248,000, while its cash and cash equivalents amounted to HK$39,315,000 only.

The Group did not comply with one of the financial covenant requirements of a bank borrowing with carrying amount of approximately HK$33,819,000 as at 31 December 2018. On 27 March 2019, the Group agreed with the relevant bank to early repay the entire outstanding amount by several instalments from 28 March 2019 to 30 September 2019 and the relevant bank agreed to waive the relevant financial covenant requirement.

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 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 statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Fair values of balances due on demand or less than 1 year appropriate their carrying balances as the impact of discounting is not significant.

	On demand or less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2018					
Trade payables	**127,803**	**–**	**–**	**–**	**127,803**
Other payables	**76,662**	**–**	**–**	**–**	**76,662**
Bank and other borrowings	**106,468**	**225,056**	**5,581**	**–**	**337,105**
	310,933	**225,056**	**5,581**	**–**	**541,570**
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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may price their services adequately in accordance with their pricing policy, secure access to financing at reasonable costs, obtain borrowings from financial institutions or related parties, and issue new shares or sell assets.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings" as shown in the consolidated statement of financial position) less total cash (including "pledged bank deposits" 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.

During 2018, the Group's strategy was to maintain a gearing ratio within 50%. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 **HK$'000**	2017 HK$'000
Bank and other borrowings *(Note 19)*	**288,708**	211,706
Less:		
Pledged bank deposits *(Note 13)*	**(11,702)**	(8,457)
Cash and cash equivalents *(Note 14)*	**(39,315)**	(24,708)
Net debt	**237,691**	178,541
Total equity	**463,620**	1,123,785
Total capital	**701,311**	1,302,326
Gearing ratio	**34%**	14%

As at 31 December 2018 and 2017, banking facilities of approximately HK$42,000,000 (2017: HK$53,000,000) were granted by banks to the subsidiaries of the Group, all of which have been utilised during the year. Details of the Group's compliance in banking facilities as discussed in 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 2018 and 2017, 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	
	2018	2017
	HK$'000	HK$'000
Asset		
Financial asset at fair value through profit or loss/available-for-sale financial asset – listed equity security	**5,184**	5,184

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.

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 post-tax discount rate 15% (2017: 15%) 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the years ended 31 December 2018 and 2017.

	2018 HK$'000	2017 HK$'000
At 1 January	5,184	7,421
Change in fair value recognised in other comprehensive loss *(Note 9)*	–	(2,237)
At 31 December	5,184	5,184
Total losses for the year included in profit or loss at the end of the year	–	–

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of non-financial assets

The Group follows the guidance of IAS 36 "Impairment of Assets" to determine when assets, for example goodwill, 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 2.11. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Impairment of trade and other receivables and contract assets

The Group follows the guidance of IFRS 9 to determine when trade and other receivables and contract assets are impaired. This determination requires significant judgment and estimation based on assumptions about risk of default and expected loss rates. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macroeconomic indicators etc. Details of the assumptions and inputs used are discussed in Note 3.

(c) Provision for inventories losses

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

5 REVENUE AND SEGMENT INFORMATION

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.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Revenue

Revenue recognised during the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
	HK$'000	HK$'000
Oilfield project tools and services		
– Drilling work	**20,504**	46,687
– Well completion work	**75,131**	148,472
– Production enhancement work	**131,209**	48,478
Total oilfield project tools and services	**226,844**	243,637
Consultancy services	**32,088**	44,211
Total revenue	**258,932**	287,848
Timing of revenue recognition		
At a point in time	**95,150**	180,850
Over time	**163,782**	106,998
	258,932	287,848

For the Group's oil field project tools and services, contracts are for periods of one year or less. For the Group's consultancy services, the Group bills the amount based on the time incurred to provide the services, therefore, the Group uses "**right to invoice**" practical expedient to recognise revenue in the amount to which the Group has a right to invoice. As permitted under IFRS15, the transaction price allocated to these unsatisfied contracts are not discussed.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results

The segment results for the years ended 31 December 2018 is as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Year ended 31 December 2018			
Total segment revenue	226,844	32,088	258,932
Inter-segment revenue	–	–	–
Revenue from external customers	226,844	32,088	258,932
Segment results	(508,353)	21,315	(487,038)
Net unallocated expenses			(136,114)
Loss before income tax			(623,152)
Other information:			
Amortisation of intangible assets	(629)	–	(629)
Depreciation	(61,687)	–	(61,687)
Net impairment loss on financial assets *(Note 12)*	(160,023)	–	(160,023)
Impairment loss of goodwill *(Note 7)*	(209,732)	–	(209,732)
Write-off of inventories	(56,230)	–	(56,230)
Write-off of property, plant and equipment	(62,097)	–	(62,097)
Income tax expense	(169)	–	(169)

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results (Continued)

The segment results for the years ended 31 December 2017 is 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(a))*	(3,072)	–	(3,072)
Provision for inventories losses	(21,126)	–	(21,126)
Income tax expense	(249)	–	(249)

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

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results (Continued)

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

	2018	2017
	HK$'000	HK$'000
Segment results	**(487,038)**	(42,678)
Unallocated income/(expenses):		
Other income	**1,685**	2,012
Depreciation of property, plant and equipment	**(10,533)**	(11,157)
Amortisation of intangible assets and land use rights	**(258)**	(293)
Operating lease rental	**(4,217)**	(4,366)
Employee benefit expenses	**(66,182)**	(76,445)
Entertainment and marketing expenses	**(9,913)**	(7,021)
Other expenses	**(34,493)**	(25,034)
Foreign exchange gains/(losses), net	**6,192**	(3,826)
Other gains, net	**277**	8,729
Finance income	**93**	82
Finance costs	**(18,765)**	(22,846)
Loss before income tax	**(623,152)**	(182,843)

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, net impairment loss on financial assets, write-off of inventories, impairment loss of goodwill, write-off of property, plant and equipment, other expenses, and finance costs, net, allocated to each operating segment.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(c) Segment assets

The segment assets as at 31 December 2018 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
As at 31 December 2018			
Segment assets	**693,663**	**114,721**	**808,384**
Unallocated assets			**175,513**
Total assets			**983,897**
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	**38,563**	**–**	**38,563**

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

5 REVENUE AND SEGMENT INFORMATION (Continued)

(c) Segment assets (Continued)

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, contract assets, deposits and prepayments, pledged bank deposits and cash and cash equivalents.

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

	2018	2017
	HK$'000	HK$'000
Segment assets for reportable segments	**808,384**	1,357,464
Unallocated assets		
– Unallocated property, plant and equipment	**96,687**	111,486
– Unallocated intangible assets	**–**	262
– Unallocated land use rights	**9,731**	10,452
– Unallocated available-for-sale financial asset	**–**	5,184
– Unallocated financial asset at fair value through profit or loss	**5,184**	–
– Unallocated other receivables, deposits and prepayments	**32,473**	39,082
– Unallocated deferred tax assets	**2,193**	3,724
– Unallocated cash and cash equivalents	**29,245**	12,186
Total assets per consolidated statement of financial position	**983,897**	1,539,840

5 REVENUE AND SEGMENT INFORMATION (Continued)

(d) 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:

	2018	2017
	HK$'000	HK$'000
The PRC	**182,501**	153,303
The Middle East	**46,788**	117,242
Others	**29,643**	17,303
	258,932	287,848

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:

	2018	2017
	HK$'000	HK$'000
The PRC	**417,062**	692,659
The Middle East	**60,835**	109,345
Singapore	**50,497**	55,525
Others	**–**	58
	528,394	857,587

(e) Information about major customers

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

	2018	2017
	HK$'000	HK$'000
Customer A	**87,010**	28,568
Customer B	**33,520**	74,801
Customer C	**33,019**	*
Customer D	*****	73,991

* represents the amount of revenue from such customer which is less than 10% of the total revenue of that year.

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

	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 2017							
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
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 31(b))*	–	–	(61,832)	(139)	(11)	(949)	(62,931)
Written-off	–	–	(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

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 2018							
Opening net book amount	145,167	5,555	341,860	796	965	6,928	501,271
Additions	–	–	38,563	–	109	–	38,672
Depreciation	(8,021)	(1,506)	(59,845)	(410)	(210)	(2,228)	(72,220)
Disposals *(Note 31(b))*	–	–	(796)	–	–	–	(796)
Written-off	–	–	(61,732)	–	(3)	(362)	(62,097)
Exchange differences	(5,171)	(87)	(14,986)	(5)	(41)	(186)	(20,476)
Closing net book amount	131,975	3,962	243,064	381	820	4,152	384,354
At 31 December 2018							
Cost	164,264	11,496	439,918	7,828	4,676	13,809	641,991
Accumulated depreciation	(32,289)	(7,534)	(196,854)	(7,447)	(3,856)	(9,657)	(257,637)
Net book amount	131,975	3,962	243,064	381	820	4,152	384,354

Bank borrowings are secured by the buildings of the subsidiaries of the Group of HK$128,818,000 (2017: HK$140,970,000) (Note 19).

As at 31 December 2018, the segment assets of the segments of oilfield project tools and services include property, plant and equipment of HK$287,667,000 (2017: HK$389,785,000). The segment of consultancy services does not have any property, plant and equipment.

During the year ended 31 December 2018, machineries with carrying amount of HK$24,541,000 is purchased under a two-year instalment loan, with interest of 6.7% per annum (Note 19(b)).

During the year ended 31 December 2018, certain plant and machineries of the Group of HK$59,881,000 has been written off which was used for the provision of directional drilling services. These plant and machineries are written off as no economic benefits are expected from use or disposal.

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year ended 31 December 2017, plant and machineries included the following amounts where the Group was a lessee under a finance lease:

	2017 HK$'000
Cost – capitalised finance leases	24,174
Accumulated depreciation	(6,200)
Net book amount	17,974

7 INTANGIBLE ASSETS

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
At 1 January 2017			
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
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

7 INTANGIBLE ASSETS (Continued)

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
At 1 January 2018			
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
Year ended 31 December 2018			
Opening net book amount	305,941	693	306,634
Amortisation	–	(658)	(658)
Impairment	(209,732)	–	(209,732)
Exchange differences	(753)	(6)	(759)
Closing net book amount	95,456	29	95,485
At 31 December 2018			
Cost	519,934	8,261	528,195
Accumulated amortisation and impairment	(424,478)	(8,232)	(432,710)
Net book amount	95,456	29	95,485

7 INTANGIBLE ASSETS (Continued)

Impairment assessment of goodwill

Management reviews the business performance and monitor the goodwill on operating segment basis. The following is a summary of goodwill allocation for each operating segment:

	Opening HK$'000	Exchange differences HK$'000	Impairment HK$'000	Closing HK$'000
Year ended 31 December 2018				
Oilfield project tools and services	**210,485**	**(753)**	**(209,732)**	**–**
Consultancy services	**95,456**	**–**	**–**	**95,456**
	305,941	**(753)**	**(209,732)**	**95,456**
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

The recoverable amount 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 unit 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 2018 and 2017 are as follows:

Year ended 31 December 2018

	Oilfield project tools and services	**Consultancy services**
Average annual growth rate	**23%**	**20%**
Pre-tax discount rate	**19%**	**19%**
Terminal growth rate	**3%**	**3%**

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%

These assumptions have been used for the analysis 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 discount rates used are pre-tax and reflect specific risks. The terminal growth rates used are largely in line with the forecasts included in industry reports.

The slow recovery of the oil and gas market during the year ended 31 December 2018 has caused international oil 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 review, the recoverable amount of the oilfield project tools and services cash generating unit ("**CGU**") was lower than the carrying amount, resulting in an impairment loss of HK$ 209,732,000 recognised against the goodwill of the oilfield project tools and services during the year ended 31 December 2018.

The management has performed sensitivity analysis over the consultancy services. There will not be any headroom in 2018 against the goodwill in the consultancy services if the pre-tax discount rate had been 19 percentage points higher than the management's estimates or the average annual growth rate of revenue had been 10 percentage points lower than management's estimates, respectively.

8 LAND USE RIGHTS

	2018 HK$'000	2017 HK$'000
For the year ended 31 December		
Opening net book amount	**10,452**	9,926
Amortisation	**(229)**	(224)
Exchange differences	**(492)**	750
Closing net book amount	**9,731**	10,452

9 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE FINANCIAL ASSET

	2018 HK$'000	2017 HK$'000
Listed equity security in the PRC – non-current	**5,184**	5,184

Movement of the financial asset at fair value through profit or loss/available-for-sale financial asset is as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	**5,184**	7,421
Change in fair value recognised in other comprehensive loss	**–**	(2,237)
At 31 December	**5,184**	5,184

The fair value of the fair value through profit or loss/available-for-sale financial asset is determined based on cash flows discounted with the post-tax discount rate 15% (2017: 15%) 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).

10 FINANCIAL INSTRUMENTS BY CATEGORY

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

	2018 HK$'000	2017 HK$'000
Assets as per consolidated statement of financial position		
Financial assets at amortised cost/loans and receivables		
Trade receivables *(Note 12)*	**205,957**	407,331
Other receivables and deposits	**43,498**	57,448
Pledged bank deposits *(Note 13)*	**11,702**	8,457
Cash and cash equivalents *(Note 14)*	**39,315**	24,708
Financial asset at fair value through profit or loss		
Listed equity security *(Note 9)*	**5,184**	–
Available-for-sale financial asset		
Listed equity security *(Note 9)*	**–**	5,184
Total	**305,656**	503,128
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortised costs		
Trade payables *(Note 18)*	**127,803**	119,578
Other payables	**69,031**	60,787
Bank and other borrowings *(Note 19)*	**288,708**	211,706
Total	**485,542**	392,071

11 INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**6,638**	6,183
Assembling materials	**46,738**	105,955
Work in progress	**18,442**	4,992
Finished goods	**9,133**	3,870
	80,951	121,000

For the year ended 31 December 2018, the cost of inventories recognised as expense and included in "material costs" amounted to HK$110,029,000 (2017: HK$128,740,000).

For the year ended 31 December 2018, inventories with cost of HK$56,230,000 were considered as obsolete and written off, over which approximately HK$13,768,000 were considered as obsolete due to the downsizing of the directional drilling services of the Group during the year ended 31 December 2018.

For the year ended 31 December 2017, inventories with cost of HK$21,126,000 were considered as obsolete and recorded as provision for inventories losses.

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	**420,559**	560,198
Less: provision for impairment of trade receivables	**(214,602)**	(152,867)
Trade receivables – net	**205,957**	407,331

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

(a) Trade receivables (Continued)

Ageing analysis of gross trade receivables by services completion and delivery date at the respective date of consolidated statement of financial position is as follows:

	2018	2017
	HK$'000	HK$'000
Up to 3 months	**82,314**	78,229
3 to 6 months	**24,920**	57,397
6 to 12 months	**60,344**	104,564
Over 12 months	**252,981**	320,008
Trade receivables	**420,559**	560,198
Less: provision for impairment of trade receivables	**(214,602)**	(152,867)
Trade receivables – net	**205,957**	407,331

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.

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

(a) Trade receivables (Continued)

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

	2018	2017
	HK$'000	HK$'000
US$	**119,350**	308,741
RMB	**86,607**	89,633
Euro	**–**	8,957
	205,957	407,331

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.

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

	2018	2017
	HK$'000	HK$'000
At 1 January	**152,867**	409,214
Opening loss allowance as at 1 January 2018		
– Calculated under IFRS 9	**12,503**	–
Impairment loss on receivables	**149,656**	36,667
Reversal of impairment loss on receivables	**(5,214)**	(13,053)
Written off of receivables	**(92,381)**	(288,610)
Exchange differences	**(2,829)**	8,649
As at 31 December	**214,602**	152,867

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

(a) Trade receivables (Continued)

As at 31 December 2018, the impairment and reversal of impairment loss on receivables had been included in "net impairment loss on financial assets" amounting to HK$144,442,000.

As at 31 December 2017, the recognition of provision for receivables impairment had been included in "provision for impairment of trade and other receivables, net" of HK$3,072,000 and "finance costs" of HK$20,542,000.

During the year ended 31 December 2018, management has written off the receivables from a single customer which have been previously fully provided of approximately HK$92,381,000 (2017: HK$288,610,000).

(b) Other receivables, deposits and prepayments

	2018	2017
	HK$'000	HK$'000
Deposits and other receivables – third parties	**22,520**	18,201
Receivables from disposal of machines *(Note)*	**15,581**	33,809
Receivables on land bidding in the PRC	**2,768**	2,908
Value-added tax recoverable	**69,551**	76,868
Rental deposits	**854**	1,086
Cash advances to staff	**5,244**	4,992
Advance to the Directors and senior management *(Note 34(b))*	**1,748**	1,444
Prepayments for materials	**22,772**	8,410
Prepayments for rents and others	**928**	3,361
	141,966	151,079
Less:		
Non-current value-added tax recoverable	**(38,824)**	(39,230)
Non-current portion	**(38,824)**	(39,230)
Current portion	**103,142**	111,849

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

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

Note:

As at 31 December 2018, the Group applied the expected credit loss model resulted in the recognition of provision of receivables impairment of other receivables amounting to HK$15,581,000, which has been included in "net impairment loss on financial assets".

As at 31 December 2017, recognition of provision of receivables impairment of the disposal of machineries amounting to HK$4,179,000 has been included in "finance cost" *(Note 27)*.

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

	2018	2017
	HK$'000	HK$'000
RMB	**92,338**	102,422
US$	**24,174**	44,142
HK$	**143**	400
Others	**1,611**	4,115
	118,266	151,079

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.

	2018	2017
	HK$'000	HK$'000
Pledged bank deposits		
– Bidding	**9,953**	6,726
– Performance bonds *(Note 32)*	**1,749**	1,731
	11,702	8,457

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

	2018	2017
	HK$'000	HK$'000
HK$	**–**	7,150
RMB	**11,702**	1,307
	11,702	8,457

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rate 0.3% (2017: 0.3%) per annum. These deposits have an average maturity of 4 months (2017: 5 months).

As at 31 December 2018, Group has pledged bank deposits amounting to HK$11,702,000 (2017: HK$8,457,000) which are denominated in RMB 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

	2018	2017
	HK$'000	HK$'000
Cash at bank	**39,171**	24,457
Cash on hand	**144**	251
	39,315	24,708

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

	2018	2017
	HK$'000	HK$'000
RMB	**35,263**	4,508
US$	**2,150**	18,615
SGD	**906**	983
HK$	**558**	152
Others	**438**	450
	39,315	24,708

As at 31 December 2018, the Group has cash at bank and on hand amounting to HK$5,418,000 (2017: HK$3,592,000) 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.

15 CONTRACT ASSETS/(LIABILITIES)

	2018 HK$'000	2017 HK$'000
Contract assets	**7,059**	–
Contract liabilities	**(8,449)**	–

The contract assets are primarily related to the Group's rights to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of acceptance reports issued by the customers when such right of collections becomes unconditional other than the passage of time.

The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and retention receivables. Since the contract assets are related to contracts which are still in progress and the payment is not due, the expected loss rate of contract assets is assessed to be minimal.

The contract liabilities is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customers.

	2018 HK$'000
Revenue recognised that was included in the contract liabilities balance as at beginning of the year	**3,733**

16 SHARE CAPITAL

	Number of shares '000	Total HK$'000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 2018	**1,726,674**	2,001,073

17 OTHER RESERVES

	Translation reserve	Statutory reserve *(Note)*	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 income/ (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

17 OTHER RESERVES (Continued)

	Translation reserve	Statutory reserve *(Note)*	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 2018	**39,236**	**17,912**	**28,462**	**51,341**	**(51,406)**	**(2,237)**	**83,308**
Other comprehensive loss							
Change in accounting policies *(Note 2.2)*	–	–	–	–	–	2,237	2,237
Restated total equity as at 1 January 2018	**39,236**	**17,912**	**28,462**	**51,341**	**(51,406)**	**–**	**85,545**
Currency translation differences	(33,864)	–	–	–	–	–	(33,864)
Total comprehensive loss for the year	**(33,864)**	**–**	**–**	**–**	**–**	**–**	**(33,864)**
Total transactions with owners in their capacity as owners							
Maturity of convertible bonds	–	–	(28,462)	–	–	–	(28,462)
Issuance of convertible bonds *(Note 19(d))*	–	–	3,715	–	–	–	3,715
Recognition of share-based payment	–	–	–	7,938	–	–	7,938
Total transactions with owners in their capacity as owners	**–**	**–**	**(24,747)**	**7,938**	**–**	**–**	**(16,809)**
Balance at 31 December 2018	**5,372**	**17,912**	**3,715**	**59,279**	**(51,406)**	**–**	**34,872**

Note:

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 the 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

	2018 HK$'000	2017 HK$'000
Trade payables	**127,803**	119,578

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

	2018 HK$'000	2017 HK$'000
Up to 3 months	**37,882**	25,968
3 to 6 months	**7,165**	2,916
6 to 12 months	**18,337**	6,823
Over 12 months	**64,419**	83,871
	127,803	119,578

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

	2018 HK$'000	2017 HK$'000
US$	**62,550**	60,958
RMB	**52,643**	55,125
Others	**12,610**	3,495
	127,803	119,578

18 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (Continued)

(b) Other payables and accruals

	2018 **HK$'000**	2017 HK$'000
Other payables		
– Third parties	**76,480**	59,293
– Related parties *(Note 34(b))*	**182**	2,670
Receipt in advance	**–**	3,733
Accrued payroll and welfare	**10,302**	10,821
Other tax and surcharge payables	**8,123**	7,229
	95,087	83,746

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

	2018 **HK$'000**	2017 HK$'000
RMB	**63,352**	40,277
HK$	**21,521**	28,684
US$	**9,387**	11,815
Others	**827**	2,970
	95,087	83,746

19 BANK AND OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Non-current		
Bank borrowings *(Note a)*	**5,867**	47,305
Other borrowings *(Note b)*	**210,593**	–
	216,460	47,305
Current		
Bank borrowings *(Note a)*	**2,071**	5,801
Bank borrowings immediately repayable *(Note a)*	**33,819**	–
Finance lease liabilities *(Note c)*	**–**	3,024
Convertible bonds – liability component *(Note d)*	**27,482**	155,576
Other borrowings *(Note b)*	**8,876**	–
	72,248	164,401
	288,708	211,706

(a) Bank borrowings

Pursuant to the requirements of the banking facilities dated 26 December 2014, the Group is obliged to comply with restrictive financial covenant and certain undertakings. Based on the consolidated financial information for the year ended 31 December 2018, the Group did not comply with one of the financial covenants of a bank borrowing with carrying value of approximately HK$33,819,000 and such borrowing becomes immediately repayable on demand. In this connection, the Group has classified the entire outstanding bank borrowings under current liabilities.

19 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings (Continued)

Bank borrowings bear average coupon rate of 5.4% as at 31 December 2018 (2017: 3.9%).

As at 31 December 2018 and 2017, the Group's bank borrowings were repayable as follows:

	2018	2017
	HK$'000	HK$'000
Within 1 year	**35,890**	5,801
Between 1 and 2 years	**2,071**	4,240
Between 2 and 5 years	**3,796**	12,546
Over 5 years	**–**	30,519
	41,757	53,106

As at 31 December 2018, the Group's bank borrowings were under floating interest rates (2017: 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:

	2018	2017
	HK$'000	HK$'000
6 months or less	**–**	1,620
Over 6 months	**41,757**	51,486
	41,757	53,106

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:

	2018	2017
	HK$'000	HK$'000
US$	**–**	1,620
RMB	**7,938**	10,512
SGD	**33,819**	40,974
	41,757	53,106

The Group's bank borrowings were all secured (2017: Same).

As at 31 December 2018 and 2017, banking facilities of approximately HK$42,000,000 (2017: HK$53,000,000) 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 subsidiary of the Group; and

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

(b) Other borrowings

As at 31 December 2018, other borrowings of the Group include:

(i) bondholders loans agreed with certain bondholders of HK$51,000,000 with a maturity date of 28 September 2020 that bear interest at 10% per annum.

(ii) a two-year borrowing with a principal amount of HK$140,000,000, bearing interest at 5.5% per annum. HK$30,000,000 of the principal will mature in April 2020 and the remaining will mature in July 2020.

(iii) a two-year instalment loan with a carrying amount of RMB24,885,000 (equivalent to approximate HK$28,468,000), bearing interest of 6.7% per annum. The loan was utilised for the purpose of acquiring machineries for the Group's operation. The loan is secured by the corresponding machineries acquired *(Note 6)*.

19 BANK AND OTHER BORROWINGS (Continued)

(c) 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.

	2018 **HK$'000**	2017 HK$'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	–	3,078
Later than 1 year and no later than 5 years	–	–
	–	3,078
Future finance charges on finance leases	–	(54)
Present value of finance lease liabilities	–	3,024
The present value of finance lease liabilities are as follows:		
No later than 1 year	–	3,024
Later than 1 year and no later than 5 years	–	–
	–	3,024

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 *(Note 6)*.

19 BANK AND OTHER BORROWINGS (Continued)

(d) Convertible bonds

	2018 **HK$'000**	2017 HK$'000
Convertible bonds – current liabilities	**27,482**	155,576

On 24 May 2018, the Company issued convertible bonds at a par value of HK$30,000,000 ("2018 Convertible Bonds"), bearing interest at the rate of 8% per annum and payable semi-annually in arrears. The maturity date of the 2018 Convertible Bonds will be on 24 November 2019. The holder has the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK$0.47 per conversion share at any period commencing from the date of issuance of the 2018 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 issuance of the 2018 Convertible Bonds.

The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 18.6% which is based on market interest rates for a number of comparable convertible bonds denominated in US$ and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair value of the liability component and is included in other reserves in equity. Subsequently, the liability component is carried at amortised cost.

The 2018 Convertible Bonds is calculated as follows:

	HK$'000
Proceeds of 2018 Convertible Bonds	30,000
Transaction costs	(500)
Net proceeds of convertible bonds issued on 24 May 2018	29,500
Equity component	(3,715)
Liability component at initial recognition	25,785

19 BANK AND OTHER BORROWINGS (Continued)

(d) Convertible bonds (Continued)

Movements in convertible bonds are analysed as follows:

	2018 HK$'000	2017 HK$'000
Opening amount	**155,576**	145,100
Issuance of 2018 Convertible Bonds	**25,785**	–
Settlement of 2014 Convertible Bonds	**(99,570)**	–
Conversion to bondholder loans	**(62,000)**	–
Interest expenses *(Note 27)*	**8,938**	18,327
Interest paid	**(1,247)**	(7,851)
Closing amount	**27,482**	155,576

No bondholder has exercised their rights to convert the convertible bonds into shares of the Company during the year ended 31 December 2017 and 2018.

On 21 March 2019, the Group agreed in writing with all the bondholders of the Group's 2018 Convertible Bonds with a total principal amount of HK$30,000,000 to redeem such bonds in full and at the same time, the Group issued new convertible bonds, expiring on 23 May 2021, with a total principal amount of HK$30,000,000 to the same bondholders *(Note 37)*.

20 DEFERRED INCOME TAX

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

	2018 HK$'000	2017 HK$'000
Deferred tax assets:		
– To be recovered within 12 months	**(2,193)**	(3,724)
Deferred tax liabilities:		
– To be realised after 12 months	**230**	1,025
Deferred tax assets, net	**(1,963)**	(2,699)

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

	2018 HK$'000	2017 HK$'000
At 1 January	**(2,699)**	(1,274)
Exchange difference	**(7)**	27
Charged/(credited) to consolidated statement of comprehensive income (Note 28)	**743**	(1,452)
At 31 December	**(1,963)**	(2,699)

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)*	Accelerated tax depreciation	Tax losses	Unrealised profit on inventory	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	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)
Exchange difference	–	(7)	–	–	(7)
(Credited)/charged to consolidated statement of comprehensive income	(788)	–	–	1,531	743
At 31 December 2018	**–**	**230**	**(2,193)**	**–**	**(1,963)**

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$56,427,000 (2017: HK$45,893,000) in respect of tax losses amounting to HK$317,309,000 (2017: HK$246,811,000). Unrecognised tax losses of HK$100,659,000 (2017: HK$28,778,000) have no expiry date and the remaining tax losses will expire at various dates up to and including 2023 (2017: 2022).

Note:

According to the new Corporate Income Tax ("CIT") 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 2018 and 2017, no deferred tax liabilities were recognised on the unremitted earnings of subsidiaries in the PRC as all the subsidiaries are in loss positions.

21 OTHER INCOME

	2018 HK$'000	2017 HK$'000
Rental income	**1,685**	2,012

22 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2018 HK$'000	2017 HK$'000
Wages, salaries and bonus	**87,664**	88,274
Pension costs	**6,198**	6,685
Share options granted to directors, senior management and employees *(Note 26)*	**7,938**	11,538
Other staff benefits	**9,134**	6,351
Less: employee benefit expenses attributable for research and development	**(9,571)**	(7,790)
	101,363	105,058

As at 31 December 2018, there are no forfeited contributions available to offset future retirement benefit obligations of the Group (2017: Nil).

23 OTHER EXPENSES

	2018 HK$'000	2017 HK$'000
Auditor's remuneration		
– Audit services	**3,800**	2,888
– Non-audit services	**–**	357
Communication	**1,493**	1,390
Professional service fees	**11,155**	6,022
Motor vehicle expenses	**4,148**	1,194
Travelling	**11,306**	9,405
Insurance	**1,915**	1,235
Office utilities	**4,461**	6,459
Other taxes	**490**	1,633
Bank charges	**460**	751
Others	**5,700**	3,692
	44,928	35,026

24 OTHER GAINS/(LOSSES), NET

	2018 HK$'000	2017 HK$'000
Gain/(loss) on disposals of property, plant and equipment *(Note 31(b))*	**246**	(7,836)
Gain on disposals of assets classified as held for sale	**–**	5,535
Government grant	**1,050**	1,568
Foreign exchange gains/(losses), net	**6,192**	(3,826)
Others	**(1,021)**	504
	6,467	(4,055)

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 2018 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	–	1,318	–	–	–	117	1,435
Zhao JinDong	–	1,082	–	–	739	117	1,938
Non-executive director							
Lee Tommy	–	135	–	–	–	–	135
Ma Hua	–	135	–	–	–	–	135
Ko PoMing *(Note(i))*	–	56	–	–	–	–	56
Independent non- executive director							
Tong HinWor	–	153	–	–	–	–	153
Leung LinCheong	–	240	–	–	–	–	240
Xin JunHe	–	153	–	–	–	–	153
Chief executive							
Zeng WeiZhong	–	852	–	–	1,145	117	2,114
	–	4,124	–	–	1,884	351	6,359

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 2017 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							
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 HinWor	–	153	–	–	8	–	161
Wong Lap Tat Arthur *(Note(ii))*	–	107	–	–	–	–	107
He Sheng Hou *(Note(iii))*	–	38	–	–	–	–	38
Leung Lin Cheong *(Note(iv))*	–	139	–	–	–	–	139
Xin JinHe *(Note(iv))*	–	117	–	–	–	–	117
Chief executive							
Zeng WeiZhong	–	834	–	–	1,173	77	2,084
	–	3,960	–	–	1,904	231	6,095

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 (2017: Nil). No consideration was provided to or receivable by third parties for making available directors' services (2017: Nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: None).

25 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

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

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 (2017: None).

Note:

(i) Resigned as non-executive director on 31 March 2018.

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

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

(iv) 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 (2017: one) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2017: four) individuals during the year are as follows:

	2018	2017
	HK$'000	HK$'000
Salary	**3,684**	4,222
Employer's contribution to pension scheme	**292**	202
Share-based payment	**2,647**	3,237
	6,623	7,661

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emoluments band		
– Nil to HK$1,000,000	**–**	–
– HK$1,000,001 – HK$2,000,000	**3**	2
– HK$2,000,001 – HK$3,000,000	**1**	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**	**28 June 2018**	**16 August 2018**
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	3,000,000	5,000,000
– Employees	7,100,000	31,200,000	42,000,000	–	–	–
Exercise price	HK$2.60	HK$1.30	HK$0.53	HK$0.53	HK$0.35	HK$0.33
Contractual option term	Five years	Seven years	Seven years	Seven years	Seven years	Seven years
Expiry date	28 April 2019	28 May 2022	25 October 2023	30 November 2023	27 June 2025	15 August 2025

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 subsequent to 2014, 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	28 June 2018	16 August 2018
Range of fair value of options granted (HK$)	0.87 – 0.88	0.62 – 0.66	0.19 – 0.25	0.23 – 0.26	0.15 – 0.17	0.14 – 0.16
Weighted average share price at the grant date (HK$)	2.44	1.28	0.52	0.53	0.35	0.32
Expected volatility *(Note)*	49.72%	56.49%	47.97%	47.75%	49.59%	49.45%
Expected option lifes	5 years	7 years	7 years	7 years	7 years	7 years
Dividend yield	1.15%	Nil	Nil	Nil	Nil	Nil
Annual risk-free interest rate	1.42%	1.37%	0.75%	1.18%	2.19%	2.08%

Note:

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

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)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 31 December 2018 are as follow:

	Exercise price per share option	Number of share options: As at 1 January 2018	Granted during the year	Forfeited/ lapsed during the year	As at 31 December 2018
Grant date					
29 April 2014	2.55	**15,546,499**	**–**	**(10,400,834)**	**5,145,665**
29 May 2015	1.30	**45,754,449**	**–**	**(10,742,328)**	**35,012,121**
26 October 2016	0.53	**58,200,000**	**–**	**(12,340,000)**	**45,860,000**
1 December 2016	0.53	**17,000,000**	**–**	**–**	**17,000,000**
28 June 2018	0.35	**–**	**3,000,000**	**–**	**3,000,000**
16 August 2018	0.33	**–**	**5,000,000**	**–**	**5,000,000**
Total		**136,500,948**	**8,000,000**	**(33,483,162)**	**111,017,786**
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**
28 June 2018		**–**	**0.35**	**–**	**0.35**
16 August 2018		**–**	**0.33**	**–**	**0.33**

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 2017 are as follow:

		Number of share options			
	Exercise price per share option	As at 1 January 2017	Granted during the year	Forfeited/ lapsed during the year	As at 31 December 2017
Grant date					
29 April 2014	2.55	20,692,171	–	(5,145,672)	15,546,499
29 May 2015	1.30	59,320,053	–	(13,565,604)	45,754,449
26 October 2016	0.53	68,000,000	–	(9,800,000)	58,200,000
1 December 2016	0.53	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

No share options have been exercised by the option holders during the year ended 31 December 2017 and 2018.

During the year ended 31 December 2018, share-based payment expense of HK$7,938,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (2017: HK$11,538,000) *(Note 22)*.

27 FINANCE INCOME AND COSTS

	2018 HK$'000	2017 HK$'000
Interest expenses:		
– Bank and other borrowings	**(11,586)**	(1,238)
– Convertible bonds *(Note 19(d))*	**(8,938)**	(18,327)
– Finance lease liabilities	**(40)**	(307)
– Provision for impairment of trade and other receivables, net *(Note 12)*	**–**	(24,721)
Finance costs	**(20,564)**	(44,593)
Finance income:		
– Interest income from bank deposits	**93**	82
Finance costs, net	**(20,471)**	(44,511)

28 INCOME TAX EXPENSE/(CREDIT)

	2018 HK$'000	2017 HK$'000
Under/(over) provision in prior years		
– Singapore corporate tax	**170**	(249)
– China corporate tax	**6**	–
Deferred tax *(Note 20)*	**743**	(1,452)
Income tax expense/(credit)	**919**	(1,701)

28 INCOME TAX EXPENSE/(CREDIT) (Continued)

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2017: 16.5%) during the year.

(b) PRC corporate 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 CIT rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards.

As at 31 December 2018, 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 CIT rate of 15% (2017: 15%) during the year.

The High and New Technological Enterprise qualification is subjected to be renewed every three years. Companies are required to meet certain criteria such as qualified research and 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.

(c) Singapore corporate tax

Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% for the year ended 31 December 2018 (2017: 17%).

28 INCOME TAX EXPENSE/(CREDIT) (Continued)

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

	2018	2017
	HK$'000	HK$'000
Loss before income tax	**(623,152)**	(182,843)
Tax calculated at domestic tax rates applicable to profit/loss in the respective entities	**(50,289)**	(17,408)
– Under/(over) provision for prior years	**176**	(249)
– Income not subject to tax	**(641)**	(628)
– Expenses not deductible for tax purposes	**40,830**	16,853
– Reversal of withholding tax on undistributed profits of a subsidiary established in the PRC *(Note 20)*	**(788)**	(5,362)
– Tax losses for which no deferred tax assets was recognised	**11,631**	5,093
Income tax expense/(credit)	**919**	(1,701)

The weighted average applicable tax rate was 8% (2017: 10%). The decrease is primarily due to changes in the profitability of the group companies in the respective jurisdictions.

29 LOSS PER SHARE

	2018	2017
Loss attributable to owners of the Company (HK$'000)	**(623,070)**	(180,262)
Weighted average number of ordinary shares in issue (Number of shares in thousand)	**1,726,674**	1,726,674
Basic loss per share (HK cents)	**(36)**	(10)
Diluted loss per share (HK cents)	**(36)**	(10)

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 2018 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2017: Same) as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic loss per share.

30 DIVIDEND

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash used in operations

	2018	2017
	HK$'000	HK$'000
Loss before income tax	**(623,152)**	(182,843)
Adjustments for:		
– Depreciation *(Note 6)*	**72,220**	80,778
– Amortisation *(Notes 7 and 8)*	**887**	1,662
– Share-based payment *(Note 22)*	**7,938**	11,538
– Net impairment loss on financial assets *(Note 12)*	**160,023**	–
– Provision for impairment of trade and other receivables, net *(Note 12)*	**–**	3,072
– Write-off of inventories *(Note 11)*	**56,230**	21,126
– Gain on disposals of property, plant and equipment *(Note b)*	**(246)**	7,836
– Gain on disposals of assets classified as held for sale *(Note 24)*	**–**	(5,535)
– Write-off of property, plant and equipment *(Note 6)*	**62,097**	313
– Provision for impairment of goodwill *(Note 7)*	**209,732**	–
– Net finance costs	**20,471**	44,511
– Foreign exchange loss	**(2,606)**	(1,647)
	(36,406)	(19,189)
Changes in working capital:		
– Inventories	**(21,793)**	36,552
– Restricted bank balance	**–**	5,581
– Trade and other receivables, deposits and prepayments and contract assets	**11,363**	(9,421)
– Trade, other payables and accruals and contract liabilities	**36,689**	(39,922)
Cash used in operations	**(10,147)**	(26,399)

31 NOTES TO THE CONSOLIDATED STATEMENT 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:

	2018 **HK$'000**	2017 HK$'000
Net book amount *(Note 6)*	**796**	62,931
Gain/(loss) on disposals of property, plant and equipment *(Note 24)*	**246**	(7,836)
Receivables from disposal of property, plant and equipment, gross	**–**	(30,345)
Proceeds from disposal of property, plant and equipment	**1,042**	24,750

(c) Net debt reconciliation

	2018 **HK$'000**	2017 HK$'000
Pledged bank deposits	**11,702**	8,457
Cash and cash equivalents	**39,315**	24,708
Bank and other borrowings	**(288,708)**	(211,706)
	(237,691)	(178,541)

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Net debt reconciliation (Continued)

Details and the movement of the net debt as at 31 December 2018 and 2017 are as follows:

	Other assets			Liabilities from financing activities				
	Cash and cash equivalents	Restricted bank balance	Pledged bank deposits	Bank and other borrowings – finance lease liabilities	Bank and other borrowings – bank borrowings	Bank and other borrowings – other borrowings	Bank and other borrowings – convertible bonds	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2017	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	(14,920)
Foreign exchange adjustments	(1,287)	–	431	(468)	(3,742)	–	–	(5,066)
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)
As at 1 January 2018	**24,708**	**–**	**8,457**	**(3,024)**	**(53,106)**	**–**	**(155,576)**	**(178,541)**
Cash flows	**15,807**	**–**	**3,650**	**3,092**	**10,153**	**(157,279)**	**75,032**	**(49,545)**
Foreign exchange adjustments	**(1,200)**	**–**	**(405)**	**(68)**	**1,196**	**(190)**	**–**	**(667)**
Other non-cash movements	**–**	**–**	**–**	**–**	**–**	**(62,000)**	**53,062**	**(8,938)**
As at 31 December 2018	**39,315**	**–**	**11,702**	**–**	**(41,757)**	**(219,469)**	**(27,482)**	**(237,691)**

32 CONTINGENCIES

	2018 HK$'000	2017 HK$'000
Performance bonds *(Note)*	**1,749**	1,731

Note:

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.

33 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 28 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:

	2018 HK$'000	2017 HK$'000
No later than 1 year	**4,946**	5,456
Later than 1 year and no later than 5 years	**1,799**	4,356
Later than 5 years	**9,219**	9,771
	15,964	19,583

34 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 2018 and 2017, and balances arising from related party transactions as at 31 December 2018 and 2017.

Name	**Relationships**
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Mr. Zeng WeiZhong	Senior management
Ms. Sun JinXia	Senior management
Mr. Shu WaTung Laurence *(Note (i))*	Senior management
Mr. Lin JingYu	Senior management
Mr. Zhang TaiYuan	Senior management
Mr. Ren WenSheng	Senior management
Mr. Chan KwokYuen Elvis *(Note (ii))*	Senior management

Note:

(i) Resigned from the Group on 31 July 2018.

(ii) Appointed as Chief Financial Officer on 31 July 2018.

(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.

	2018 **HK$'000**	2017 HK$'000
Salaries and other short-term employee benefits	**8,500**	9,538
Share-based payments	**3,139**	5,041
	11,639	14,579

34 RELATED PARTY TRANSACTIONS (Continued)

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

	2018 HK$'000	2017 HK$'000
Amounts due from related parties *(Note 12) (Note (i))*	**1,748**	1,444
Amounts due to related parties *(Note 18) (Note (ii))*	**(182)**	(2,670)

As at 31 December 2018 and 2017, 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.

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

35 SUBSIDIARIES

As at 31 December 2018, 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 Investments Limited	–	100%	Investment holding in BVI	BVI, Limited liability company 1 July 2010	1 ordinary share at no par value for 1 US$ each

35 SUBSIDIARIES (Continued)

As at 31 December 2018, 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 (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
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

35 SUBSIDIARIES (Continued)

As at 31 December 2018, 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
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
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
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

35 SUBSIDIARIES (Continued)

As at 31 December 2018, 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
百勤石油(深圳)有限公司	–	100%	Provision for oilfield projects tools and services and consultancy services in the PRC, etc.	The PRC, Limited liability company 8 November 2013	Registered capital of RMB10,000,000
Petro-king Group Middle East Corporation FZCO	–	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
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
PT. Petro Synergy Industry *(Note)*	–	41%	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

35 SUBSIDIARIES (Continued)

As at 31 December 2018, 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
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%	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

Note:

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.

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
ASSETS		
Non-current asset		
Investments in subsidiaries	**724,060**	907,998
Current assets		
Other receivables and prepayments	**420**	114,347
Cash and cash equivalents	**2**	93
Total current assets	**422**	114,440
Total assets	**724,482**	1,022,438
EQUITY AND LIABILITIES		
Equity		
Share capital	**2,001,073**	2,001,073
Other reserves	**62,994**	79,803
Accumulated losses	**(1,573,293)**	(1,226,424)
Total equity	**490,774**	854,452
LIABILITIES		
Current liabilities		
Other payables and accruals	**15,226**	12,410
Convertible bonds – liability component	**27,482**	155,576
Total current liabilities	**42,708**	167,986
Non-current liabilities		
Borrowings	**191,000**	–
Total liabilities	**233,708**	167,986
Total equity and liabilities	**724,482**	1,022,438

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf.

Mr. Wang JinLong
Director

Mr. Zhao JinDong
Director

36 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 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)
At 1 January 2018	**51,341**	**28,462**	**(1,226,424)**
Loss for the year	**–**	**–**	**(375,331)**
Maturity of convertible bonds	**–**	**(28,462)**	**28,462**
Issuance of convertible bonds *(Note 19(d))*	**–**	**3,715**	**–**
Recognition of share-based payment	**7,938**	**–**	**–**
At 31 December 2018	**59,279**	**3,715**	**(1,573,293)**

37 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

(i) On 31 January 2019, the Group entered into a sales and purchase agreement with a third party in relation to the purchase of a unit of hydraulic fracturing truck at a consideration of RMB7,500,000 (equivalent to approximately HK$8,776,000). Further details of this purchase were disclosed in the Company's announcement dated 31 January 2019.

(ii) On 20 March 2019, the Group entered into a loan agreement with a third party to borrow HK$20,000,000 ("**Equipment Loan**") for a term up to 30 June 2020. The loan will be secured by certain equipment of the Group and bears interest at 10% per annum. Such loan has not yet been drawn down as of the date of this report;

(iii) On 21 March 2019, the Group agreed in writing with all the bondholders of the Group's 2018 Convertible Bonds with a total principal amount of HK$30,000,000 to redeem such bonds in full and at the same time, the Group issued new convertible bonds, expiring on 23 May 2021, with a total principal amount of HK$30,000,000 to the same bondholders. Further details of this transaction were disclosed in the Company's announcement dated 21 March 2019;

(iv) On 25 March 2019, the Group entered into a loan agreement to borrow HK$20,000,000 from a shareholder (the "**Shareholder Loan**") for a term of 18 months from the date of drawdown. Such loan is unsecured and bears interest at 10% per annum. The Group had drawn down the entire amount as of the date of the report.