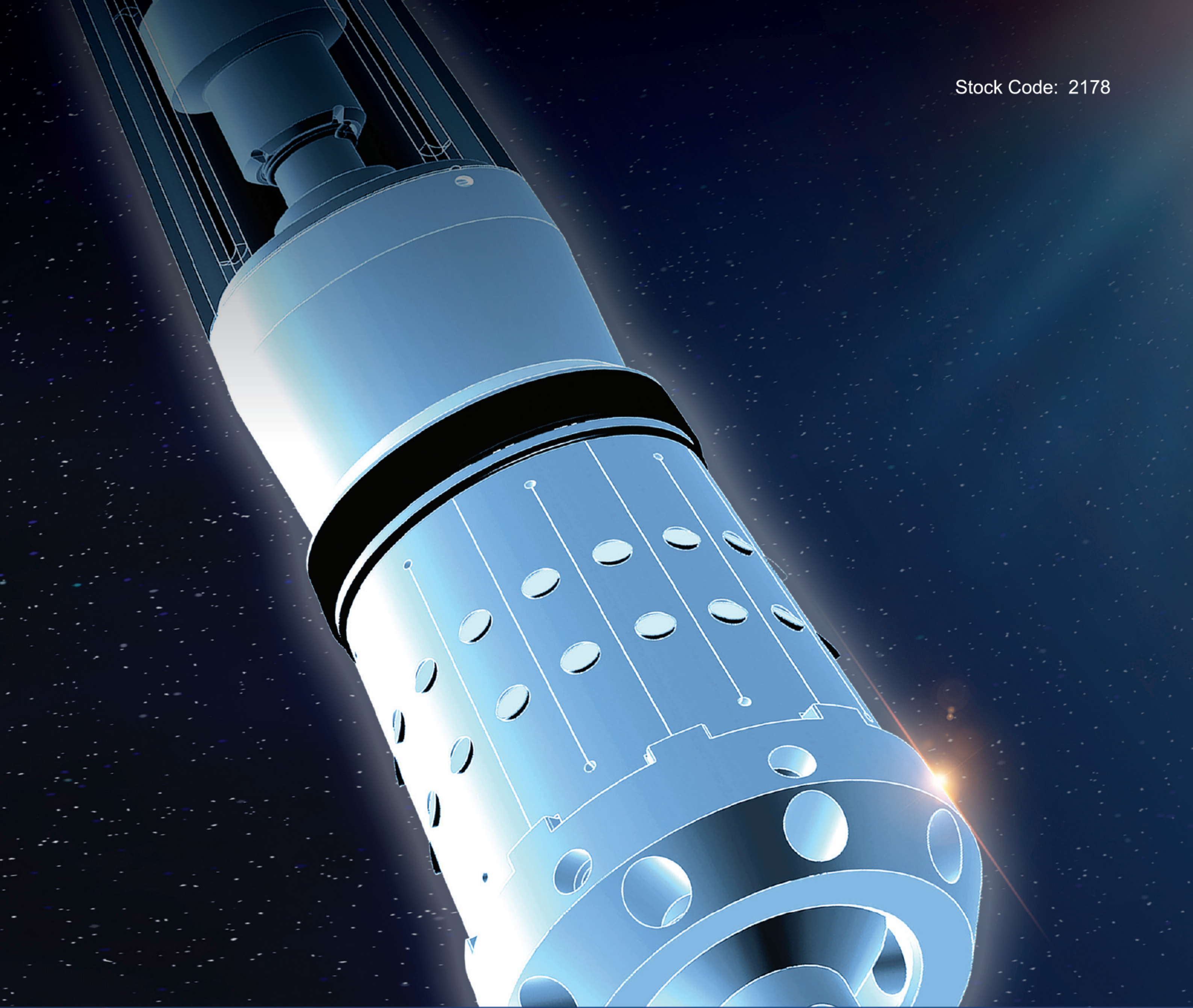
Stock Code: 2178



Annual Report 2019

PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Petro-king
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FINANCIAL HIGHLIGHT

Operating Figures

For the year ended 31 December	2019 HK$'000	2018 HK$'000	Change	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**478,245**	258,932	84.7%	287,848	392,442	631,014
Operating loss	**(60,717)**	(602,681)	-89.9%	(138,332)	(416,882)	(344,188)
Loss for the year	**(87,378)**	(624,071)	-86.0%	(181,142)	(445,347)	(391,759)
Loss per share						
Basic (HK$ cents)	**(5)**	(36)	-86.1%	(10)	(29)	(31)
Diluted (HK$ cents)	**(5)**	(36)	-86.1%	(10)	(29)	(31)

Consolidated Balance Sheet

As at 31 December	2019 HK$'000	2018 HK$'000	Change	2017 HK$'000	2016 HK$'000	2015 HK$'000
Total assets	**966,588**	983,897	-1.8%	1,539,840	1,723,508	2,500,519
Non-current assets	**513,472**	535,771	-4.2%	866,495	979,999	1,497,705
Current assets	**453,116**	448,126	1.1%	673,345	743,509	1,002,814
Total liabilities	**560,873**	520,277	7.8%	416,055	486,828	921,215
Non-current liabilities	**35,866**	216,690	-83.4%	48,330	184,390	185,992
Current liabilities	**525,007**	303,587	72.9%	367,725	302,438	735,223
Net current assets/(liabilities)	**(71,891)**	144,539	N/A	305,620	441,071	267,591
Net assets	**405,715**	463,620	-12.5%	1,123,785	1,236,680	1,579,304

Financial Indicators

For the year ended 31 December	2019	2018	2017	2016	2015
Trade receivables turnover days	**171**	432	513	405	279
Inventory turnover days	**229**	335	414	457	505
Trade payables turnover days	**260**	352	378	467	347
Current ratio	**0.86**	1.48	1.83	2.46	1.36
Gearing ratio *(Note 1)*	**42.3%**	33.9%	13.7%	10.2%	10.4%
Return on Equity *(Note 2)*	**-20.1%**	-78.6%	-15.3%	-31.6%	-23.2%

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.

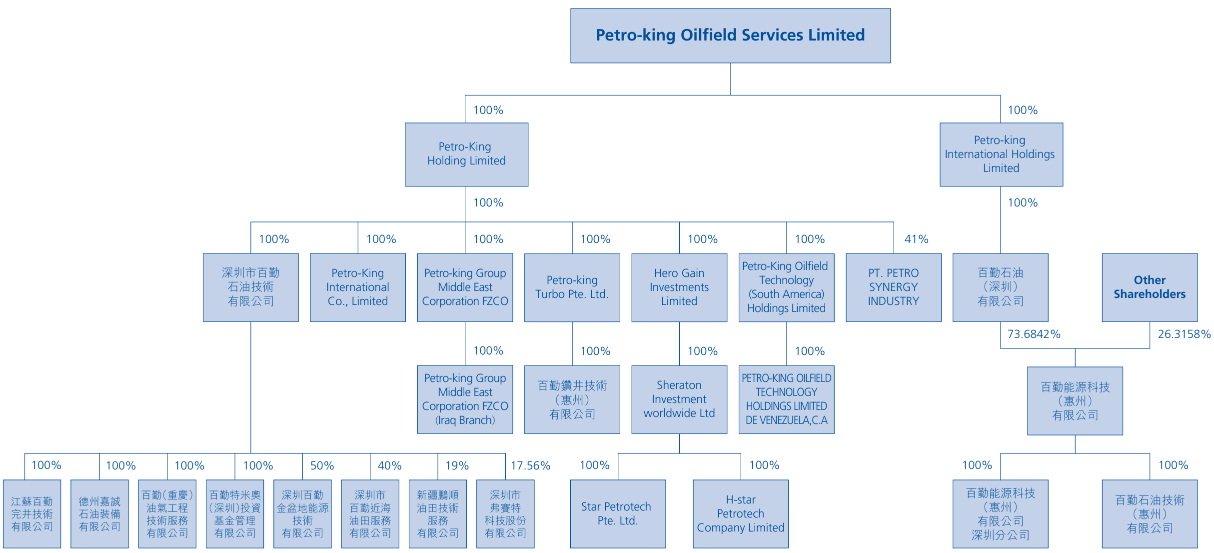
CORPORATE PROFILE

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 the People's Republic of China (The "**PRC**" or "**China**"), the Middle East, Russia, Australia, Canada, South America, Singapore, Indonesia, Taiwan, Kazakhstan, Kyrgyzstan, Turkmenistan, the Republic of Trinidad and Tobago, The United States of America (The "**USA**"), Egypt, Nigeria, and the Gabonese Republic.

CORPORATE STRUCTURE



WANG JINLONG
Chairman

On behalf of the board (the "**Board**") of directors (the "**Director(s)**") 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 2019 (the "**Year**" or "**2019**").

RESULTS

During the Year, the Group continued to engage in the provision of oilfield and gas field technology services covering various stages in the life 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.

During the Year, the Group's revenue increased by approximately 84.7% from approximately HK$258.9 million in 2018 to approximately HK$478.2 million in 2019. Such increase was mainly due to the increase in revenue from the provision of production enhancement services for shale gas field projects in the PRC. In addition, the growing demands for the Group's well completion tools from the PRC market and the increase in oilfield services and integrated project management services provided in the Middle East market also contributed to the Group's increase in revenue.

Loss for the Year has decreased by approximately 86.0% to approximately HK$87.4 million (2018: HK$624.1 million). Such decrease in loss was primarily attributable to the (i) increase in revenue from oilfield and gas field project tools and services, (ii) decrease in provision for impairment of goodwill of approximately HK$209.7 million, (iii) decrease in write-off of property, plant and equipment of approximately HK$60.9 million, (iv) decrease in net impairment loss on financial assets of approximately HK$84.7 million and (v) decrease in provision/write-off of inventories of approximately HK$33.2 million.

OUTLOOK

During the Year, Brent crude oil price fluctuated between approximately US$52–75/barrel. The outbreak of the Coronavirus Disease 2019 (the "**COVID-19**") in the PRC in late 2019 and early 2020 has caused temporary delay on the progress of certain oilfield and shale gas field projects in the PRC. Nevertheless, as the impact of the epidemic gradually fade away in the PRC, the Group has recently resumed its provision of fracturing services for the shale gas fields in southwestern China and the revenue from the provision of such production enhancement services will continue to contribute stable income for the Group's operations in 2020.

As a result of the worldwide outbreak of the COVID-19 pandemic in the first quarter of 2020 and the recent failure of reaching an agreement to reduce oil production between the OPEC and Russia, global oil price slumped significantly and these may potentially cause a reduction in capital and operating expenditure by the customers which will result in a slow-down in the overall exploration and production activities and casts uncertainty over the future development of the industry. Up to the date of this annual report, the impacts of the drop in the oil price and the worldwide COVID-19 pandemic on the Group's operations remain uncertain. The Group will continue to monitor and assess the situations and evaluate their financial impacts on the Group. Under such circumstances, the Group will remain cautious in its operations, tighten the control of capital expenditure and strive to lower its operation costs.

For the year of 2020, the Group will continue to market and promote its well completion tools, production enhancement tools and various oilfield and gas field services in both domestic and overseas markets and continue to explore market opportunities in the Middle East, African and South American regions. In addition, the Group will continue to focus on the research and development of its oilfield service technologies and tools in order to further enhance our capability to provide high-end oilfield and gas field services in the China and overseas markets.

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 of our dedicated staff members for their valuable contribution during the Year.

Wang Jinlong
Chairman

Hong Kong, 30 March 2020

GEOGRAPHICAL MARKET ANALYSIS

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

	2019 *(HK$ million)*	2018 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2019** *(%)*	Approximate percentage of total revenue in 2018 *(%)*
China market	**353.7**	182.5	93.8%	**74.0%**	70.5%
Overseas market	**124.5**	76.4	63.0%	**26.0%**	29.5%
Total	**478.2**	258.9	84.7%	**100%**	100%

The Group's revenue from the China market increased by approximately HK$171.2 million or approximately 93.8% to approximately HK$353.7 million in 2019 from approximately HK$182.5 million in 2018. The increase in revenue from the China market was mainly due to the increased demands of fracturing services and well completion tools from customers.

The Group's revenue from the overseas market increased by approximately HK$48.1 million or approximately 63.0% to approximately HK$124.5 million in 2019 from approximately HK$76.4 million in 2018. The increase in revenue from overseas markets was mainly due to the increases in oilfield services and integrated project management services provided in the Middle East.

REVENUE FROM THE CHINA MARKET

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

	2019 *(HK$ million)*	2018 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the China market in 2019** *(%)*	Approximate percentage of total revenue from the China market in 2018 *(%)*
Northern China	**69.0**	19.4	255.7%	**19.5%**	10.6%
Southwestern China	**158.0**	68.0	132.4%	**44.7%**	37.3%
Northwestern China	**48.7**	26.8	81.7%	**13.8%**	14.7%
Other regions in China	**78.0**	68.3	14.2%	**22.0%**	37.4%
Total	**353.7**	182.5	93.8%	**100%**	100%

In 2019, the Group's revenue from Northern China amounted to approximately HK$69.0 million; which has increased by approximately HK$49.6 million or approximately 255.7% from approximately HK$19.4 million in 2018. The increase was mainly due to the increase in the sales of well completion tools and dissolvable bridge plugs and an increased demand for fracturing services.

The revenue from Southwestern China amounted to approximately HK$158.0 million in 2019, which has increased by approximately HK$90.0 million or approximately 132.4% from approximately HK$68.0 million in 2018. The increase was mainly due to the increase in the demands of fracturing services and dissolvable bridge plugs.

The revenue from Northwestern China amounted to approximately HK$48.7 million; which has increased by approximately HK$21.9 million or approximately 81.7% from approximately HK$26.8 million in 2018. The increase was mainly due to the increase in the sales of of well completion tools and dissolvable bridge plugs and increased drilling services provided in Northwestern China.

The revenue from other regions in China amounted to approximately HK$78.0 million in 2019, which has increased by approximately HK$9.7 million or approximately 14.2% from approximately HK$68.3 million in 2018. The increase was mainly due to the increased sales of well completion tools in other regions in China.

REVENUE FROM THE OVERSEAS MARKET

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

	2019 **(*HK$ million*)**	2018 (*HK$ million*)	Approximate percentage change (*%*)	**Approximate percentage of total revenue from the overseas market in 2019** **(*%*)**	Approximate percentage of total revenue from the overseas market in 2018 (*%*)
The Middle East	**89.1**	46.8	90.4%	**71.6%**	61.3%
Others	**35.4**	29.6	19.6%	**28.4%**	38.7%
Total	**124.5**	76.4	63.0%	**100%**	100%

The revenue from the Middle East amounted to approximately HK$89.1 million in 2019, which has increased by approximately HK$42.3 million or approximately 90.4%, from approximately HK$46.8 million in 2018. The increase was mainly due to the increase in oilfield services and integrated project management services provided to a major customer in the Middle East.

The revenue from other overseas regions amounted to approximately HK$35.4 million in 2019, which has increased by approximately HK$5.8 million or approximately 19.6% from approximately HK$29.6 million in 2018. The increase was mainly due to the increase in the sales of well completion tools in such regions.

OPERATING SEGMENT ANALYSIS

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

	2019 (HK$ million)	2018 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 2019 (%)**	Approximate percentage of total revenue in 2018 *(%)*
Oilfield project tools and services	**424.1**	226.8	87.0%	**88.7%**	87.6%
Consultancy services	**54.1**	32.1	68.5%	**11.3%**	12.4%
Total	**478.2**	258.9	84.7%	**100%**	100%

In 2019, the Group's revenue from oilfield project tools and services amounted to approximately HK$424.1 million, which has increased by approximately HK$197.3 million or approximately 87.0% from approximately HK$226.8 million in 2018. The increase was mainly due to the increase in revenue from the provision of fracturing services for shale gas field projects in the PRC, the growing demands for the Group's well completion tools from the PRC market and the increase in oilfield services and integrated project management services provided in the Middle East market.

The Group's revenue from consultancy services amounted to approximately HK$54.1 million in 2019, which has increased by approximately HK$22.0 million or approximately 68.5% from approximately HK$32.1 million in 2018. The revenue increased mainly because of the increase in provision of integrated project management services in the Middle East in 2019.

Oilfield Project Tools and Services

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

	2019 (HK$ million)	2018 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from oilfield project tools and services in 2019 (%)**	Approximate percentage of total revenue from oilfield project tools and services in 2018 *(%)*
Drilling	**26.8**	20.5	30.7%	**6.3%**	9.0%
Well completion	**109.1**	75.1	45.3%	**25.7%**	33.1%
Production enhancement	**288.2**	131.2	119.7%	**68.0%**	57.9%
Total	**424.1**	226.8	87.0%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to approximately HK$26.8 million in 2019, which has increased by approximately HK$6.3 million or approximately 30.7% from approximately HK$20.5 million in 2018. The increase was mainly due to the increase in provision of drilling services in Northwestern China.

In 2019, the Group completed drilling services for 10 wells. The drilling services were mainly provided in Northwestern China.

Well Completion

In 2019, the Group's revenue from well completion amounted to approximately HK$109.1 million, which has increased by approximately HK$34.0 million or approximately 45.3% from approximately HK$75.1 million in 2018. The increase was mainly resulted from the increased revenue arising from underground gas storage facility projects in the PRC and the increased demand in well completion tools in the China market.

Revenue from well completion were mainly derived from the China, the Middle East, and the Africa market.

Production Enhancement

In 2019, the Group's revenue from production enhancement services amounted to approximately HK$288.2 million, which has increased by approximately HK$157.0 million or approximately 119.7% from approximately HK$131.2 million in 2018. The increase was mainly due to the increase of fracturing services provided for shale gas projects and the increased sales of dissolvable bridge plugs in the China market.

In 2019, the Group provided production enhancement services for 82 wells in the China market.

CUSTOMER ANALYSIS

Customer	**2019 (HK$ million)**	2018 (HK$ million)	Approximate percentage change (%)	**Approximate percentage of total revenue in 2019 (%)**	Approximate percentage of total revenue in 2018 (%)
Customer 1	**209.0**	87.0	140.2%	**43.7%**	33.6%
Customer 2	**74.9**	21.5	248.4%	**15.7%**	8.3%
Customer 3	**58.5**	33.0	77.3%	**12.2%**	12.7%
Customer 4	**34.7**	–	N/A	**7.3%**	0.0%
Customer 5	**18.7**	5.0	274.0%	**3.9%**	1.9%
Customer 6	**12.2**	–	N/A	**2.6%**	0.0%
Customer 7	**12.0**	–	N/A	**2.5%**	0.0%
Customer 8	**10.3**	6.4	60.9%	**2.1%**	2.5%
Other customers	**47.9**	106.0	-54.8%	**10.0%**	41.0%
Total	**478.2**	258.9	84.7%	**100%**	100%

The revenue from customer 1 amounted to approximately HK$209.0 million in 2019, which has increased by approximately HK$122.0 million or approximately 140.2% from HK$87.0 million in 2018. Such increase in revenue from this customer was mainly attributable to the increased demand in fracturing services and dissolvable bridge plugs in Southwestern China. The revenue from customer 2 amounted to approximately HK$74.9 million in 2019, which has increased by approximately HK$53.4 million or approximately 248.4% from approximately HK$21.5 million in 2018. This increase was mainly due to the increase in oilfield services and integrated project management services provided to the customer in the Middle East. The revenue from customer 3 amounted to approximately HK$58.5 million in 2019, which has increased by approximately HK$25.5 million or approximately 77.3% from approximately HK$33.0 million in 2018. Such increase was mainly attributable to the increase in the provision of production enhancement services and increased sales of dissolvable bridge plugs in the Northern China. The revenue from customer 4 amounted to approximately HK$34.7 million in 2019 (2018: Nil). Revenue from customer 4 arose from the sales of well completion tools to other regions in China. The revenue from customer 5 amounted to approximately HK$18.7 million in 2019, which has increased by approximately HK$13.7 million or approximately 274.0% from approximately HK$5.0 million in 2018. Such increase was resulted from the Group's increased sales of well completion tools and provision of integrated project management services in other regions in China. The revenue from customer 6 amounted to approximately HK$12.2 million in 2019 (2018: Nil). Revenue from customer 6 was attributable to the sales of well completion tools in other overseas market. Revenue from customer 7 amounted to approximately HK$12.0 million in 2019 (2018: Nil). Revenue from customer 7 was derived from the drilling services provided to a customer in Northwestern China. Revenue from customer 8 amounted to approximately HK$10.3 million in 2019, which has increased by approximately HK$3.9 million or approximately 60.9% from approximately HK$6.4 million in 2018. This increase was mainly attributable to the increase in the sales of well completion tools to a customer in other overseas region. The revenue from other customers amounted to approximately HK$47.9 million in 2019, which has dropped by approximately HK$58.1 million or approximately 54.8% from approximately HK$106.0 million in 2018. Such decrease was resulted from the decreased sales of well completion tools to certain customers the Middle East.

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our business. We have implemented human resources policies and procedures with detailed 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, technical practice training, control at wells and environment management. We also worked with external organizations such as unions and consultants to provide training for the specific needs of the operations. The Group arranged 68 training programs, more than 6,434 hours in total and 174 employees attended these training programs in 2019. Besides, the Company implemented new talents selection system to expand the promotion channel for staff in order to realize a win-win situation for both the Company and employees.

To cope with the development trend of the industry, 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 383 employees as at 31 December 2019, which has increased by approximately 12.6% as compared with that of 340 employees as at 31 December 2018.

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 2019 encouraging staff ownership and team spirit.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself 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 2019, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

- Successfully designed and tested third generation of 5 1/2" all-metal dissolvable bridge plug, which can substantially shorten the operation time and save operation costs for multistage perforation fracturing operations.
- Successfully designed and tested a new 185 degree C high temperature dissolvable bridge plug which can withstand high temperature working environment. This kind of tool can be used in wells with extra-high pressure and high temperatures.
- Continue to focus on the development and testing of 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 2019, the Group had 30 utility model patents and 14 innovation patents and was applying for 2 utility model patents and 19 innovation patents.

FINANCIAL REVIEW

Revenue

During the Year, the Group's revenue amounted to approximately HK$478.2 million, which has increased by approximately 84.7% as compared to that of approximately HK$258.9 million in 2018, representing an increase of approximately HK$219.3 million. The increase in revenue was mainly due to the increased demand of fracturing services provided to shale gas fields in the PRC. In addition, there was increased revenue from the sales of oilfield tools in the PRC market and the provision of oilfield services and integrated project management services in the Middle East market during 2019.

Material Costs

During the Year, the Group's material costs were approximately HK$110.1 million, which has increased by approximately HK$0.1 million or approximately 0.1% as compared to that of approximately HK$110.0 million in 2018. Material costs represented approximately 23.0% of the revenue in 2019, which was lower than that of 42.5% in 2018. As the Group generated more revenue from the provision of fracturing services in 2019 which utilise fewer materials than other projects, coupled with the overall improvement in the profit margin of the Group's projects and products, the overall material costs as a percentage of revenue decreased in 2019.

Depreciation of Property, Plant and Equipment

During the Year, the depreciation of property, plant and equipment amounted to approximately HK$56.4 million, which has decreased by approximately HK$15.8 million or approximately 21.9% as compared to that of approximately HK$72.2 million in 2018. Such decrease was primarily resulted from the write-off of certain property, plant and equipment in the second half of 2018.

Employee Benefit Expenses

During the Year, the Group's employee benefit expenses were approximately HK$102.1 million, which has increased by approximately HK$0.7 million or approximately 0.7% as compared to that of approximately HK$101.4 million in 2018.

Distribution Expenses

During the Year, the Group's distribution expenses amounted to approximately HK$9.4 million, which has increased by approximately HK$5.3 million or approximately 129.3% from approximately HK$4.1 million in 2018. The increase in distribution expenses mainly resulted from the increase in revenue and sales activities in 2019.

Technical Service Fees

During the Year, the Group's technical service fees amounted to approximately HK$73.2 million, which has increased by approximately HK$55.1 million or approximately 304.4% from approximately HK$18.1 million in 2018. During 2019, the Group has utilised more technical services for its oilfield projects in the Middle East and for its production enhancement services provided in Southwestern China.

Entertainment and Marketing Expenses

During the Year, entertainment and marketing expenses amounted to approximately HK$16.7 million, which has increased by approximately HK$6.3 million or approximately 60.6% from approximately HK$10.4 million in 2018, mainly attributable to the increase in sales and scale of operations in 2019.

Other Expenses

During the Year, the Group's other expenses were approximately HK$50.2 million, which has increased by approximately HK$5.3 million or approximately 11.8% from approximately HK$44.9 million in 2018, mainly attributable to the increase in share-based compensation resulting from the issue of convertible bonds on 3 April 2019.

Net Impairment Loss on Financial Assets

During the Year, net impairment loss on financial assets amounted to approximately HK$75.3 million, which has decreased by approximately HK$84.7 million or approximately 52.9% from approximately HK$160.0 million in 2018. Such decrease in net impairment loss on financial assets was due to the overall improvement in the quality of the financial assets in 2019. The net impairment loss on financial assets in 2019 was mainly relating to certain customers in the China and the Middle East markets.

Provision for Inventories Losses/Write-off of Inventories

During the Year, the provision for inventories losses and write-off of inventories amounted to approximately HK$23.0 million, which has decreased by approximately HK$33.2 million or approximately 59.1% from approximately HK$56.2 million in 2018. Such decrease in inventories losses/write-off was due to the decrease in the amount of obsolete inventories in 2019.

Provision for Impairment of Goodwill

During the Year, the Group has not made any provision for impairment of goodwill, as compared with impairment provision of approximately HK$209.7 million in 2018. No further impairment provision of goodwill was made in 2019 as the Group's financial performance has improved as compared with that in 2018.

Write-off of Property, Plant and Equipment

During the Year, Write-off of property, plant and equipment amounted to approximately HK$1.2 million, which has decreased by approximately HK$60.9 million or approximately 98.1% from approximately HK$62.1 million in 2018, as there was no significant damage to the service equipment during 2019.

Operating Loss

As a result of the foregoing, the Group's operating loss in 2019 amounted to approximately HK$60.7 million, which has dropped by approximately HK$542.0 million or approximately 89.9% as compared to that of approximately HK$602.7 million in 2018.

Net Finance Costs

During the Year, the Group's net finance costs amounted to approximately HK$24.2 million, which has increased by approximately HK$3.7 million or approximately 18.0% as compared to that of approximately HK$20.5 million in 2018. Such increase in net financing costs was resulted from the increased scale of operations of the Group in 2019.

Loss for the Year

As a result of the foregoing, the Group's loss for the Year amounted to approximately HK$87.4 million, which has decreased by approximately HK$536.7 million or approximately 86.0% as compared with that of approximately HK$624.1 million in 2018.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company in 2019 was approximately HK$87.0 million, which has decreased by approximately HK$536.1 million or approximately 86.0% as compared with that of approximately HK$623.1 million in 2018.

Property, Plant and Equipment

Property, plant and equipment mainly include items such as buildings, plant and machinery, service equipment, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 31 December 2019, the Group's property, plant and equipment amounted to approximately HK$357.7 million, which has decreased by approximately HK$26.7 million or approximately 6.9% from approximately HK$384.4 million as at 31 December 2018. The decrease was primarily due to the depreciation of the property, plant and equipment in 2019.

Intangible Assets

As at 31 December 2019, the Group's intangible assets amounted to approximately HK$95.5 million, which is similar to HK$95.5 million as at 31 December 2018.

Right-of-use Assets/Land Use Rights

Due to the adoption of IFRS 16 Leases by the Group on 1 January 2019, the total right-of-use assets has increased by approximately HK$21.8 million as at 31 December 2019 while the land use rights has decreased by approximately HK$9.7 million as compared with that as at 31 December 2018. Further details of such accounting treatment are disclosed in note 2.2 to the consolidated financial statements.

Inventories

As at 31 December 2019, the Group's inventories amounted to approximately HK$56.9 million, representing a drop of approximately HK$24.1 million or approximately 29.8% as compared with that of approximately HK$81.0 million as at 31 December 2018. The average turnover days of inventories decreased from approximately 335 days in 2018 to approximately 229 days in 2019. The decrease of inventories turnover days was mainly due to the increase in revenue during 2019.

Trade Receivables

As at 31 December 2019, the Group's trade receivables amounted to approximately HK$240.5 million, representing an increase of approximately HK$34.5 million or approximately 16.7% as compared with that of approximately HK$206.0 million as at 31 December 2018. The average turnover days of trade receivables were approximately 171 days in 2019, representing a decrease of approximately 261 days as compared with that of approximately 432 days in 2018. The decrease in turnover days of trade receivables was mainly due to the increase in revenue in 2019 and the improvements in trade receivables settlement from customers in the China market.

Trade Payables

As at 31 December 2019, the Group's trade payables were approximately HK$132.8 million, which has increased by approximately HK$5.0 million or approximately 3.9% as compared with that of approximately HK$127.8 million as at 31 December 2018. The average turnover days of trade payables decreased from approximately 352 days in 2018 to approximately 260 days in 2019, representing a decrease of approximately 92 days. The decrease in turnover days of trade payables was mainly due to the accelerated use of inventory due to the increased scale of operations in 2019.

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 2019, the Group's cash and cash equivalents amounted to approximately HK$29.4 million, representing a decrease of approximately HK$9.9 million as compared with that of approximately HK$39.3 million as at 31 December 2018. The cash and cash equivalents were mainly held in RMB and US$.

As at 31 December 2019, the Group's bank facilities of approximately HK$93.8 million (2018: HK$41.8 million) were granted by banks to subsidiaries, of which all have been utilised by the subsidiaries.

During the year ended 31 December 2019, the Group reported a net loss attributable to owners of the Company of approximately HK$87,032,000 and operating cash outflow of approximately HK$33,704,000. As at the same date, the Group's current liabilities exceeded its current assets by HK$71,891,000 and had total bank and other borrowings of approximately HK$293,989,000 that are due within twelve months from the date of the consolidated statement of financial position, while its cash and cash equivalents amounted to approximately HK$29,447,000 only.

Subsequent to the year end, the recent drop in international crude oil price caused by the price cut in Saudi Arabia may potentially cause a slow-down in oil exploration and production activities. It may adversely affect the progress of ongoing project orders as well as future customers' demand of the Group's services.

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 to the consolidated financial statements.

Gearing Ratio

As at 31 December 2019, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 42.3% (2018: 33.9%). Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings and lease liabilities" as shown in the consolidated financial statements) less total cash (including "pledged bank deposits" and "cash and cash equivalents" as shown in the consolidated financial statements). Total capital is calculated as "equity" as shown in the consolidated financial statements 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.

Contractual Obligations

The Group's commitment under operating leases amounted to approximately HK$1.4 million as at 31 December 2019 (2018: HK$16.0 million).

Capital Commitment

As at 31 December 2019, the Group did not have any capital commitment (2018: Nil).

Contingent Liabilities

Details of contingent liabilities of the Group as at 31 December 2019 are set out in note 33 to the consolidated financial statements.

Off-balance Sheet Arrangements

As at 31 December 2019, the Group did not have any off-balance sheet arrangements (2018: Nil).

SCOPE AND REPORTING PERIOD

This is the fourth Environmental, Social, and Governance (the "**ESG**") report of Petro-King Oilfield Services Limited (the "**Company**", and together with its subsidiaries referred to as 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, 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, Environmental and Social aspects of its major business operations in the People's Republic of China (the "**PRC**") and Singapore from 1 January 2019 to 31 December 2019 (the "**Reporting Period**"), unless otherwise stated. The major business operations identified in the Reporting Period included:

(i) Petro-king Shenzhen headquarters office in Shenzhen, the PRC (hereafter "**Shenzhen office**");

(ii) Petro-king Oilfield Technology (Huizhou) Holdings Limited in Huizhou, the PRC (hereafter "**Huizhou plant**"); and

(iii) Star Petrotech Pte Ltd. in Singapore (hereafter "**Singapore plant**").

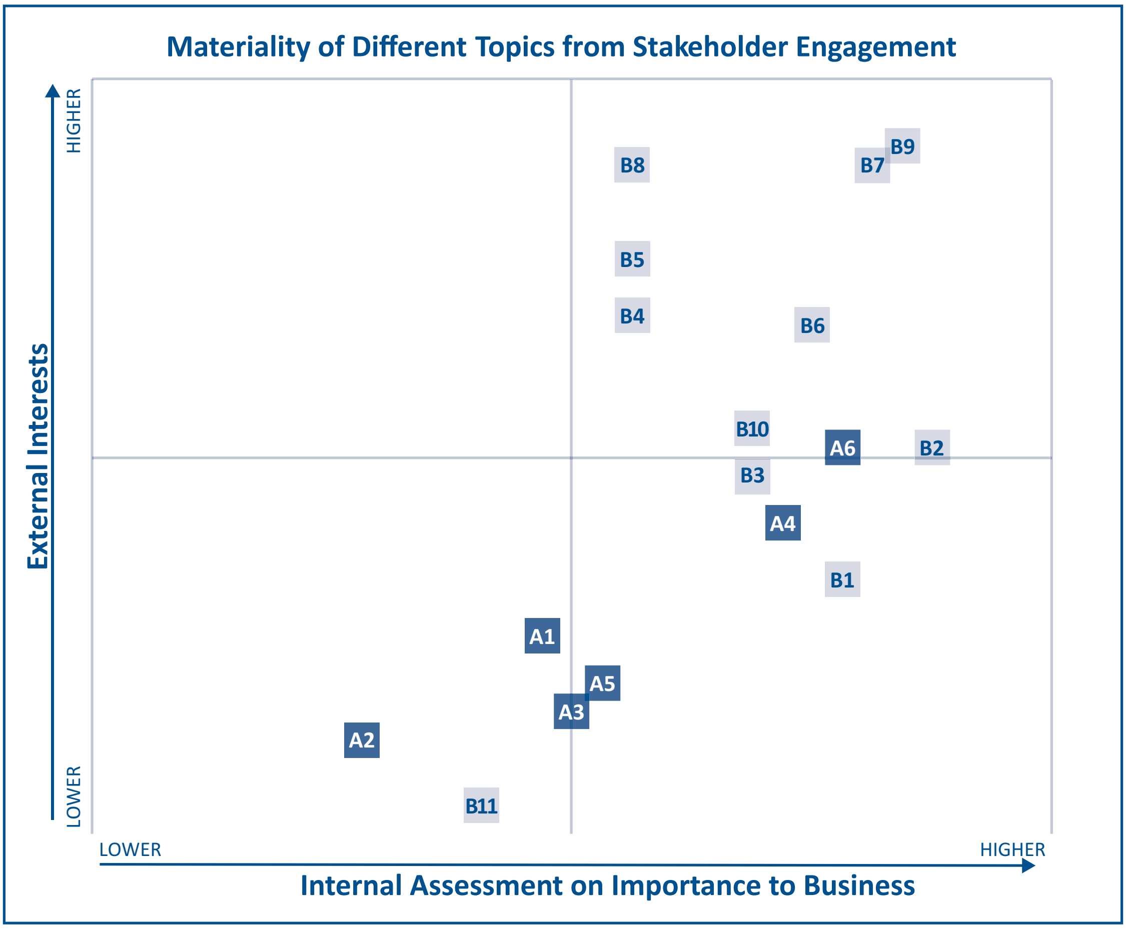
The above three locations and subsidiaries are identified to be the major operational sites for the Group during the Reporting Period.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group collects feedback from the stakeholders on an annual basis via meetings, emails, and site visits. In order to identify the most significant ESG topics, the Group has carried out a materiality assessment by distributing quantitative surveys to the key stakeholders. During the Reporting Period, the Group specifically engaged both internal and external stakeholders, namely Board of Directors (the "**Board**"), senior management, shareholders, frontline staff, suppliers and customers, to gain insights regarding ESG material topics and challenges of the Group's operation.

Results of the materiality assessment and the consolidated list of material aspects are presented in the following matrix and table respectively.

Materiality Matrix



A.	Environmental Issues
A1	Energy
A2	Water
A3	Emissions
A4	Effluent and Waste
A5	Other Raw Materials Consumption
A6	Environmental Protection Policies

B.	Social Issues
B1	Employment
B2	Health and Safety
B3	Development and Training
B4	Labor Standards
B5	Supply Chain Management
B6	Intellectual Property Rights
B7	Customer Data Protection
B8	Customer Service
B9	Product Quality
B10	Anti-corruption
B11	Community Investment

Among the environmental and social aspects, the following topics are identified as the most material issues to the stakeholders:

- Product and Service Quality
- Customer Privacy
- Intellectual Property Rights
- Customer Service
- Supply Chain Management
- Occupational Health and Safety

From the perspectives of stakeholders, most of the key ESG issues fall under the social aspects, ranging from operating practices to employment and labour practices, whereas environmental aspects are considered less material to the Group's business operation. The material aspects identified are reviewed annually by the Group and updated as appropriate.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on its 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 COMMITMENT

The Group is committed to conducting its business in a responsible manner by adhering to the highest standards of quality, occupational health, safety and environmental (the "**QHSE**"). It has incorporated ESG considerations into daily management to achieve profit maximization while protecting the environment, fulfilling corporate social responsibility and achieving stakeholder satisfaction.

The QHSE policy forms an integral part of the Group and showcases the Group's commitments to sustainability and occupational health, safety and environmental (the "**HSE**") matters. In addition to complying with regulatory requirements, the Group takes pride in its pursuit of continuous improvement, so as to earn the trust of the customers, shareholders and public.

The Group strives to:

- achieve zero injuries and incidents;
- protect the natural environment;
- use materials and energy efficiently in the product and service delivery;
- apply the best safety practices to the operations;
- improve HSE performance as an integral part of Group's operational strategy; and
- promote a culture in which all the employees within the Group share the commitment to achieve the goals.

During the Reporting Period, major challenges encountered by the Group included the increasingly sophisticated demands of customers on the QHSE requirements, product and service quality standards, and conformity to applicable industry standards, legal and contractual requirements. Correspondingly, the Group enforces strict compliances with all applicable laws, regulations and standards to guarantee consistent product quality that meets and exceeds customers' requirements, to manage its key operational risks effectively, and to achieve the goals of zero injuries, zero pollution and zero accidents.

CERTIFICATIONS AND MEMBERSHIPS

As a result of persistent pursuit of quality management excellence, the Group has obtained the following certifications and membership:

- International Association of Drilling Contractors ("**IADC**");
- ISO 9001 Quality Management System;
- American Petroleum Institute ("**API**") Specification Q1;
- Certificate of Authority to use the Official API Monogram (API Spec 11D1, 14A and 14L);
- ISO 14001 Environmental Management System; and
- OHSAS 18001 Occupational Health and Safety Management System.

A. ENVIRONMENTAL

The Group has obtained the ISO 14001 Environmental Management System certification and developed Environmental Protection Management Procedure, Waste Management System and Environmental Management System for Drilling Site for management of all the significant environmental risks and prevention of environmental pollution. During the Reporting Period, the Group strictly complies with national and local laws and regulations concerning environmental protection and pollution control, including but not limited to the followings:

Environmental laws and regulations complied in different regions

The PRC

- Environmental Protection Law of the PRC
- Law of the PRC on the Prevention and Control of Atmospheric Pollution
- Cleaner Production Promotion Law of the PRC
- 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
- Circular Economy Promotion Law of the PRC
- Energy Conservation Law of the PRC
- Marine Environment Protection Law of the PRC
- Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste

Singapore

- The Environmental Protection and Management Act

No non-compliance with relevant laws and regulations, that have a significant impact to 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 utilize compressed air and generate dust during the cutting procedures. Fumes are also emitted by combusting liquefied petroleum gas ("**LPG**") in the canteen operation in Huizhou plant. During the Reporting Period, all the emissions generated on-site were released into atmosphere through designated pipes, where the concentrations did not exceed the permissible limits set by the national emission standard, e.g., GB16297 Integrated Emission Standards for Air Pollutants. The above-mentioned production activities contributed to the emission of nitrogen oxides ("**NOx**") and sulphur oxides ("**SOx**").

Stationary fuel source	**Air emissions (non-GHG) from the stationary combustion**	
	NO_x (kg)	SO_x (kg)
LPG	0.74	<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.

The Group-owned, fossil-fuelled vehicles (e.g., passenger cars, light goods vehicle, medium goods vehicle and other mobile machinery) were used for daily business operations during the Reporting Period, which contributed to the emission of nitrogen oxides, sulphur oxides and respiratory suspended particles ("**RSP**").

Mobile fuel source	**Air emissions (non-GHG) from the mobile combustion**		
	NO_x (kg)	RSP (kg)	SO_x (kg)
Petrol and diesel	593.96	18.80	0.36

A1.2 Greenhouse Gas Emissions

During the Reporting Period, the Group's business operation contributed to an emission of 745.07 tonnes of carbon dioxide equivalent ("**$tCO_2eq.$**"), mainly carbon dioxide, methane and nitrous oxide. The overall intensity of the GHG emissions for the Group was 0.10 $tCO_2eq./m2$ with reference to the total floor area of the Group's business operations.

The reported GHG emissions were attributed to the following activities:

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

Scope of GHG emissions	**Emission sources**		**GHG Emissions** *(in $tCO_2eq.$)*	**Sub-total** *(in $tCO_2eq.$)*	**Total GHG emissions** *(in percentage)*
Scope 1 Direct Emission[1]	Combustion of fuel for stationary sources	LPG	12.16	77.20	10%
	Combustion of fuel for mobile sources	Diesel	4.93		
		Petrol	60.11		
Scope 2 Energy Indirect Emission[2]	Purchased electricity		334.28	334.28	45%
Scope 3 Other Indirect Emission	Paper waste disposed of in landfills		3.22	333.59	45%
	Electricity used for freshwater treatment by government		0.79		
	Electricity used for sewage treatment by government		0.30		
	Business air travel by employees[3]		329.28		
Total				745.07	100%

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

Note 2: Combined margin emission factor of 0.5422 tCO_2/MWh and 0.4105 tCO_2/MWh were used for purchased electricity in Guangdong Province of the PRC and Singapore.

Note 3: CO_2 emissions from the Group's business air travels were reported with accordance to the International Civil Aviation Organization (ICAO) Carbon Emission Calculator.

A1.3 Hazardous Waste

The Group generated a total of 3.28 tonnes of hazardous waste during the Reporting Period. The types of hazardous waste included oil-containing production wastes and office wastes.

Hazardous waste generated in FY2019

Types of Hazardous Wastes	Waste Generated (in tonnes)
Oil-containing production waste from Huizhou plant	0.75
Oil-containing production waste from Singapore plant	2.43
Non-production waste from Singapore plant (e.g., batteries, computer hardware, tube lights)	0.10

A1.4 Non-hazardous Waste

The Group generated a total of 39.28 tonnes of non-hazardous waste during the Reporting Period. Non-hazardous wastes including industrial wastes and domestic wastes were generated. The sources of industrial waste were mainly scrap metals generated in the manufacturing process. Domestic wastes were mainly paper waste and food waste.

Non-hazardous waste generated in FY2019

Types of Non-hazardous Wastes	Waste Generated (in tonnes)
Scrap metal	35.78
Office waste (mainly paper and carton boxes)	3.00
Food waste	0.50

A1.5 Measures to Mitigate Emissions

The Group has actively engaged in implementing effective control measures to curb the emissions. Direct and indirect emissions generated on-site (e.g., dust and exhaust gas) are mitigated via various initiatives. The Group monitors the performances through regular sampling and other monitoring activities and reinforces proper maintenance of production facilities.

Canteen Operation

Cooking oil fumes and odour emitted during food processing are treated before discharged to the atmospheric environment.

Production Activity

Compressed air is used in the production process which generates minimal emissions. To reduce emissions from combusting diesel, the Group has gradually switched from diesel-fuelled engines to gas turbines for generation of electricity to power pressure pumps for fracturing operations.

Road Transport Source

To reduce emissions from vehicles, employees who take public transportation are eligible to claim the transport fares for commuting. In replacement of combustion engine motorcycles, employees in the Huizhou plant have purchased electric motorcycles to reduce emissions and carbon footprints.

When traveling by the Group's vehicles, the schedules and routes are carefully planned to avoid traffic congestion. If the vehicles remain idle for more than 10 minutes (e.g., awaiting passengers), the engines must be turned off. When looking for car rental services, the Group has given priority to electric cars (e.g., electric tricycles) that have zero exhaust emissions. Regular car inspection and maintenance are conducted to fix engine failures so as to reduce vehicle emissions.

Business Air Travel

For indirect emissions, the largest source of GHG emissions for the Group was employees' business air travel, due to the business nature of the Group where frequent travel to oilfields are necessary for provision of oilfield services to clients. To reduce emission due to business travel, the Group encourages employees to take public buses, trains and high-speed trains. In cases of urgent business matters, or unfavourable traffic conditions, employees can obtain management's permission to travel by air.

A1.6 Wastes Handling and Reduction Initiatives

Hazardous wastes and non-hazardous wastes are sorted according to their types, stored separately at designated storage areas, and collected by licensed waste collectors for downstream treatment or disposal. Office waste is collected by property management office for downstream recycling and municipal waste treatment. Food waste is collected by local farmers and recycled into animal feed.

The Group has set out various initiatives for waste reduction. The Group sees the importance of the implementation of paperless office. Office automation is adopted in the paperless office, where documents and information are transmitted electronically to avoid paper consumption. Where printing is necessary, documents should be printed on both sides of paper. The Group also puts waste recycling bins in the office to encourage recycling of paper. A total of 0.2 tonnes of paper was recycled by the Huizhou plant during the Reporting Period. The Singapore plant follows the "just-in-time" philosophy and does not overstock raw materials, thereby reduces unnecessary inventory.

A2. Use of Resources

The environmental protection policy of the Group has enacted the wise, rational and efficient use of resources throughout the business operations. The Group consumes natural resources (e.g. energy and water) and raw materials (e.g., seamless steel tube, steel bar and aluminium alloy). It endeavours to enhance resources efficiency in the use of energy, water and raw materials while complying with all applicable environmental requirements.

A2.1 Energy Consumption

The total energy consumed by the Group was 950,085 Kilowatt-hour ("**kWh**"), with an overall energy intensity of 138.51 kWh/m^2 in terms of total office floor area of the Group during the Reporting Period. Due to the different natures of business, the electricity intensities of different sites are presented in separate rows.

Direct electricity consumption	**Consumption** *(in kWh)*	**Electricity Intensity** *(kWh/m2)*
Shenzhen office	48,411	40.38
Huizhou plant	378,361	108.10
Singapore plant	250,683	91.83
The Group total	677,455	91.19

The consumptions of petrol, diesel, and LPG are presented in kWh unit.

Other energy sources	Direct consumption *(in different units)*	Consumption *(in kWh)*
Petrol	22,300 L	197,615
Diesel	1,872 L	18,842
LPG	4,030 kg	56,173
The Group total		272,630

Note: Conversion factors were made 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 1,949 m^3, with an overall energy intensity of 0.26 m^3/m^2 in terms of total office floor area of the Group during the Reporting Period. Freshwater is sourced from municipal water supply system. No issues on sourcing water were reported during the Reporting Period.

Operational sites	Water consumption *(in m^3)*	Intensity *(m^3/m^2)*
Shenzhen office	112	0.09
Huizhou plant	1,089	0.31
Singapore plant	748	0.27
The Group total	1,949	0.26

A2.3 Energy Use Efficiency Initiatives

The Group has adopted various initiatives to ensure the rational use of energy resources. The Group controls the use of air conditioners and maintains the room temperature at 26 °C in summer. When choosing energy-consuming appliances (e.g., air conditioners), the Group goes for the most energy-efficient model.

In the production sites, the use of standby generators is avoided through proper work scheduling to maximize the utilization of local public power supply. The Huizhou plant utilizes renewable energy (e.g., solar energy) to heat up water for domestic use and adopts energy-efficient lighting. All the manufacturing facilities meet the national standards on energy saving.

A2.4 Water Use Efficiency Initiatives

The Group continuously conserves water resources and has effectively managed its water consumption through different control measures. Automatic time delay faucets with water-saving feature are installed at Shenzhen office and Huizhou plant. All the water taps at the Singapore plant are fitted with water-saving filters.

A2.5 Packaging Material

A total of 6.90 tonnes of packaging materials were consumed during the Reporting Period. Wooden boxes are used to pack and deliver goods to customers. The Huizhou plant has devoted resources to making wooden boxes with environment-friendly composite boards and angle bars. In the Singapore plant, wooden pallets are reused for as many times as possible and wooden boxes are reused to pack finished products.

Packaging materials consumed in FY2019

Types of Packaging Materials	**Consumption by Type** *(in tonnes)*
Wood (e.g., composite board and wood panel)	6.50
Paper	0.40

A3. The Environment and Natural Resources

A3.1 Significant Impacts of Activities on the Environment

The Group's business activities do not pose significant adverse impacts on the environment, except for the minor impacts arisen from consumption of natural resources (e.g., water and energy), emissions and potential oil spills. Aware of its environmental influences, the Group actively manages and assesses its environmental impacts through policy controls and acts decisively to prevent environmental damages.

Environmental Protection Management Procedure is enforced to regulate the use of natural resources. For instances, the Group has conserved water and energy resources through installing water-efficient devices in the office; reusing the produced water in hydraulic fracturing; setting air-conditioners at an energy-saving temperature as well as carrying out proper maintenance of equipment. The administration department keeps track of the monthly consumption of water and electricity. As a result, all the operating activities are monitored to prevent excessive and unnecessary use of resources.

Spillage from drilling and fracturing fluids can result in water and soil pollution. To protect the soil and groundwater, the surface of well site is covered by an impermeable membrane liner. This provides a containment to prevent oil spills and runoff from seeping into the ground which could lead to soil and water contaminations. Furthermore, the Group reuses drilling fluids and produced water as hydraulic fracturing fluid to reduce freshwater consumption and improve overall environmental performance in hydraulic fracturing operations. Besides, municipal and industrial wastewater which are processed by separate sewerage system, are transferred to dedicated environmental engineering corporations for proper treatment. The quality of treated effluent fulfilled the discharge requirements of Huizhou Jinshan Sewage Treatment Plant.

Looking forward, the Group will take steps to further lessen its impacts to the natural environment to create a healthy environment for its employees. During the Reporting Period, the Group did not receive any complaints from the surrounding community concerning air pollution, odour, noise, or other environmental pollution incidents.

B. SOCIAL

1. Employment and labour practices

The Group recognizes and appreciates the hard work of their employees. With a mission to create values for its employees, the Group offers attractive career prospects, a wide variety of learning opportunities and a safe working environment.

B1. Employment

The Group endeavours to provide a fair and transparent workplace that offers rewarding remuneration and equitable human resource (the "**HR**") management policies. During the Reporting Period, the Group strictly complied with national and local laws and regulations in relation to employment and labour practices, including but not limited to the followings:

Employment laws and regulations complied in different regions

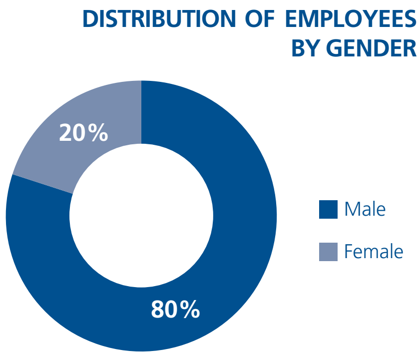
The PRC

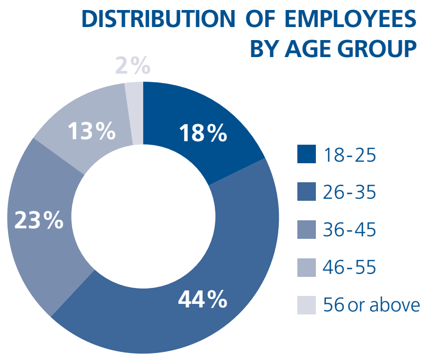
- Labour Law of the PRC
- Labour Contract Law of the PRC
- Regulation on Paid Annual Leave for Employees
- Regulations of the State Council on the Hours of Work of Employees
- Trade Union Law of the PRC

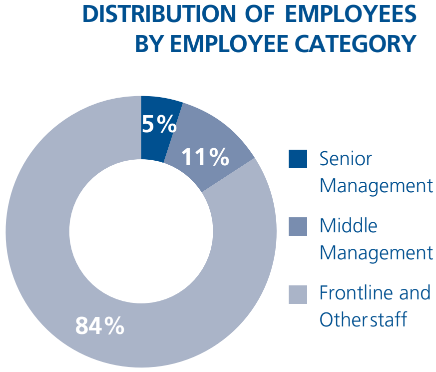
Singapore

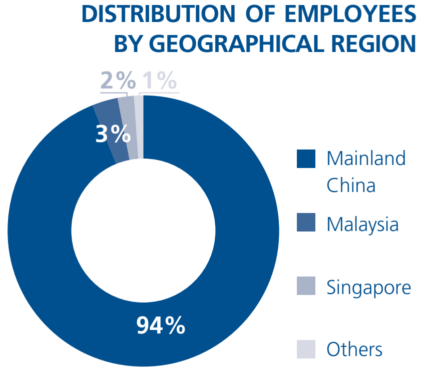
- Employment Act

The Group had a total number of 383 employees as of 31 December 2019. All of them were full-time employees. The total workforce which is sorted by gender, age group, employee category and geographical region[1] are shown below.









The employment contract lays down the details of appointment, such as position, commencement date, remuneration and promotion, compensation and dismissal policy, probationary period, leave entitlement, reward and penalty system and other terms and conditions of employment enforced by relevant laws and regulations. Employees shall be familiar with the employee handbook which outlines the Group's policies, procedures and employee benefits that regulate individual behaviours.

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.

[1] Other geographical regions including India, Hong Kong, the United Kingdom and Philippine, each accounting for less than 1% of workforce.

Competitive Compensation and Benefits Package

The Group continues to offer a competitive remuneration package to their employees and ensures that the benefits and welfare are provided in accordance with the applicable laws and regulations. The Group provides social insurance, subsidies, holidays and other benefits according to the statutory requirements. Apart from statutory holidays, employees are entitled to paid annual leave, sick leave, marriage leave, maternity leave, paternity leave, injury leave, compensation leave, breastfeeding break and condolence money. Annual health check-up is provided to the employees in the PRC operations. Employees are entitled to year-end bonus or pro-rated bonus for new hires based on the duration of employment in the calendar year. Employees who work beyond the statutory working hours are eligible for overtime pay or compensatory leave as stipulated in the Labour Law of the PRC. Salary review takes place every year whilst salary increment is dependent on the performance of the operation sites, teams and individual.

Termination of Contract

Termination of employment may occur in a number of situations including resignation, dismissal and termination under various situations. Employees shall inform the Group in advance of their intention to resign according to the notification period as stated in the employment contracts. According to the termination policy, the Group reserves the right to dismiss an employee at any time by notification in writing if the employee is involved in acts of misconduct or has committed an offence against the local laws and regulations of the operation sites. There shall be no severance pay for dismissal cases nor payments for any outstanding earned annual leave and any declared bonus.

Appraisal and Promotion

The Group undertakes promotion exercise on an annual basis. Performance appraisal is conducted to evaluate the competencies of the employees via end-of-year examination and performance appraisal. Managers of respective departments also evaluate the completion level of the performance indicators. All the employees could be promoted and are eligible for performance bonus.

Equal opportunity

The Group strives to promote diversity and inclusion in the workplace. Non-discriminatory employment practices are implemented to prohibit all forms of discrimination, including gender, age, family status, sexual orientation, disability, race and religion. Adhering to the employment discrimination laws, the Group supports diversity and respects the goal of equal opportunity employment in its business operations.

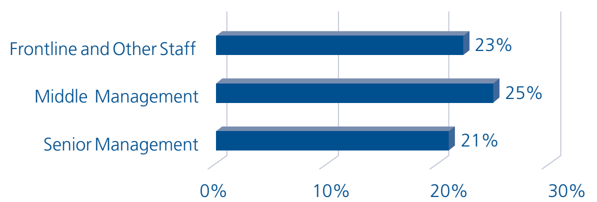
Employee relations and turnover

During the Reporting Period, the operation in Shenzhen organized events jointly with the trade union, such as giving out red packets, sending free gifts and disturbing fruits to the employees during various festivals. Besides, the Group was in collaboration with the community centre in Nanshan District to provide safe, reliable and quality matchmaking services to employees with social pressure.

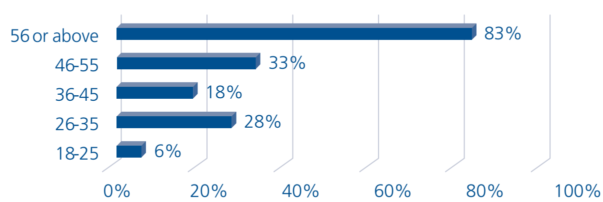
To enhance employees' sense of belonging, the Group has organized buffet gatherings, team bonding activities, sports events and travel tours for employees to foster better understanding of each other. The management of the Singapore plant also holds sharing sessions to recognize employees' achievements to the Group and to collect valuable suggestions from employees on areas of improvement. The Huizhou Plant is planning to organize corporate activities for skills exchange and experience sharing. Additionally, the Huizhou plant sets up appeal procedure whereas employees can raise their grievances through WeChat group, which facilitates timely delivery of feedback to the management of the Group and fair resolution of complaints in a prompt manner..

A total of 93 employees have left the Group during the Reporting Period, with an overall turnover rate of 24%.

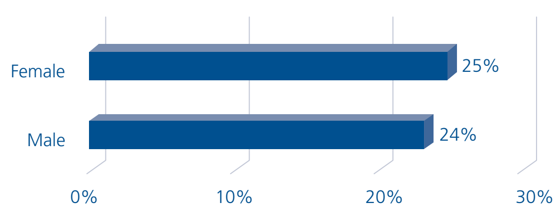
TURNOVER RATE* BY EMPLOYMENT CATEGORY (IN PERCENTAGE)



TURNOVER RATE* BY AGE GROUP (IN PERCENTAGE)



TURNOVER RATE* BY GENDER (IN PERCENTAGE)



B2. Employee Health and Safety

The health and safety of employees is of paramount importance to the Group. Aligned with its QHSE commitment, the Group has certified with OHSAS 18001 Occupational Health and Safety Management System and attained Level 3 of Work Safety Standardization. During the Reporting Period, the Group strictly complied with relevant laws and regulations concerning occupational health and safety, including but not limited to the following laws and regulations.

Occupational health and safety laws and regulations complied in different regions

The PRC

- Law of the PRC on the Prevention and Control of Occupational Diseases
- Production Safety Law of the PRC
- Road Traffic Safety Law of the PRC
- Regulation on Work-Related Injury Insurances
- Regulations of Guangdong Province on Production Safety
- Law of the PRC on Prevention and Treatment of Occupational Diseases

Singapore

- Workplace Safety and Health Act

The Group has implemented Health, Safety and Environment Risk Management Procedure and Occupational Health Management Policy to identify and assess occupational hazards, and to implement risk control measures regarding the associated production activities. The procedures stipulate that all types of risks shall be fully controlled and eliminated through appropriate control measures. The Group closely monitors the inherent hazards and reviews the effectiveness of the measures. For instance, the Singapore plant conducted risk assessments for all production activities to ensure compliance with the local regulation during the Reporting Period.

To create an accident- and illness-free workplace, all frontline workers are provided with personal protection equipment (the "**PPE**") and they are required to put on PPE during the course of work. Employees are required to have health check-ups, which are also used to screen for physically fit workers for certain production activities. All fire safety installations and equipment are checked regularly by the government-approved licensed contractors. The Group conducts fire drills at all operation sites at least once a year. Employees also attend fire safety education talks organized by the property management to get trained on proper use of fire-fighting equipment and safe evacuation in the event of a fire or other emergency.

The Group has provided earplugs to employees who are exposed to noise hazards. The occupational noise level registered during the Reporting Period was in compliance with the Emission Standard for Industrial Enterprises Noise at Boundary (GB/T 12348-2008). However, one inspection point at Huizhou plant has recorded a noise level exceedance due to the noise generated by equipment, inadequate sound insulation and the prolonged exposure hours of workers. The Group has implemented the following measures thereafter:

- Enforcing the use of earplugs in the operations;
- Assessing occupational hazards in the plant regularly; and
- Carrying out proper maintenance of machinery and equipment.

In addition, all employees shall undergo adequate safety education and training to ensure that they acquire necessary knowledge about work safety and are familiar with the relevant rules for work safety and safe operation regulations. Employees have obligations to report any safety violations and incidents of non-conformance in the workplace. The OHSE department shall investigate the issues thoroughly and report to respective departments for rectification. During the Reporting Period, there was no material non-compliance with the applicable laws and regulations relating to occupational health and safety on the Group.

3 working days were lost due to a work injury case occurred in Singapore plant during the Reporting Period, and the incident was reported to the Ministry of Manpower after investigation. Corrective actions were implemented to prevent recurrences. For instances, workers were reminded to follow the safe and appropriate work procedures and they were provided with cut resistant gloves.

Occupational Health and Safety Statistics in FY 2019

Work-related fatality	0
Lost days due to work injury	3 days
Work injury cases ≤3 days	1
Work injury cases >3 days	0

B3. Development and Training

The Group provides comprehensive training and development programmes to employees. The human resources (the "**HR**") department develops strategic training and development plans according to the training needs, job requirements, local regulatory requirements, and upon requests by the employees. Training needs are identified through systematic evaluation with the aid of the occupational competency model.

Internally, the Group conducts structured induction programmes for all new hires, including a brief introduction to HR policies, quality induction and vocational training. Existing employees undergo in-depth on-the-job trainings to enhance their knowledge and skills in the workplace. Besides, employees engaged in drilling operation shall receive specialized training, such as the competency courses provided by the IADC. Employees could work on vessels only after attending trainings on industrial safety for seafarers and obtaining qualification certificates on topics such as Personal Survival Techniques, Personal Safety and Social Responsibilities, Fire Prevention and Firefighting, First Aid, Survival Craft and Rescue Boats.

During the Reporting Period, the Group has arranged the following training courses.

Training types	Internal and external training programs
Managerial	• Project Management • Contract Risk Management • Executive Master of Business Administration Program ("**EMBA**") by China Europe International Business School
Professional	• Internal Auditors for ISO 45001 – Occupational Health and Safety Management System
Safety	• Mandatory Health and Safety • Industrial Safety Program for Seafarers • Awareness of Danger of Hydrogen Sulphide
Technical	• Well Control • Pressure Vessel Training for Crane Operator • Aerial Operations • Well Completion and Lifting
Others	• Social Security • Procurement Cost Control

Moreover, the Group constantly reviews the status of certifications obtained by their employees and reminds employees of renewal two months prior to expiration. Employees are required to attend all the arranged courses in order to renew the certifications and to maintain competences according to the recertification process.

Other than in-house training, employees are eligible for external training and encouraged to pursue higher education provided by Shenzhen Federation of Trade Unions and local educational institutions. To review training effectiveness, the Group analyses participants' feedback collected through post-training questionnaires, interviews, observations and other feasible methods. The training outcomes, and employees' post-training behaviour and performance are also examined to evaluate staff training results.

During the Reporting Period, a total of 6,434 training hours were completed by 174 employees. 45% of employees received training with the average training hours of 17.84 hours per employee. The Singapore plant has spent a total of SGD 6,184 on staff training.

Detailed breakdown of training provided to employees

By employee category

Senior Management	Percentage of employees trained	32%
	Average training hours completed per employee	16.00
Middle management	Percentage of employees trained	84%
	Average training hours completed per employee	15.48
Frontline and other staff	Percentage of employees trained	41%
	Average training hours completed per employee	17.03

By gender

Male	Percentage of employees trained	41%
	Average training hours completed per employee	19.40
Female	Percentage of employees trained	62%
	Average training hours completed per employee	6.30

B4. Labour Standards

The Group strictly complies with laws and regulations pertaining to elimination of child and forced labour, including the Labour Law of the PRC, Provisions on the Prohibition of Using Child Labour and Part VIII of the Employment Act and the Employment (Children and Young Persons) Regulations. The PRC Labour Law prohibits the employment of workers under the age of 13 in any occupation.

The recruitment process is governed by the Group's recruitment process, employee handbook and statutory requirements. The Group performs background check on new hires. Job applicants' documentary proofs of identity, academic qualifications, professionalisms, employment experience and socio-economic status are verified. In case of suspected fraud, the Group will reject the candidate's application or terminate the contract immediately when the suspected fraud is confirmed. The Group may report any violations to the legal entities, i.e., the Ministry of Manpower of Singapore and the Labour and Social Security Bureau of the PRC. There was no child labour nor forced labour employed in the Group; no cases of non-compliance of relevant laws and regulations in relation to labour standards were recorded during the Reporting Period.

2. OPERATING PRACTICES

B5. Supply Chain Management

The Group signs HSE management agreement with the contractors and service providers to ensure that adequate initiatives are implemented to manage the environmental impacts and social issues in the supply of goods and delivery of services during the term of contract. The service providers shall comply with all the safety and environmental protection requirements per the HSE management agreement. Whenever necessary, the Group will assign designated personnel to supervise and monitor the performances of providers to ensure that they meet the requirements.

As one of the concerned topics, the Group has deployed resources to optimize supply chain management. The Group identifies strategic suppliers by enterprise product positioning and development strategies. Suppliers are evaluated through scientific approaches and managed effectively at all levels. Working cooperatively, the Group develops a win-win and sustainable relationship with the suppliers that creates values for the Group.

During the Reporting Period, the Group has engaged a total of 339 suppliers. Most of them were in the Mainland China and Singapore.

Region	**Number of suppliers**	**Types of suppliers**
Mainland China	192	Raw materials, machinery and equipment, and service providers;
Singapore	124	Raw and auxiliary materials, finished components, standard fasteners (e.g., bolts and screws), machinery and general hardware providers
Others (including United States, the United Kingdom and Malaysia)	23	Raw and auxiliary materials (e.g., springs, shear pins and screws), finished components, machinery and equipment, API testing software and service providers

B6. Product Responsibility

The Group keeps track of any amendment of applicable laws and regulations. Correspondingly, it regularly reviews and adopts the regulatory changes to the corporate policies and procedures in order to fulfil the new regulatory requirements.

Quality Assurance

The Group is committed to delivering products and services adhering to the highest quality standard, in terms of service quality, efficacy, safety and reliability. The Group continues to provide customers with high-quality and cost-effective services leveraging on its industry-leading and world-class petroleum engineering technology. The Group has implemented the ISO 9001 quality management system for its products and services and has since certified to the ISO 9001 standard in 2006.

The Group has set out policies regarding quality assurance and control. In Huizhou plant, Monitoring and Measurement of Product Procedure and the Equipment Sampling, Measuring, and Monitoring Procedure are developed to standardise the quality control procedures. In light of market changes, the Group reviews and enhances its quality management system from time to time and strengthens the inspections on incoming materials and final products.

Product Labelling, Health and Safety, and Advertising

Due to the Group's business nature, most of the products are manufactured according to the specifications stipulated in the contracts per customers' requests. The advertising and labelling of products and services are regulated by the applicable laws and regulations, including 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.

Product Recall and Customer Service

The Group has formulated policies on product recalls such as Control of Nonconforming Product Procedure and Control of Production and Service Provision. Customer complaints are resolved in accordance with the standardized complaints handling procedures with corrective measures implemented where necessary. During the Reporting Period, the Group did not receive any complaints. No product was recalled due to safety and health reasons and no material non-compliance with laws and regulations that have a significant impact on the Group in relation to product health and safety and customer services identified during the Reporting Period.

Data Protection

The Group places great emphasis on the management of data and privacy matters owned by the Group and the third parties, such as suppliers and customers.

To enforce control on confidentiality and privacy, the Group has developed confidentiality rules in the code of conduct for the employees. It is stated that employees shall not pursue or engage in any act that may be detrimental to the Group, such as divulging confidential information concerning the Group, its business or its clients to unauthorised parties. Moreover, employees are required to enter into a non-disclosure agreement (the "**NDA**") with the Group before employment. By signing the NDA, employees agree to the Group's policies on protection of any confidential information of the Group and of the confidentiality of any business secrets shared with suppliers and customers.

Also, the Group has implemented management rules on information technology (the "**IT**") to strengthen the IT management, network security and data security, so as to ensure the stability of the network, hardware and software. The Group continuously improves the information security management system. For instance, the Group has adopted the latest network security solution and installed the software with latest version. There was no loss of customer data and privacy identified or non-compliance with laws and regulations that have a significant impact on the Group in relation to customer data protection and privacy was recorded during the Reporting Period.

Intellectual Property (the "IP")

The Group continuously invests in the development of oilfield services technology, aiming to launch innovative products and services with pride. The Group's IP policy is compliant with the Enterprise Intellectual Property Management (GB/T 29490-2013), Trademark Law and the Patent Law of the PRC, and regulates the implementation, maintenance and continuous improvement of the Group's management on IP rights. It is committed to using third-party licensed rights and IP assets rightfully without violation of any applicable laws and regulations on IP infringement. As of 31 December 2019, the Group had 30 utility model patents and 14 innovation patents and was applying for 2 utility model patents and 19 innovation patents.

The achievements and results accomplished by the research & development (the "**R&D**") team are 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 to a third party. After an employee leaves the Group, he/she must obtain permission from the Group to access to the R&D project.

B7. Anti-corruption

The Group has zero tolerance for bribery and corruption. The Group requires their employees and business partners to conduct businesses in an honest and ethical manner. All parties shall conform to the national laws, regulations and regulatory documents. During the Reporting Period, the Group complies with the following laws and regulations to prevent commercial bribery.

Anti-corruption laws and regulations complied in different regions

The PRC

- The Anti-Unfair Competition Law of the PRC
- The Criminal Law of the PRC

Singapore

- The Prevention of Corruption Act
- The Corruption, Drug Trafficking and other Serious Offences (Confiscation of Benefits) Act
- Chapter IX of the Penal Code

According to the code of conduct, employees are prohibited from committing theft, fraud or dishonesty in connection with the Group properties, or committing a criminal offence outside office, which brings adverse publicity to the Group and/or affects the Group's reputation. In the event an employee is found to have committed any act of misconduct, the Group reserves the rights to take disciplinary actions, including dismissal.

The whistle-blowing policy states that whistle-blowers can make confidential reports to the Board directly upon any suspicious activities, either in person or email to hr@petro-king.cn. All reports and the identities of whistle-blowers would be treated in the strictest confidence.

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. There was no concluded legal case regarding corrupt practices brought against the Group or its employees during the Reporting Period.

B8. Community Investment

The Group strives to discharge corporate social responsibility and actively participates in public welfare undertakings. To unify the community, the Group will consider formulating formal policies on community engagement with more volunteering opportunities provided to the employees.

During the Reporting Period, the Group has organized volunteering activities to address the needs of the neighbourhood.

Community participation

The Group pays close attention to issues of employment of the community. During the Reporting Period, the Huizhou plant arranged recruitment activities for job seekers in the nearby region.

Movie night

In April 2019, the Group jointly sponsored a free movie night with Shenzhen Nanshan District Yuehai Subdistrict Labour Union as a way to unify the community.

Tree planting activity

During the Reporting Period, the employees of the Huizhou plant devoted a total of 40 service hours to a tree planting activity.

CORPORATE GOVERNANCE PRACTICES

Petro-king Oilfield Services Limited (the "**Company**", together with its subsidiaries, the "**Group**") 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 (the "**Board**") of directors (the "**Director(s)**") of the Company comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provision(s)**") set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). During the year ended 31 December 2019 (the "**Year**" or "**2019**"), the Company has complied 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 to gain and develop a balanced understanding of the views of shareholders. Mr. Zhao Jindong, being an executive Director, Mr. Xin Junhe being an independent non-executive Director, and Mr. Lee Tommy, being a non-executive Director, could not attend the annual general meeting of the Company held on 6 June 2019 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 of 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.

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 to 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 confirmed that all Directors have fully complied with the required standard of dealings as set out in the Model Code during the Year.

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

During the Year, 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

Other than those disclosed in note 39 to the consolidated financial statements, no other significant event has occurred after the end of the Year and up to the date of this annual report.

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 the 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.

On 26 April 2018, King Shine Group Limited (a company owned as to approximately 45.24% by Mr. Wang Jinlong) has charged the shares of the Company held by it to Zero Finance Hong Kong Limited (a company in-directly owned as to 99.99% by Mr. Lee Tommy). Save as disclosed and to the best knowledge of the Company, there are no other financial, business and family relationships among the 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 Year 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 trainings to the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wang Jinlong, an executive Director and the chairman of the Board (the "**Chairman**"), plays the critical role of leading the Board in fulfilling its responsibilities. The role of the chief executive officer (the "**CEO**") is held by Mr. Huang Yu. 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 and Rule 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing at least 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 confirmation 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, 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 2018, the approval of the interim results of the Group for the six months ended 30 June 2019, and the review and discussion of the financial performance of the Group.

Details of the attendance of the Directors in the board meetings, board committee meetings and general meetings held during 2019 are as follows:

	Meetings attended/Meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Sanction Oversight Committee	2019 Annual General Meeting
Executive Directors						
Wang Jinlong	7/7	–	2/2	1/1	2/2	1/1
Zhao Jindong	7/7	–	–	–	–	0/1
Non-executive Directors						
Lee Tommy	7/7	–	2/2	1/1	–	0/1
Ma Hua	7/7	–	–	–	–	1/1
Independent non-executive Directors						
Tong Hin Wor	7/7	2/2	2/2	1/1	–	1/1
Xin Junhe	7/7	2/2	2/2	1/1	2/2	0/1
Leung Lin Cheong	7/7	2/2	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, two meetings of the Audit Committee were held on 27 March 2019, and 15 August 2019 to review and consider, among others, the financial statements of the Company for the year ended 31 December 2018 and for the six months ended 30 June 2019, 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.

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, two meetings of the Remuneration Committee was held on 27 March 2019 and 30 May 2019 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, to consider and recommend to the Board their remuneration proposals with reference to the corporate goals and objectives of the Board and to consider and recommend to the Board the remuneration proposal for the newly appointed CEO. 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 is set out below:

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

Details of Directors' emoluments are set out in note 26(a) 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, one meeting of the Nomination Committee was held on 27 March 2019 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 forthcoming 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, two meetings of the Sanction Oversight Committee were held on 27 March 2019 and 15 August 2019 respectively to review and discuss issues according to the working plan prepared by the Company. All members of the Sanction Oversight 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 amounted to HK$3,500,000. No non-audit service was 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, Mr. Tung has received relevant professional trainings of not less than 15 hours to update his skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROL

During the Year, the Group has complied with 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 2019, 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 2019, no significant control deficiency was identified.

Internal auditors

The Company currently does not have an internal audit function. During the Year, 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 2019 to 31 December 2019. 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 has been no material risk management and internal control deficiency 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' meetings. 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 is no significant change in the Company's constitutional documents during the Year.

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, the Directors have selected appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Jinlong (王金龍) ("Mr. Wang"), aged 54, 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 56, 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 43, 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 44, is our non-executive Director. She was appointed as a non-executive Director on 12 June 2012. She is now the managing partner and vice president 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 63, 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 74, 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 66, 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 since September 2016. 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. Huang Yu (黃瑜) ("Mr. Huang"), aged 56, joined the Group as our vice president in December 2018, and was appointed as the Chief Executive Officer in May 2019. Mr. Huang is responsible for overall management of the Group's business operations. 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 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.

Mr. Chan Kwok Yuen Elvis (陳國源) ("Mr. Chan"), aged 47, 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 23 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.

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗) ("Mr. Tung"), aged 57, 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 NOVA Group 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)

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

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British Virgin Islands
VG1110

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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30 Canton Road,
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 705-710, Tower A, Tiley Central Plaza
No. 3 Haide Road
Nanshan District
Shenzhen
Guangdong
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BRITISH VIRGIN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

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

China Merchants Bank
China Merchants Building, Shekou
Shenzhen 518067
China

Bank of China, Shekou sub-branch
18 Taizi Road, Shekou,
Shenzhen 518067
China

AUDITOR

PricewaterhouseCoopers
Certificated Public Accountants and
Registered Public Interest Entity Auditor
Hong Kong

LEGAL ADVISERS (HONG KONG LAW)

Tung & Co.

COMPANY'S WEBSITE

www.petro-king.cn

STOCK CODE

2178

REPORT OF THE DIRECTORS

The directors (the "**Directors**") of Petro-king Oilfield Services Limited (the "**Company**") 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 2019 (The "**Year"** or **"2019"**).

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 Company has since its incorporation become the ultimate holding vehicle of the Group's various arms of business. The Company completed its initial public offering and the shares of the Company were listed on The Stock Exchange of Hong Kong Limited (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 37 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 16 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 are set out in the consolidated statement of comprehensive income on pages 80 to 81.

The Directors do not recommend the payment of final dividend for the Year. No dividends were declared or paid in respect of the Year.

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 bank and other borrowings of the Group as at 31 December 2019 are set out in note 20 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 17 to the consolidated financial statements.

USE OF PROCEEDS FROM ISSUE OF CONVERTIBLE BONDS

On 03 April 2019, the Company completed the issue of convertible bonds (the "**2019 Convertible Bonds**") to Asian Equity Special Opportunities Portfolio Master Fund Limited and Ms. Ng Man Chi (collectively as the "**Subscribers**") in the principal amounts 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$0.288 per conversion share. Further details of these convertible bonds were disclosed in the Company's announcements dated 21 March 2019 and 03 April 2019.

As the subscription money payable by the Subscribers in the aggregate principal amount of HK$30,000,000 was applied towards the payment of and set-off against the redemption money payable by the Company to the Subscribers in respect of the convertible bonds in the aggregate principal amount of HK$30,000,000 issued on 24 May 2018, the Company had not received any net proceeds from the issue of the 2019 Convertible Bonds.

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 of the Company (the "**Shareholders**").

DISTRIBUTABLE RESERVES

As at 31 December 2019, 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 of the Company (the "**Share Options**") granted in prior years and the Year are set out in note 27 to 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, no Share Option was exercised and no share was 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 82.8% of the Group's total revenue. The amount of revenue attributable to the Group's largest customer represented approximately 43.7% of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 36.1% of the Group's total purchases. The amount of purchases attributable to the Group's largest supplier represented approximately 10.7% of the Group's total purchases.

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

DIRECTORS

The Directors of the Company during the Year and up to the date of this report were as follows:

Executive Directors:

Mr. Wang Jinlong
Mr. Zhao Jindong

Non-executive Directors:

Mr. Lee Tommy
Ms. Ma Hua

Independent Non-executive Directors:

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

Ms. Ma Hua, Mr. Xin Junhe and Mr. Leung Lin Cheong 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 confirmations of independence pursuant to Rule 3.13 of the Listing Rules from all independent non-executive Directors and the board (the "**Board**") of Directors 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 the chairman
Mr. Zhao Jindong	HK$135,000 as Director and RMB800,000 as the 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 2019, 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%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	337,269,760 (L)	19.53%
	Interest in a controlled corporation *(Note 4)*	488,920,138 (L)	28.32%
Mr. Zhao Jindong	Beneficial owner *(Notes 5)*	8,676,833 (L)	0.50%
Mr. Huang Yu	Beneficial owner *(Note 6)*	17,954,200 (L)	1.04%

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 of the Company in which Lee & Leung (B.V.I.) Limited is interested for the purpose of the SFO.

4. On 26 April 2018, King Shine has charged the shares of the Company held by it to Zero Finance Hong Kong Limited ("**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 99.99% owned by Mr. Lee Tommy. Therefore, Mr. Lee Tommy, 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 of the Company in which Zero Finance is interested for the purpose of the SFO.

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. Huang Yu on 31 May 2019. Therefore under Part XV of the SFO, Mr. Huang Yu 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, 954,200 shares were also beneficially owned by Mr. Huang Yu.

Save as disclosed above, as at 31 December 2019, 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 2019, 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**
King Shine	Beneficial owner	488,920,138 (L)	28.32%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	488,920,138 (L)	28.32%
aEasy Finance Holdings Limited	Interest in a controlled corporation *(Note 2)*	488,920,138 (L)	28.32%
Zero Finance Group Holdings Limited	Interest in a controlled corporation *(Note 2)*	488,920,138 (L)	28.32%
Earth Axis Investment Limited	Interest in a controlled corporation *(Note 2)*	488,920,138 (L)	28.32%
aEasy Credit Investment Limited	Interest in a controlled corporation *(Note 2)*	488,920,138 (L)	28.32%
Zero Finance	Person having a security interest in shares *(Note 2)*	488,920,138 (L)	28.32%
Mr. Lee Lap	Founder of a discretionary trust *(Note 8)*	337,269,760 (L)	19.53%
HSBC International Trustee Limited	Trustee *(Note 8)*	337,269,760 (L)	19.53%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 8)*	337,269,760 (L)	19.53%
Lee & Leung (B.V.I.) Limited	Beneficial owner *(Note 8)* Interest in a controlled corporation *(Note 8)*	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%
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. 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 99.99% owned by Mr. Lee Tommy. Therefore, Mr. Lee Tommy, 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.

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

4. Ms. Zhou Xiaojun is the spouse of Mr. Wang Jinlong. Therefore, Ms. Zhou Xiaojun is deemed to be interested in the shares of the Company in which Mr. Wang Jinlong is interested for the purpose of the SFO.

5. Information is extracted from the corporate substantial shareholder notice filed by UBS Group AG on 24 November 2017.

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, Greenwoods 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. 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 in which Lee & Leung (B.V.I.) Limited is interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2019, the Directors are not aware that there is any party (not being a Director or chief executive of our Company) 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 2019, (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 2019, a total of 17,000,000 share options have been granted to Mr. Huang Yu, the CEO of the Company on 31 May 2019 under the Share Option Scheme. Set out below are details of the movements of share options during the financial year ended 31 December 2019:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2019	Options granted since 1 January 2019	Options exercised since 1 January 2019	Options lapsed/ cancelled since 1 January 2019	Options outstanding as at 31 December 2019
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
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 (resigned on 31 May 2019)	1 December 2016	0.530	0.530	17,000,000	–	– *(Note 4)*	17,000,000	–
	28 June 2018	0.381	0.350	3,000,000	–	– *(Note 4)*	3,000,000	–
Huang Yu (appointed on 31 May 2019)	31 May 2019	0.1922	0.183	–	17,000,000	– *(Note 5)*	–	17,000,000
Employees and senior managements	29 April 2014	2.3803 *(adjusted)*	2.44	4,488,779	–	– *(Note 1)*	4,488,779	–
	29 May 2015	1.2132 *(adjusted)*	1.28	32,253,135	–	– *(Note 2)*	7,715,039	24,538,096
	26 October 2016	0.529	0.520	39,860,000	–	– *(Note 3)*	8,820,000	31,040,000
	16 August 2018	0.326	0.32	5,000,000	–	– *(Note 6)*	–	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				111,044,786	17,000,000	–	41,680,704	86,364,082

Notes:

1. The share options have a validity period of 5 years from 29 April 2014 to 28 April 2019 and have lapsed upon the expiry of the validity period.

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 have been 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 have been 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. Zeng Weizhong has resigned as the chief executive officer of the Company with effect from 31 May 2019. Thus, as at 31 August 2019, all his 20,000,000 share options have lapsed in accordance with the terms of the scheme.

5. 20% of the share options shall be vested on the date falling on the first anniversary of the date of grant and exercisable from 31 May 2020 to 30 May 2026, 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 31 May 2021 to 30 May 2026, 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 31 May 2022 to 30 May 2026, 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 31 May 2023 to 30 May 2026, 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 31 May 2024 to 30 May 2026, both dates inclusive.

6. 20% of the share options have been 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 27 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, 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.

AUDIT COMMITTEE

The 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 are to review and approve our Group's financial reporting process, risk management and internal control system.

The Audit Committee has reviewed with the management 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 Group for the Year.

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.

CONNECTED TRANSACTIONS

On 23 December 2019, Mr. Wang Jinlong ("**Mr. Wang**"), the Chairman, an executive Director and a substantial shareholder of the Company, entered into a capital increase agreement for contribution of RMB8,000,000 capital to Petro-king Energy Technology (Huizhou) Co., Ltd.* (百勤能源科技(惠州)有限公司) ("**Petro-king Huizhou**") in exchange for 8.4210% of the equity interest in Petro-king Huizhou (the "**Capital Contribution**") upon completion. The Capital Contribution was completed on 30 December 2019. Further details of the Capital Contribution were set out in the Company's announcements dated 23 December 2019 and 14 January 2020.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 40 to 49.

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 17 to 39.

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.

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Details of the events after the date of the statement of financial position are set out in note 39 to the consolidated financial statements.

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.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who will 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, 30 March 2020

* *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 78 to 192, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 2019, 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 Group 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$87,032,000 and operating cash outflow of approximately HK$33,704,000 during the year ended 31 December 2019. As at the same date, the Group's current liabilities exceeded its current assets by HK$71,891,000 and had total bank and other borrowings of approximately HK$293,989,000 that are due within twelve months from the date of the consolidated statement of financial position. 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 non-financial assets of oilfield project tools and services and consultancy services

- Impairment of trade receivables and contract assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of non- financial assets of oilfield project tools and services and consultancy services	
Refer to note 4 critical accounting estimates and judgements, note 6 property, plant and equipment, note 7 right-of-use assets, note 8 intangible assets to the consolidated financial statements of the Group. As at 31 December 2019, the carrying amounts of the property, plant and equipment, right-of-use assets and intangible assets of oilfield project tools and services and consultancy services before the provision for impairment were approximately HK$276,055,000, HK$8,317,000 and HK$95,456,000, respectively. Management performed impairment review in respect of these non-financial assets of oilfield project tools and services and consultancy 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. We focused on this area due to the size of the non-financial assets of oilfield project tools and services and consultancy 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 on our audit procedures performed, we found that management's judgements used to perform impairment assessment of non-financial assets of oilfield project tools and services and consultancy services to be supported by available evidence.

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
Impairment of trade receivables and contract assets	
Refer to note 4 critical accounting estimates and judgements, note 13 trade and other receivables, deposits and prepayments and note 16 contract assets to the consolidated financial statements of the Group. As at 31 December 2019, the Group had gross trade receivables and contract assets of approximately HK\$508,628,000 and HK\$52,202,000 and provision for impairment of trade receivables and contract assets of approximately HK\$268,130,000 and HK\$522,000, respectively. 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 and contract assets based on the information including but not limited to aging of trade receivables and contract assets, past repayment history, subsequent settlement status, on-going business relationship with relevant customers and forward-looking information that affecting the customers' ability to repay the outstanding balances. Based on the impairment assessment, management has recorded provision for impairment of trade receivables and contract assets of HK\$268,130,000 and HK\$522,000 as at 31 December 2019. 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 and contract assets.	Our procedures in relation to management's impairment assessment of trade receivables and contract assets included: – Understanding the status of each of the material balances that were past due through discussion with management and the sales team; – Checking the ageing profile of the material balances as at 31 December 2019 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 balances, corroborating management explanation by checking to the status of underlying projects and information about contracted parties and subsequent settlement, if any. Based on our audit procedures performed, we found the management judgement used to perform the impairment assessment of trade receivables and contract assets 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.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Hiu Yam, Winnie.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019 Hk$'000	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**357,679**	384,354
Intangible assets	*8*	**95,462**	95,485
Right-of-use assets	*7*	**21,814**	–
Land use rights	*9*	**–**	9,731
Financial asset at fair value through profit or loss	*10*	**7,298**	5,184
Other receivables and deposits	*13(b)*	**31,219**	38,824
Deferred tax assets	*21*	**–**	2,193
		513,472	535,771
Current assets			
Inventories	*12*	**56,890**	80,951
Trade receivables	*13(a)*	**240,498**	205,957
Contract assets	*16*	**51,680**	7,059
Other receivables and deposits	*13(b)*	**60,352**	79,442
Prepayments	*13(b)*	**9,446**	23,700
Pledged bank deposits	*14*	**4,803**	11,702
Cash and cash equivalents	*15*	**29,447**	39,315
		453,116	448,126
Total Assets		**966,588**	983,897
EQUITY AND LIABILITIES			
Equity			
Share capital	*17*	**2,001,073**	2,001,073
Other reserves	*18*	**24,216**	34,872
Accumulated losses		**(1,643,881)**	(1,573,284)
		381,408	462,661
Non-controlling interests		**24,307**	959
Total equity		**405,715**	463,620

	Note	As at 31 December 2019 Hk$'000	 2018 HK$'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*20*	**25,478**	216,460
Lease liabilities	*7*	**10,155**	–
Deferred tax liabilities	*21*	**233**	230
		35,866	216,690
Current liabilities			
Trade payables	*19(a)*	**132,761**	127,803
Other payables and accruals	*19(b)*	**83,423**	95,087
Contract liabilities	*16*	**12,247**	8,449
Lease liabilities	*7*	**2,587**	–
Bank and other borrowings	*20*	**293,989**	72,248
		525,007	303,587
Total liabilities		**560,873**	520,277
Total equity and liabilities		**966,588**	983,897

The notes on pages 85 to 192 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 78 to 192 were approved by the Board of Directors on 30 March 2020 and were signed on its behalf.

Mr. Wang JinLong
Director

Mr. Zhao JinDong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Revenue	5	**478,245**	258,932
Other income	22	**852**	1,685
Operating costs			
Material costs	12	**(110,131)**	(110,029)
Depreciation of property, plant and equipment	6	**(56,407)**	(72,220)
Depreciation of right-of-use assets	7	**(1,902)**	–
Amortisation of intangible assets and land use rights	8, 9	**(27)**	(887)
Operating lease rental		**(4,362)**	(6,413)
Employee benefit expenses	23	**(102,110)**	(101,363)
Distribution expenses		**(9,419)**	(4,088)
Technical service fees		**(73,249)**	(18,117)
Research and development expenses		**(13,879)**	(13,198)
Entertainment and marketing expenses		**(16,737)**	(10,440)
Other expenses	24	**(50,181)**	(44,928)
Net impairment loss on financial assets	13	**(75,286)**	(160,023)
Net impairment loss on contract assets	16	**(522)**	–
Provision for inventories losses	12	**(21,874)**	–
Write-off of inventories	12	**(1,145)**	(56,230)
Provision for impairment of goodwill	8	**–**	(209,732)
Write-off of property, plant and equipment	6	**(1,193)**	(62,097)
Other (losses)/gains, net	25	**(1,390)**	6,467
Operating loss		**(60,717)**	(602,681)
Finance income	28	**79**	93
Finance costs	28	**(24,270)**	(20,564)
Finance costs, net		**(24,191)**	(20,471)
Loss before income tax		**(84,908)**	(623,152)
Income tax expense	29	**(2,470)**	(919)
Loss for the year		**(87,378)**	(624,071)
Other comprehensive loss			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	18	**(10,955)**	(33,864)
Other comprehensive loss for the year, net of tax		**(10,955)**	(33,864)
Total comprehensive loss for the year		**(98,333)**	(657,935)

		Year ended 31 December	
	Note	**2019**	2018
		HK$'000	HK$'000
Loss for the year attributable to:			
Owners of the Company		**(87,032)**	(623,070)
Non-controlling interests		**(346)**	(1,001)
		(87,378)	(624,071)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(97,987)**	(656,934)
Non-controlling interests		**(346)**	(1,001)
		(98,333)	(657,935)
Loss per share attributable to owners of the Company during the year	*30*		
Basic loss per share (HK cents)		**(5.0)**	(36.1)
Diluted loss per share (HK cents)		**(5.0)**	(36.1)

The notes on pages 85 to 192 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 18)*	Accumulated losses	Total	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2019	**2,001,073**	**34,872**	**(1,573,284)**	**462,661**	**959**	**463,620**
Comprehensive loss						
Loss for the year	–	–	(87,032)	(87,032)	(346)	(87,378)
Other comprehensive loss						
Currency translation differences	–	(10,955)	–	(10,955)	–	(10,955)
Total comprehensive loss for the year	–	(10,955)	(87,032)	(97,987)	(346)	(98,333)
Transactions with owners in their capacity as owners						
Exchange of 2018 Convertible Bonds *(Note 20(c))*	–	8,029	–	8,029	–	8,029
Recognition of share-based payment *(Note 27)*	–	3,545	–	3,545	–	3,545
Transfer of share-based payment upon expiry of share options *(Note 27)*	–	(22,390)	22,390	–	–	–
Transactions with non-controlling interests *(Note 35(a))*	–	5,160	–	5,160	22,693	27,853
Non-controlling interests on acquisition of subsidiary	–	–	–	–	1,001	1,001
Transfer to statutory reserve	–	5,955	(5,955)	–	–	–
Total transactions with owners, recognised directly in equity	–	299	16,435	16,734	23,694	40,428
Balance at 31 December 2019	**2,001,073**	**24,216**	**(1,643,881)**	**381,408**	**24,307**	**405,715**

	Attributable to owners of the Company					
	Share capital	Other reserves *(Note 18)*	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	–	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 2018 Convertible Bonds	–	3,715	–	3,715	–	3,715
Recognition of share-based payment *(Note 27)*	–	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

The notes on pages 85 to 192 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash used in operations	*32(a)*	**(14,394)**	(12,937)
Interest paid		**(19,033)**	(6,677)
Income tax paid		**(277)**	(176)
Net cash used in operating activities		**(33,704)**	(19,790)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(24,980)**	(34,605)
Purchase of intangible assets		**(4)**	–
Proceeds of investment in financial assets through profit or loss	*10*	**(2,114)**	–
Proceeds from disposal of property, plant and equipment	*32(b)*	**317**	1,042
Proceeds from disposal on equity interest of a subsidiary, net of cash	*35(b)*	**1,882**	–
Interest received	*28*	**79**	93
Proceeds from disposal on equity interest of a subsidiary without loss on control	*35(a)*	**13,378**	–
Decrease/(increase) in pledged bank deposits	*32(d)*	**6,754**	(3,650)
Net cash used in investing activities		**(4,688)**	(37,120)
Cash flows from financing activities			
Proceeds from bank and other borrowings, 2018 Term Loan		**–**	140,000
Proceeds from bank and other borrowings, shareholder loan		**20,000**	40,000
Proceeds from bank and other borrowings, others		**162,010**	29,277
Repayments of bank and other borrowings, others		**(113,117)**	(11,151)
Repayments of bank and other borrowings, shareholder loan		**(20,000)**	(40,000)
Repayments of bank and other borrowings, bondholders loans		**(17,000)**	(11,000)
Principal elements of lease payments (2018: Principal elements of finance lease payments)		**(1,447)**	(3,092)
Capital injection from non-controlling shareholder of a subsidiary		**1,001**	–
Repayments of coupons of 2019 Convertible Bonds	*20(c)*	**(1,874)**	–
Repayments of convertible bonds issued in 2014 ("2014 Convertible Bonds")	*20(c)*	**–**	(99,570)
Proceeds from issuance of convertible bonds issued in 2018 ("2018 Convertible Bonds")	*20(c)*	**–**	30,000
Repayments of coupons of 2018 Convertible Bonds		**(861)**	(1,247)
Transaction costs of 2018 Convertible Bonds	*20(c)*	**–**	(500)
Net cash generated from financing activities		**28,712**	72,717
Net (decrease)/increase in cash and cash equivalents		**(9,680)**	15,807
Cash and cash equivalents at beginning of year		**39,315**	24,708
Exchange loss on cash and cash equivalents		**(188)**	(1,200)
Cash and cash equivalents at end of year	*15*	**29,447**	39,315

The notes on pages 85 to 192 are an integral part of these 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. Certain comparative figures have been reclassified to conform with the current year presentation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern

During the year ended 31 December 2019, the Group reported a net loss attributable to owners of the Company of approximately HK$87,032,000 and operating cash outflow of approximately HK$33,704,000. As at the same date, the Group's current liabilities exceeded its current assets by HK$71,891,000 and had total bank and other borrowings of approximately HK$293,989,000 that are due within twelve months from the date of the consolidated statement of financial position, while its cash and cash equivalents amounted to approximately HK$29,447,000 only.

Subsequent to the year end, the recent drop in international crude oil price caused by the price cut in Saudi Arabia may potentially cause a slow-down in oil exploration and production activities. It may adversely affect the progress of ongoing project orders as well as future customers' demand of the Group's services.

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 21 March 2019, the Group has agreed in writing with all the bondholders of the Group's convertible bonds issued in 2018 ("**2018 Convertible Bonds**") with a total principal amount of HK$30,000,000 to redeem such bonds in full through issuance of new convertible bonds to the same bondholders ("**2019 Convertible Bonds**"). The 2019 Convertible Bonds will expire on 23 May 2021 and can be early redeemed from 15 April 2020 onward.

On 28 March 2020, the Group has entered into subscription agreements with the relevant bondholders agreeing to redeem the outstanding 2019 Convertible Bonds and further issued eight bonds to each of the relevant bondholders in the principal amounts of HK$2,125,000 and HK$1,625,000, respectively, and bearing interest at 13.5% per annum (the "**2020 Bonds**"). Each 2020 Bond will be matured on respective maturity dates from 30 June 2020 to 31 March 2022 on a quarterly basis;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

(ii) During the year ended 31 December 2019, in view of managing the working capital needs of the Group's oilfield projects and services, the Group has entered into various borrowing facilities agreements with a bank located in the PRC with aggregate amount of approximately RMB110 million (equivalent to approximately HK$123 million), secured by the trade receivables of a production enhancement project in the PRC (the "**Project**"). Up to 31 December 2019, the Group has drawn down approximately RMB55 million (equivalent to approximately HK$61,393,000). On 20 February 2020, the Group has obtained an additional facility of approximately RMB19 million (equivalent to approximately HK$21,270,000) from the same bank. These secured borrowings are immediately repayable upon the collection of the receivable from the customer of the Project or upon maturities of the banking facilities, whichever is earlier. These borrowings are interest-bearing. The Group is also actively negotiating with the bank for additional financing for the general working capital needs of the Group;

(iii) On 30 December 2019, capital contribution of RMB25,000,000 (equivalent to approximately HK$27,853,000) was made by Mr. Wang JinLong (a shareholder and a Director of the Company), certain employees and independent third parties into a subsidiary of the Company principally operating in Huizhou, the PRC (Note 35);

(iv) On 22 January 2020, the Group has successfully entered into a supplemental agreement with the creditor of a two-year borrowing with a principal amount of HK$140,000,000. The borrowing was interest bearing at 5.5% per annum, with HK$30,000,000 originally maturing in April 2020 and the remaining balance in July 2020. Pursuant to the supplemental agreement, the entire outstanding principal amount will be repaid by monthly repayments of HK$3,000,000 from 1 April 2020 to 1 December 2020, HK$4,000,000 from 1 January 2021 to 1 December 2021 and HK$5,000,000 from 1 January 2022 to 31 December 2022, respectively (Note 20);

(v) On 30 December 2019, the Group has agreed in writing with 2 bondholders with total principal amounts of HK$9,000,000 and extended the due date for payment of the bondholders loans from 28 September 2020 to 28 September 2021;

On 4 March 2020, the Group has agreed in writing with another bondholder with principal amount of HK$15,000,000 originally maturing on 28 April 2020 to repay by monthly repayments of HK$1,000,000 from 28 April 2020 to 28 March 2021 and HK$3,000,000 on 28 April 2021, respectively;

On 28 March 2020, the Group has entered into a deed of assignment with a bondholder ("**Ex-bondholder**") and an independent third party ("**New Lender**"), pursuant to which the Ex-bondholder has assigned the bondholder loan with principal amount of HK$6,000,000 to the New Lender; and the due date for payment of the bondholder loan has been extended from 28 April 2020 to 28 April 2021 (Note 20);

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

(vi) On 24 March 2020, the Group has entered into a loan agreement with a shareholder (the "**2020 Shareholder's Loan**"), pursuant to which the shareholder has granted a HK$15,000,000 revolving facility to the Group for a term of one year from the date of drawdown. Such facility is unsecured and bears interest at 10% per annum. As at the date of this report, the Group has not yet drawn down any loan from this facility;

(vii) The Group continues its efforts to generate sufficient cash from operating activities by implementing measures in improving sales, generating cash from new sales or service contracts and containing capital and operating expenditures to fund the continuous repayments of the banks and other borrowings of the Group and retain sufficient working capital for general operation;

(viii) The Group is closely monitoring the impact of the recent price cut in Saudi Arabia by actively following up with the customers on the progress of their ongoing and future projects. Based on the latest communication with certain major customers, the directors believe that the ongoing and known future projects of its customers will be continued to be carried out according to the expected timetable without significant delay; and

(ix) 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 2019. 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 2019. Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

Notwithstanding the above, material uncertainty exists 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 maintaining the current facilities and obtaining new facilities from the bank located in the PRC to fund the Group's working capital need for the oilfield and gas field projects in the PRC;

(ii) successful draw down of the 2020 Shareholder Loan as and when needed;

(iii) successful implementation of business plans and measures to generate sufficient cash flow from operating activities by improving sales, generating cash from the new sales or service contracts and containing capital and operating expenditures to fund the continuous repayments of the banks and other borrowings of the Group and to retain sufficient working capital for general operation;

(iv) successful carrying out the projects in accordance with the original timetable despite the unfavorable market environment in view of the recent drop in international crude oil price caused by the price cut in Saudi Arabia; 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 2019:

Annual Improvements Project (Amendment)	Annual Improvements 2015 – 2017 Cycle
IAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
IFRS 9 (Amendment)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments

Except as disclosed in Note 2.2 for the adoption of IFRS 16, the adoption of the above new standards and amendments did not have any significant impact on the preparation of these consolidated financial statements.

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 2019 and have not been early adopted by the Group.

		Effective for accounting year beginning on or after
IAS 1 and IAS 8 (Amendment)	Definition of Material	1 January 2020
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Hedge accounting	1 January 2020
IFRS 3 (Amendment)	Definition of Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
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

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.

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 16 on the Group's consolidated financial statements.

The Group has adopted IFRS 16 on 1 January 2019 as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.31.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.1%.

(a) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) Measurement of lease liabilities

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	15,964
Discounted using the lessee's incremental borrowing rate at the date of initial application	10,571
(Less) : short-term lease recognised on a straight-line basis as expenses	(3,967)
Lease liabilities recognised as at 1 January 2019 *(Note 7)*	**6,604**
Of which are:	
Current lease liabilities	**488**
Non-current lease liabilities	**6,116**
	6,604

(c) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid payments relating to that leases recognised in the consolidated statement of financial position as at 31 December 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(d) Adjustments recognised in the consolidated statement of financial position on 1 January 2019

The following table shows the adjustments recognised for each individual line item as at 1 January 2019. Line items that were not affected by the changes have not been included.

Consolidated statement of financial position (extract)	31 December 2018 As originally presented HK$'000	Effect of the adoption of IFRS 16 HK$'000	**1 January 2019 Restated HK$'000**
Non-current assets			
Right-of-use-assets	–	16,335	**16,335**
Land use rights	9,731	(9,731)	**–**
Non-current liabilities			
Lease liabilities	–	6,116	**6,116**
Current liabilities			
Lease liabilities	–	488	**488**

2.3 Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation (Continued)

(b) Changes in ownership interests

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

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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations (Continued)

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 includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received 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 statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

All foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other (losses)/gains, net".

(c) Group companies

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

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

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 (losses)/gains, 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)

2.9 Intangible assets (Continued)

(c) Research and development

Costs associated with research and development are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable oilfield products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Research and development expenses is presented in the consolidated statement of comprehensive income as a separate item for disclosure purpose.

2.10 Land use rights

As at 31 December 2018, the land use rights have a finite useful life and are carried at cost less accumulated amortisation are presented separately on the consolidated statement of financial position. Amortisation is calculated using the straight-line method over the expected life of the land use rights of approximately 50 years.

As at 31 December 2019, the land use rights are presented in the "right-of-use assets" on the consolidated statement of financial position (Note 7).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (losses)/gains, 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 (losses)/gains, 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 (losses)/gains, 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 overdue. 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.

2.12.5 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 financial instrument is removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the liability component that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Share-based payment (Continued)

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

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

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 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 revenue 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Revenue recognition (Continued)

(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 Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced and thus the performance obligation is satisfied over time. 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 revenue, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenue 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Revenue recognition (Continued)

(b) Provision of consultancy services

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

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

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

Revenue from 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.

2.29 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, lease in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 34). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. For leases of real estate for which the Group is a lessee, it has elected to separate lease and non-lease components and account for lease components under IFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liabilities.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Company, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Leases (Continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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$ 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 2019, 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$82,000 lower/higher (2018: HK$1,008,000 lower/higher) as a result of foreign exchange gains or losses on translation of US$ denominated net financial assets.

At 31 December 2019, if HK$ had weakened/strengthened by 5% against RMB with all other variables held constant, net post-tax loss for the year would have been approximately HK$3,294,000 lower/higher (2018: HK$2,821,000 lower/higher) as a result of foreign exchange gains or losses on translation of RMB denominated net financial assets.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank 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 2019 and 2018, the Group's bank and other borrowings at variable rates were denominated in RMB and Singaporean dollar ("**SGD**").

At 31 December 2019, 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$1,176,000 higher/lower (2018: HK$702,000 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.

Trade receivables and contract assets

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 and contract assets have been grouped based on the settlement profiles of customers, 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 for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The Group divided trade receivables and contract assets 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 with doubtful credit risk. Category 2 is for customers conducting business in the PRC and other regions with lower credit risk. 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 and contract assets (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. In 2018, balances with more than 24 months overdue are 100% provided for. In 2019, balances are fully provided for due to the significant increase in credit risk.

For category 2, the expected credit losses rate is determined according to a provision matrix where balances that are less than 12 months overdue are provided for at expected losses rate of 1-12% (2018: 1-14%) and balances with more than 12 months overdue are 100% provided for.

On that basis, the loss allowance as at 31 December 2019 and 2018 was determined as follows for both trade receivables and contract assets.

Category 1: Customers conducting business in the Middle East with doubtful credit risk

Trade receivables as at 31 December 2019	**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**
Expected loss rates	100%	100%	100%	100%	100%	
Gross carrying amount – trade receivables	–	–	477	11,271	189,178	200,926
Loss allowance	–	–	(477)	(11,271)	(189,178)	(200,926)
Net carrying amount – trade receivables	–	–	–	–	–	–

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

Category 2: Other customers conducting business in the PRC and other regions with lower credit risk

Trade receivables as at 31 December 2019	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
Expected loss rates	1%	1%	4%	12%	100%	
Gross carrying amount – trade receivables	157,043	57,136	14,883	16,106	62,534	307,702
Loss allowance	(1,571)	(571)	(595)	(1,933)	(62,534)	(67,204)
Net carrying amount – trade receivables	155,472	56,565	14,288	14,173	–	240,498

Total:

Trade receivables as at 31 December 2019	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
Gross carrying amount – trade receivables	157,043	57,136	15,360	27,377	251,712	508,628
Loss allowance	(1,571)	(571)	(1,072)	(13,204)	(251,712)	(268,130)
Net carrying amount – trade receivables	155,472	56,565	14,288	14,173	–	240,498

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

Category 1: Customers conducting business in the Middle East with doubtful credit risk

Trade receivables as at 31 December 2018	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
Expected loss rates	21%	21%	24%	30%	76%	
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 and contract assets (Continued)

Category 2: Other customers conducting business in the PRC and other regions with lower credit risk

Trade receivables as at 31 December 2018	Current	Up to 3 months past due	3 to 6 months past due	6 to 12 months past due	Over 12 months past due	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Expected loss rates	1%	4%	8%	14%	100%	
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:

Trade receivables as at 31 December 2018	Current	Up to 3 months past due	3 to 6 months past due	6 to 12 months past due	Over 12 months past due	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

As at 31 December 2019 and 2018, the balances of contract assets come from the customers conducted business in the PRC and other regions with lower credit risk. Thus, all contract assets are under Category 2.

Contract assets as at 31 December 2019	**Current HK$'000**	**Up to 3 months past due HK$'000**	**Total HK$'000**
Expected loss rates	**1%**	**1%**	
Gross carrying amount – contract assets	**51,043**	**1,159**	**52,202**
Loss allowance	**(510)**	**(12)**	**(522)**
Net carrying amount – contract assets	**50,533**	**1,147**	**51,680**

No impairment loss of contract assets was identified as at 31 December 2018 because the balance of contract assets is immaterial.

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.

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. As at 31 December 2019, the Group's allowance for impairment of other receivables approximate to HK$31,325,000 (2018: HK$15,581,000) in view of the increase in the credit risk during the year.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

During the year ended 31 December 2019, the Group reported a net loss attributable to owners of the Company of approximately HK$87,032,000 and operating cash outflow of approximately HK$33,704,000. As at the same date, the Group's current liabilities exceeded its current assets by HK$71,891,000 and had total bank and other borrowings of approximately HK$293,989,000 that are due within twelve months from the date of the consolidated statement of financial position, while its cash and cash equivalents amounted to approximately HK$29,447,000 only.

Subsequent to the year end, the recent drop in international crude oil price caused by the price cut in Saudi Arabia may potentially cause a slow-down in oil exploration and production activities. It may adversely affect the progress of ongoing project orders as well as future customers' demand of the Group's services.

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 less than 1 year appropriate their carrying balances as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	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 2019					
Trade payables	**132,761**	**–**	**–**	**–**	**132,761**
Other payables	**62,673**	**–**	**–**	**–**	**62,673**
Bank and other borrowings and interest payments	**311,826**	**24,409**	**2,758**	**–**	**338,993**
Lease liabilities and interest payments	**3,229**	**3,099**	**2,999**	**8,704**	**18,031**
	510,489	**27,508**	**5,757**	**8,704**	**552,458**
At 31 December 2018					
Trade payables	127,803	–	–	–	127,803
Other payables	69,031	–	–	–	69,031
Bank and other borrowings and interest payments	106,468	225,056	5,581	–	337,105
	303,302	225,056	5,581	–	533,939

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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

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 and lease liabilities" 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.

The Group's strategy was to maintain a gearing ratio within 50%. The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019 **HK$'000**	2018 HK$'000
Bank and other borrowings *(Note 20)*	**319,467**	288,708
Lease liabilities *(Note 7)*	**12,742**	–
Less:		
Pledged bank deposits *(Note 14)*	**(4,803)**	(11,702)
Cash and cash equivalents *(Note 15)*	**(29,447)**	(39,315)
Net debt	**297,959**	237,691
Total equity	**405,715**	463,620
Total capital	**703,674**	701,311
Gearing ratio	**42%**	34%

As at 31 December 2019 and 2018, banking facilities of approximately HK$94,000,000 (2018: HK$42,000,000) were granted by banks to the subsidiaries of the Group, all of which have been utilised during the year. The Group is in compliance with all banking facilities.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value at 31 December 2019 and 2018, 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	
	2019	2018
	HK$'000	HK$'000
Asset		
Financial asset at fair value through profit or loss		
– listed equity investment *(Note (a))*	**5,184**	5,184
– unlisted equity investment *(Note (b))*	**2,114**	–
	7,298	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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

Notes:

(a) The listed equity investment represents 17.56% equity interest in a company incorporated in the PRC. The fair value of the listed equity investment is determined based on cash flows discounted with the post-tax discount rate 15% (2018: 15%) which reflect specific risks related to the listed equity investment. Management has taken into account the factor of minority interest in the fair value of the listed equity investment.

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

(b) The balance represents 19% equity interest in a company incorporated in the PRC. The Group has determined that the reported net asset value approximates the fair value of the unlisted equity acquired in September 2019 at the end of the reporting period. As at 31 December 2019, the underlying assets of the unlisted equity would primarily consisting of cash and cash equivalents in which the fair value approximates to the carrying value as at 31 December 2019.

The following table presents the changes in level 3 instruments for the years ended 31 December 2019 and 2018.

	2019 **HK$'000**	2018 HK$'000
At 1 January	**5,184**	5,184
Change in fair value recognised in other comprehensive loss *(Note 10)*	**–**	–
Acquisition	**2,114**	–
At 31 December	**7,298**	5,184
Total losses for the year included in profit or loss at the end of the year	**–**	–

3.4 Offsetting financial assets and financial liabilities

During the year ended 31 December 2019 and 2018, the Group did not have any financial assets and liabilities that are subject to offsetting, enforceable master netting arrangements or similar agreements.

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.

(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.

(a) Revenue

Revenue recognised during the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
	HK$'000	HK$'000
Oilfield project tools and services		
– Drilling work	**26,776**	20,504
– Well completion work	**109,101**	75,131
– Production enhancement work	**288,210**	131,209
Total oilfield project tools and services	**424,087**	226,844
Consultancy services		
– Integrated project management services	**19,412**	–
– Supervisory services	**34,746**	32,088
Total consultancy services	**54,158**	32,088
Total revenue	**478,245**	258,932
Timing of revenue recognition		
At a point in time	**167,749**	95,150
Over time	**310,496**	163,782
	478,245	258,932

For the Group's oilfield project tools and services, contracts are for periods of one year or less. As permitted under IFRS15, the transaction price allocated to the unsatisfied contracts are not disclosed.

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 disclosed.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results

The segment results for the year ended 31 December 2019 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Year ended 31 December 2019			
Total segment revenue	**424,087**	**54,158**	**478,245**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**424,087**	**54,158**	**478,245**
Segment results	**12,122**	**36,757**	**48,879**
Net unallocated expenses			**(133,787)**
Loss before income tax			**(84,908)**
Other information:			
Depreciation of property, plant and equipment	**(47,669)**	**–**	**(47,669)**
Amortisation of intangible assets	**(27)**	**–**	**(27)**
Depreciation of right-of-use assets	**(605)**	**–**	**(605)**
Net impairment loss on financial assets *(Note 13)*	**(75,286)**	**–**	**(75,286)**
Net impairment loss on contract assets *(Note 16)*	**(522)**	**–**	**(522)**
Write-off of inventories *(Note 12)*	**(1,145)**	**–**	**(1,145)**
Provision for inventories losses *(Note 12)*	**(21,874)**	**–**	**(21,874)**
Write-off of property, plant and equipment	**(1,193)**	**–**	**(1,193)**
Finance costs	**(5,680)**	**–**	**(5,680)**

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results (Continued)

The segment results for the year ended 31 December 2018 are 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 13)*	(160,023)	–	(160,023)
Impairment loss of goodwill *(Note 8)*	(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)
Finance costs	(1,799)	–	(1,799)

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results (Continued)

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 performance of reportable segments based on a measure of revenue and revenue less all directly attributable costs.

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

	2019 HK$'000	2018 HK$'000
Segment results	**48,879**	(487,038)
Unallocated income/(expenses):		
Other income	**852**	1,685
Depreciation of property, plant and equipment	**(8,738)**	(10,533)
Depreciation of right-of-use assets	**(1,297)**	–
Amortisation of intangible assets and land use rights	**–**	(258)
Operating lease rental	**(3,755)**	(4,217)
Employee benefit expenses	**(59,475)**	(66,182)
Entertainment and marketing expenses	**(9,315)**	(9,913)
Other expenses	**(32,159)**	(34,493)
Other (losses)/gains, net	**(1,389)**	6,469
Finance income	**79**	93
Finance costs	**(18,590)**	(18,765)
Loss before income tax	**(84,908)**	(623,152)

The segment results included material costs, technical service fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, 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, net impairment loss on contract assets, write-off of inventories, provision for inventories losses, provision for impairment 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 2019 are as follows:

	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
As at 31 December 2019			
Segment assets	**682,811**	**106,738**	**789,549**
Unallocated assets			**177,039**
Total assets			**966,588**
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	**37,597**	**–**	**37,597**

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

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:

	2019	2018
	HK$'000	HK$'000
Segment assets for reportable segments	**789,549**	808,384
Unallocated assets		
– Unallocated property, plant and equipment	**81,624**	96,687
– Unallocated right-of-use assets	**13,497**	–
– Unallocated land use rights	**–**	9,731
– Unallocated financial asset at fair value through profit or loss	**7,298**	5,184
– Unallocated other receivables, deposits and prepayments	**55,446**	32,473
– Unallocated deferred tax assets	**–**	2,193
– Unallocated cash and cash equivalents	**15,815**	29,245
– Unallocated pledged bank deposits	**3,359**	–
Total assets per consolidated statement of financial position	**966,588**	983,897

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:

	2019	2018
	HK$'000	HK$'000
The PRC	**353,749**	182,501
The Middle East	**89,052**	46,788
Others	**35,444**	29,643
	478,245	258,932

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:

	2019	2018
	HK$'000	HK$'000
The PRC	**403,523**	417,062
The Middle East	**49,676**	60,835
Singapore	**52,975**	50,497
	506,174	528,394

(e) Information about major customers

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

	2019	2018
	HK$'000	HK$'000
Customer A	**208,995**	87,010
Customer B	**–***	33,520
Customer C	**58,501**	33,019
Customer D	**74,905**	–*

* 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 2018							
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
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 32(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

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 2019							
Opening net book amount	131,975	3,962	243,064	381	820	4,152	384,354
Additions	–	19	37,597	–	196	–	37,812
Depreciation	(7,788)	(1,493)	(45,137)	(171)	(199)	(1,619)	(56,407)
Disposals *(Note 32(b))*	–	–	(355)	–	(122)	–	(477)
Disposal of a subsidiary *(Note 35(b))*	–	–	(3,011)	–	–	–	(3,011)
Written-off	–	–	(837)	(48)	(131)	(177)	(1,193)
Exchange differences	(1,422)	17	(1,938)	2	(10)	(48)	(3,399)
Closing net book amount	122,765	2,505	229,383	164	554	2,308	357,679
At 31 December 2019							
Cost	162,283	11,533	458,526	7,642	4,138	13,217	657,339
Accumulated depreciation	(39,518)	(9,028)	(229,143)	(7,478)	(3,584)	(10,909)	(299,660)
Net book amount	122,765	2,505	229,383	164	554	2,308	357,679

Bank borrowings are secured by the buildings of the subsidiaries of the Group of HK$78,202,000 (2018: HK$128,818,000) (Note 20).

As at 31 December 2019, the segment assets of the oilfield project tools and services segment include property, plant and equipment of HK$276,055,000 (2018: HK$287,667,000). The segment of consultancy services does not have any property, plant and equipment.

As at 31 December 2019, machineries with carrying amount of HK$29,441,000 (2018: HK$24,541,000) are purchased under three-year instalment loans secured by those machineries, with interest of 6.7% per annum (2018: 6.7% per annum) (Note 20(b)).

During the year ended 31 December 2019, property, plant and equipment of the Group of HK$1,193,000 (2018: HK$62,097,000) has been written off as no economic benefits are expected from use or disposal. During the year ended 31 December 2018, the written off of property, plant and equipment included certain machineries of the Group of HK$59,881,000 which had been written off due to the downsizing of the directional drilling services of the Group.

7 LEASES

(a) Amounts recognised in the consolidated statement of financial position

	As at 31 December 2019 HK$'000	As at 1 January 2019 HK$'000
Right-of-use assets		
Land use rights	**9,306**	9,731
Leasehold land	**5,915**	6,092
Properties leases	**6,593**	512
	21,814	16,335
Lease liabilities		
Current	**2,587**	488
Non-current	**10,155**	6,116
	12,742	6,604

During the year ended 31 December 2019, additions to the right-of-use assets were HK$7,525,000.

As at 31 December 2019, the segment assets of the oilfield project tools and services segment include right-of-use assets of HK$8,317,000 (2018: Nil). The segment of consultancy services does not have any right-of-use assets.

7 LEASES (Continued)

(b) Amounts recognised in the consolidated statement of comprehensive income

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Depreciation of right-of-use assets			
Land use rights		**220**	–
Leasehold land		**223**	–
Properties leases		**1,459**	–
		1,902	–
Interest expense (included in finance costs)	*28*	**513**	–
Expenses related to short-term leases		**4,362**	–

During the year ended 31 December 2019, the total cash outflow for leases were HK$6,322,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases office premises and land use rights. Rental contracts of office premises and land use rights are typically made in accordance to the lease terms.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

8 INTANGIBLE ASSETS

	Goodwill – Oilfield project tools and services HK$'000	Goodwill – Consultancy services HK$'000	Computer software HK$'000	Total HK$'000
At 1 January 2018				
Cost	425,231	95,456	8,343	529,030
Accumulated amortisation and impairment	(214,746)	–	(7,650)	(222,396)
Net book amount	210,485	95,456	693	306,634
Year ended 31 December 2018				
Opening net book amount	210,485	95,456	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	424,478	95,456	8,261	528,195
Accumulated amortisation and impairment	(424,478)	–	(8,232)	(432,710)
Net book amount	–	95,456	29	95,485

8 INTANGIBLE ASSETS (Continued)

	Goodwill – Oilfield project tools and services HK$'000	Goodwill – Consultancy services HK$'000	Computer software HK$'000	Total HK$'000
At 1 January 2019				
Cost	424,478	95,456	8,261	528,195
Accumulated amortisation and impairment	(424,478)	–	(8,232)	(432,710)
Net book amount	–	95,456	29	95,485
Year ended 31 December 2019				
Opening net book amount	–	95,456	29	95,485
Additions	–	–	4	4
Amortisation	–	–	(27)	(27)
Closing net book amount	–	95,456	6	95,462
At 31 December 2019				
Cost	424,812	95,456	8,230	528,498
Accumulated amortisation and impairment	(424,812)	–	(8,224)	(433,036)
Net book amount	–	95,456	6	95,462

8 INTANGIBLE ASSETS (Continued)

Impairment assessment of goodwill

Management reviews the business performance and monitor the goodwill on operating segment basis, which includes the oilfield project tools and services and consultancy services. 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.

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 2019 and 2018 are as follows:

Year ended 31 December 2019

	Consultancy services
Average annual growth rate	**4%**
Pre-tax discount rate	**19%**
Terminal growth rate	**3%**

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%

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

8 INTANGIBLE ASSETS (Continued)

Impairment assessment of goodwill (Continued)

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.

During the year ended 31 December 2018, the slow recovery of the oil and gas market had 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 had 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 2019 against the goodwill in the consultancy services if the pre-tax discount rate had been 6 percentage points higher than the management's estimates or the average annual growth rate of revenue had been 3 percentage points lower than management's estimates, respectively.

9 LAND USE RIGHTS

	2019	2018
	HK$'000	HK$'000
For the year ended 31 December		
Opening net book amount	**9,731**	10,452
Transferred to right-of-use assets on adoption of IFRS 16 *(Note 2.2)*	**(9,731)**	–
Amortisation	**–**	(229)
Exchange differences	**–**	(492)
	–	9,731

10 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$'000	HK$'000
Listed equity investment in the PRC		
– non-current *(Note (i))*	**5,184**	5,184
Unlisted equity investment in the PRC		
– non-current *(Note (ii))*	**2,114**	–
	7,298	5,184

Movement of the financial asset at fair value through profit or loss is as follows:

	2019	2018
	HK$'000	HK$'000
At 1 January	**5,184**	5,184
Addition	**2,114**	–
At 31 December	**7,298**	5,184

Note:

(i) Listed equity investment

The listed equity investment represents 17.56% equity interest in a company incorporated in the PRC. The fair value of listed equity investment is determined based on cash flows discounted with the post-tax discount rate 15% (2018: 15%) which reflect specific risks related to the listed company. Management has taken into account the factor of minority interest in the fair value of the listed equity investment.

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

(ii) Unlisted equity investment

On 27 September 2019, the Group invested in 19% of the equity interest in a company in the PRC, which is principally engaged in provision of oilfield and gas field services. The fair value of unlisted equity investment in PRC approximated to the net asset value of the equity instrument as at 31 December 2019.

11 FINANCIAL INSTRUMENTS BY CATEGORY

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

	2019 HK$'000	2018 HK$'000
Assets as per consolidated statement of financial position		
Financial assets at amortised cost		
Trade receivables *(Note 13)*	**240,498**	205,957
Other receivables and deposits	**34,373**	43,471
Pledged bank deposits *(Note 14)*	**4,803**	11,702
Cash and cash equivalents *(Note 15)*	**29,447**	39,315
Financial asset at fair value through profit or loss *(Note 10)*	**7,298**	5,184
Total	**316,419**	305,629
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortised costs		
Trade payables *(Note 19)*	**132,761**	127,803
Other payables	**62,673**	69,031
Bank and other borrowings *(Note 20)*	**319,467**	288,708
Lease liabilities *(Note 7)*	**12,742**	–
Total	**527,643**	485,542

12 INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**8,351**	6,638
Assembling materials	**52,704**	54,287
Work in progress	**15,917**	18,442
Finished goods	**9,341**	9,133
Inventories – gross	**86,313**	88,500
Less: provision for inventories losses *(Note)*	**(29,423)**	(7,549)
Inventories – net	**56,890**	80,951

For the year ended 31 December 2019, the cost of inventories recognised as expense and included in "material costs" amounted to HK$110,131,000 (2018: HK$110,029,000).

Note:

During the year ended 31 December 2019, the provision for inventories losses amounted to HK$21,874,000 (2018: Nil) had been included in "provision for inventories losses".

For the year ended 31 December 2019, inventories with cost of HK$1,145,000 were considered as obsolete and written off.

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.

13 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	2019 HK$'000	2018 HK$'000
Trade receivables	**508,628**	420,559
Less: provision for impairment of trade receivables	**(268,130)**	(214,602)
Trade receivables - net	**240,498**	205,957

Bank borrowings are secured by the trade receivables of a subsidiary of the Group of HK$90,035,000 (2018: Nil) (Note 20).

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

(a) Trade receivables (Continued)

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

	2019 HK$'000	2018 HK$'000
Up to 3 months	**157,043**	82,314
3 to 6 months	**57,136**	24,920
6 to 12 months	**31,572**	60,344
Over 12 months	**262,877**	252,981
Trade receivables	**508,628**	420,559
Less: provision for impairment of trade receivables	**(268,130)**	(214,602)
Trade receivables - net	**240,498**	205,957

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 carrying values of trade receivables approximate to their fair values.

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

	2019 HK$'000	2018 HK$'000
US$	**23,361**	119,350
RMB	**216,901**	86,607
Euro	**236**	–
	240,498	205,957

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.

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

(a) Trade receivables (Continued)

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

	2019 HK$'000	2018 HK$'000
At 1 January	**214,602**	165,370
Impairment loss on receivables	**59,542**	144,442
Written off of receivables	**(2,293)**	(92,381)
Exchange differences	**(3,721)**	(2,829)
As at 31 December	**268,130**	214,602

For the year ended 31 December 2019, the impairment loss on receivables had been included in "net impairment loss on financial assets" amounted to HK$59,542,000 (2018: HK$144,442,000).

During the year ended 31 December 2019, management has written off the receivables from a single customer which have been previously fully provided of approximately HK$2,293,000 (2018: HK$92,381,000).

(b) Other receivables, deposits and prepayments

	2019 HK$'000	2018 HK$'000
Other receivable, deposits and prepayments	**132,342**	157,547
Less: provision for impairment of other receivables	**(31,325)**	(15,581)
Other receivables, deposits and prepayments, net	**101,017**	141,966

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

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

	2019 HK$'000	2018 HK$'000
Deposits and other receivables – third parties	**9,304**	18,057
Receivables from deemed disposal of equity interest in a subsidiary *(Note 35(a))*	**14,610**	–
Receivables from disposal of machines, net *(Note)*	**–**	15,581
Receivables on land bidding in the PRC	**2,709**	2,768
Receivables from disposal of a subsidiary *(Note 35(b))*	**1,561**	–
Value-added tax recoverable	**53,920**	69,551
Rental deposits	**903**	854
Cash advances to staff	**3,278**	5,244
Advance to the Directors and senior management *(Note 36(b))*	**36**	1,748
Other receivables – related party *(Note 36(b))*	**5,250**	4,463
Prepayments for materials	**7,367**	22,772
Prepayments for rents and others	**2,079**	928
	101,017	141,966
Less:		
Non-current value-added tax recoverable	**(31,219)**	(38,824)
Non-current portion	**(31,219)**	(38,824)
Current portion	**69,798**	103,142

Note:

For the year ended 31 December 2019, the Group applied the expected credit loss model resulted in the recognition of impairment loss on other receivables amounted to HK$15,744,000 (2018: HK$15,581,000) has been included in "net impairment loss on financial assets".

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

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

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

	2019 **HK$'000**	2018 HK$'000
RMB	**82,346**	92,338
US$	**8,233**	24,174
HK$	**275**	143
Others	**717**	1,611
	91,571	118,266

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

14 PLEDGED BANK DEPOSITS

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

	2019 **HK$'000**	2018 HK$'000
Pledged bank deposits		
– Bidding	**1,002**	9,953
– Performance bonds *(Note 33)*	**442**	1,749
– Bank borrowings *(Note 20)*	**3,359**	–
	4,803	11,702

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rate 0.3% per annum (2018: 0.3% per annum). These deposits have an average maturity of 3 months (2018: 4 months).

As at 31 December 2019, all pledged bank deposits of the Group (2018: Same) 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.

15 CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	HK$'000
Cash at bank	**29,385**	39,171
Cash on hand	**62**	144
	29,447	39,315

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

	2019	2018
	HK$'000	HK$'000
RMB	**25,111**	35,263
US$	**2,474**	2,150
SGD	**821**	906
HK$	**454**	558
Others	**587**	438
	29,447	39,315

As at 31 December 2019, the Group has cash at bank and on hand amounting to HK$22,839,000 (2018: HK$32,498,000) 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.

16 CONTRACT ASSETS/(LIABILITIES)

	2019 HK$'000	2018 HK$'000
Contract assets	**52,202**	7,059
Less: provision for impairment of contract assets	**(522)**	–
Contract assets, net	**51,680**	7,059
Contract liabilities	**(12,247)**	(8,449)

For the year ended 31 December 2019, the Group applied the expected credit loss model resulted in the recognition of the impairment loss on contract assets amounted to HK$522,000 (2018: Nil), which had been included in "net impairment loss on contract assets".

The contract assets are primarily related to the Group's rights to consideration for work completed and not billed because the rights to bill are conditional on the Group to achieve 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 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.

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in the contract liabilities balance as at beginning of the year	**8,449**	3,733

17 SHARE CAPITAL

	Number of shares '000	Total HK$000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 2019	**1,726,674**	2,001,073

18 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 2018	39,236	17,912	28,462	51,341	(51,406)	(2,237)	83,308
Other comprehensive loss							
Change in accounting policies	–	–	–	–	–	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 2018 Convertible Bonds *(Note 20(c))*	–	–	3,715	–	–	–	3,715
Recognition of share-based payment *(Note 27)*	–	–	–	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

18 OTHER RESERVES (Continued)

	Translation reserve	Statutory reserve *(Note)*	Convertible bonds reserve	Share-based payment reserve	Capital reserve	Transactions with non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2019	5,372	17,912	3,715	59,279	(51,406)	–	34,872
Other comprehensive loss							
Currency translation differences	(10,955)	–	–	–	–	–	(10,955)
Total comprehensive loss for the year	(10,955)	–	–	–	–	–	(10,955)
Total transactions with owners in their capacity as owners							
Exchange of 2018 Convertible Bonds *(Note 20(c))*	–	–	8,029	–	–	–	8,029
Recognition of share-based payment *(Note 27)*	–	–	–	3,545	–	–	3,545
Transfer of share-based payment upon expiry of share options *(Note 27)*	–	–	–	(22,390)	–	–	(22,390)
Transactions with non-controlling interests *(Note 35(a))*	–	–	–	–	–	5,160	5,160
Transfer to statutory reserve	–	5,955	–	–	–	–	5,955
Total transactions with owners in their capacity as owners	–	5,955	8,029	(18,845)	–	5,160	299
Balance at 31 December 2019	(5,583)	23,867	11,744	40,434	(51,406)	5,160	24,216

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.

19 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

(a) Trade payables

	2019 HK$'000	2018 HK$'000
Trade payables	**132,761**	127,803

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

	2019 HK$'000	2018 HK$'000
Up to 3 months	**62,892**	37,882
3 to 6 months	**11,480**	7,165
6 to 12 months	**1,263**	18,337
Over 12 months	**57,126**	64,419
	132,761	127,803

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

	2019 HK$'000	2018 HK$'000
US$	**59,988**	62,550
RMB	**64,071**	52,643
Others	**8,702**	12,610
	132,761	127,803

19 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (Continued)

(b) Other payables and accruals

	2019 HK$'000	2018 HK$'000
Other payables – third parties	**36,240**	42,619
Other payables – staff related expenses	**13,746**	11,688
Accrued payroll and welfare	**10,373**	10,302
Other payables for purchase of plant and machineries	**11,901**	14,541
Government grant	**2,297**	7,632
Other payables – related parties *(Note 36(b))*	**786**	182
Other tax and surcharge payables	**8,080**	8,123
	83,423	95,087

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

	2019 HK$'000	2018 HK$'000
RMB	**51,070**	63,352
HK$	**20,161**	21,521
US$	**10,753**	9,387
Others	**1,439**	827
	83,423	95,087

20 BANK AND OTHER BORROWINGS

	2019 HK$'000	2018 HK$'000
Non-current		
Bank borrowings *(Note a)*	**3,715**	5,867
Other borrowings *(Note b)*	**21,763**	210,593
	25,478	216,460
Current		
Bank borrowings *(Note a)*	**90,093**	2,071
Bank borrowings immediately repayable *(Note a)*	**–**	33,819
Convertible bonds – liability component *(Note c)*	**27,865**	27,482
Other borrowings *(Note b)*	**176,031**	8,876
	293,989	72,248
	319,467	288,708

(a) Bank borrowings

Bank borrowings bear average borrowing rate of 6.3% as at 31 December 2019 (2018: 5.4%).

As at 31 December 2019 and 2018, the Group's bank borrowings were repayable as follows:

	2019 HK$'000	2018 HK$'000
Within 1 year	**90,093**	35,890
Between 1 and 2 years	**2,026**	2,071
Between 2 and 5 years	**1,689**	3,796
	93,808	41,757

20 BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings (Continued)

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

	2019	2018
	HK$'000	HK$'000
Variable rates bank borrowings	**5,742**	41,757
Fixed rates bank borrowings		
– 6 months or less	**26,021**	–
– Over 6 months	**62,045**	–
	93,808	41,757

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

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

	2019	2018
	HK$'000	HK$'000
RMB	**93,808**	7,938
SGD	**–**	33,819
	93,808	41,757

The Group's bank borrowings were all secured (2018: Same).

As at 31 December 2019 and 2018, banking facilities of approximately HK$94,000,000 (2018: HK$42,000,000) 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 a subsidiary of the Group (2018: Same);

(b) personal guarantee by directors of subsidiary of the Group (2018: Same);

(c) buildings of the Group of HK$78,202,000 (2018: HK$128,818,000) (Note 6);

(d) trade receivables of the Group of HK$90,035,000 (2018: Nil) (Note 13(a)); and

(e) pledged bank deposits of the Group of HK$3,359,000 (2018: Nil) (Note 14).

20 BANK AND OTHER BORROWINGS (Continued)

(b) Other borrowings

As at 31 December 2019, other borrowings of the Group include:

(i) bondholders loans of HK$34,000,000 (2018: HK$51,000,000), bearing interest at 10% per annum, over which approximately HK$25,000,000 will mature in April 2020 and the remaining will mature in September 2020.

On 30 December 2019, the Group has agreed in writing with 2 bondholders with total principal amounts of HK$9,000,000 and extended the due date for payment of the bondholders loans from 28 September 2020 to 28 September 2021.

On 4 March 2020, the Group has agreed in writing with another bondholder with principal amount of HK$15,000,000 originally maturing on 28 April 2020 to repay by monthly repayments of HK$1,000,000 from 28 April 2020 to 28 March 2021 and HK$3,000,000 on 28 April 2021, respectively.

On 28 March 2020, the Group has entered into a deed of assignment with the Ex-bondholder and the New Lender, according to which the Ex-bondholder has assigned the bondholder loan with principal amount of HK$6,000,000 to the New Lender; and the due date for payment of the bondholder loan has been extended from 28 April 2020 to 28 April 2021.

(ii) a two-year borrowing with a principal amount of HK$140,000,000 (2018: 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.

On 22 January 2020, the Group has successfully entered into a supplemental agreement with the creditor of the two-year borrowing with a principal amount of HK$140,000,000. Pursuant to the supplemental agreement, the entire outstanding principal amount will be repaid by monthly repayments of HK$3,000,000 from 1 April 2020 to 1 December 2020, HK$4,000,000 from 1 January 2021 to 1 December 2021 and HK$5,000,000 from 1 January 2022 to 31 December 2022, respectively.

(iii) three-year instalment loans with RMB17,126,000 (equivalent to approximately HK$19,173,000) (2018: HK$28,468,000) maturing in September 2021 and RMB4,127,000 (equivalent to approximately HK$4,621,000) maturing in April 2022, bearing interest at 6.7% per annum. The loans were utilised for the purpose of acquiring machineries for the Group's operation and are secured by the corresponding machineries acquired (Note 6).

20 BANK AND OTHER BORROWINGS (Continued)

(c) Convertible bonds

	2019	2018
	HK$'000	HK$'000
Convertible bonds – current liabilities	**27,865**	27,482

On 21 March 2019, the Group has agreed in writing with all bondholders of the 2018 Convertible Bonds to redeem such bonds in full through the issuance of the 2019 Convertible Bonds to the same bondholders on 3 April 2019 ("Exchange Date") with the same principal amount of HK$30,000,000. The 2019 Convertible Bonds bear coupon rate of 10% per annum, payable monthly in arrears, and have a maturity date of 23 May 2021. 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$0.288 per conversion share at any period commencing from the date of issuance of the convertible bonds and up to the close of business on the maturity date. In addition, the holder has the right to early redeem the convertible bonds in amounts of HK$1,000,000 or integral multiples thereof, together with all interests accrued up to the date of early redemption, commencing from 15 April 2020 and up to the close of business on the maturity date. The values of the liability component and the equity conversion component were determined at the completion of the issuance of the 2019 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 20% which is based on market interest rates for a number of comparable convertible bonds and certain parameters specific to the Group's liquidity risk. The equity component of HK$8,029,000 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 2019 Convertible Bonds is calculated as follows:

	HK$'000
Fair value of 2019 Convertible Bonds on 3 April 2019	34,106
Equity component	(8,029)
Liability component at initial recognition	26,077

20 BANK AND OTHER BORROWINGS (Continued)

(c) Convertible bonds (Continued)

Movements in convertible bonds are analysed as follows:

	2019 **HK$'000**	2018 HK$'000
Opening amount	**27,482**	155,576
Issuance of 2018 Convertible Bonds	**–**	25,785
Settlement of convertible bonds	**–**	(99,570)
Exchange of 2018 Convertible Bonds *(Note)*	**(1,750)**	–
Conversion to bondholder loans	**–**	(62,000)
Interest expenses *(Note 28)*	**4,868**	8,938
Interest paid	**(2,735)**	(1,247)
Closing amount	**27,865**	27,482

No bondholders have exercised their rights to convert the convertible bonds into shares of the Company during the year ended 31 December 2018 and 2019.

Note:

On the Exchange Date, the carrying amount of 2018 Convertible Bonds was HK$27,827,000. The difference of fair values of the 2019 Convertible Bonds and 2018 Convertible Bonds of HK$6,279,000 was charged into the consolidated statement of comprehensive income as share-based compensation for the year ended 31 December 2019 given no vesting conditions existed (Note 24). Derecognition of liability component of 2018 Convertible Bonds of HK$27,827,000 and recognition of liability component of 2019 Convertible Bonds of HK$26,077,000 resulted in a net derecognition of liability of HK$1,750,000.

On 28 March 2020, the Group entered into subscription agreements with the relevant bondholders agreeing to redeem the outstanding 2019 Convertible Bonds and further issued eight bonds to each of the relevant bondholders in the principal amounts of HK$2,125,000 and HK$1,625,000, respectively, and bearing interest at 13.5% per annum. Each 2020 Bond will be matured on respective maturity dates from 30 June 2020 to 31 March 2022 on a quarterly basis.

21 DEFERRED INCOME TAX

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

	2019 **HK$'000**	2018 HK$'000
Deferred tax assets:		
– To be recovered within 12 months	**–**	(2,193)
Deferred tax liabilities:		
– To be realised after 12 months	**233**	230
Deferred tax liabilities/(assets), net	**233**	(1,963)

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

	2019 **HK$'000**	2018 HK$'000
At 1 January	**(1,963)**	(2,699)
Exchange difference	**3**	(7)
Charged to consolidated statement of comprehensive income *(Note 29)*	**2,193**	743
At 31 December	**233**	(1,963)

21 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	Total	Tax losses	Unrealised profit on inventory	Total	Deferred income tax, net
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	788	237	1,025	(2,193)	(1,531)	(3,724)	(2,699)
Exchange difference	–	(7)	(7)	–	–	–	(7)
(Credited)/charged to consolidated statement of comprehensive income	(788)	–	(788)	–	1,531	1,531	743
At 31 December 2018	–	230	230	(2,193)	–	(2,193)	(1,963)
Exchange difference	–	3	3	–	–	–	3
Charged to consolidated statement of comprehensive income	–	–	–	2,193	–	2,193	2,193
At 31 December 2019	**–**	**233**	**233**	**–**	**–**	**–**	**233**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$45,424,000 (2018: HK$57,524,000) in respect of tax losses amounting to HK$245,281,000 (2018: HK$317,309,000). Unrecognised tax losses of HK$131,332,000 (2018: HK$100,659,000) have no expiry date and the remaining tax losses will expire at various dates up to and including 2024 (2018: 2023).

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 2019 and 2018, no deferred tax liabilities were recognised on the unremitted earnings of subsidiaries in the PRC as all the subsidiaries are in loss positions.

22 OTHER INCOME

	2019	2018
	HK$'000	HK$'000
Rental income *(Note 36(c))*	**852**	1,685

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2019 HK$'000	2018 HK$'000
Wages, salaries and bonus	**91,305**	87,664
Pension costs	**5,672**	6,198
Share options granted to directors, senior management and employees *(Note 27)*	**3,545**	7,938
Other staff benefits	**11,878**	9,134
Less: employee benefit expenses attributable for research and development	**(10,290)**	(9,571)
	102,110	101,363

As at 31 December 2019, there are no forfeited contributions available to offset future retirement benefit obligations of the Group (2018: Nil).

24 OTHER EXPENSES

	2019 HK$'000	2018 HK$'000
Auditor's remuneration	**3,500**	3,800
Communication	**1,392**	1,532
Professional service fees	**9,513**	12,444
Motor vehicle expenses	**3,435**	4,169
Travelling	**16,388**	12,593
Insurance	**1,033**	1,915
Office utilities	**2,679**	4,524
Other taxes	**2,000**	490
Bank charges	**376**	460
Share-based compensation – non-employee *(Note 20(c))*	**6,279**	–
Others	**7,175**	6,628
Less: other expenses attributable for research and development	**(3,589)**	(3,627)
	50,181	44,928

25 OTHER (LOSSES)/GAINS, NET

	2019 HK$'000	2018 HK$'000
Gain on disposals of property, plant and equipment *(Note 32(b))*	**339**	246
Government grant	**1,426**	1,050
Foreign exchange gains, net	**668**	6,192
Loss on disposal of a subsidiary *(Note 35(b))*	**(3,582)**	–
Others	**(241)**	(1,021)
	(1,390)	6,467

26 BENEFITS AND INTERESTS OF DIRECTORS

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

The remuneration of every director and the chief executive officer for the year ended 31 December 2019 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	–	1,272	–	–	–	104	1,376
Zhao JinDong	–	1,045	–	–	333	104	1,482
Non-executive director							
Lee Tommy	–	135	–	–	–	–	135
Ma Hua	–	135	–	–	–	–	135
Independent non-executive director							
Tong HinWor	–	153	–	–	–	–	153
Leung LinCheong	–	240	–	–	–	–	240
Xin JinHe	–	153	–	–	–	–	153
Chief executive officer							
Huang Yu *(Note (i))*	–	648	–	–	54	13	715
Zeng WeiZhong *(Note (ii))*	–	682	–	–	–	39	721
	–	4,463	–	–	387	260	5,110

26 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

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

The remuneration of every director and the chief executive officer for the year ended 31 December 2018 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	–	1,318	–	–	–	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 (iii))*	–	56	–	–	–	–	56
Independent non-executive director							
Tong HinWor	–	153	–	–	–	–	153
Leung LinCheong	–	240	–	–	–	–	240
Xin JinHe	–	153	–	–	–	–	153
Chief executive officer							
Zeng WeiZhong	–	852	–	–	1,145	117	2,114
	–	4,124	–	–	1,884	351	6,359

Other benefits include share options to directors and chief executive officer.

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 (2018: Nil). No consideration was provided to or receivable by third parties for making available directors' services (2018: Nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: None).

26 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive officer'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 (2018: None).

Note:

(i) Appointed as chief executive officer on 31 May 2019.

(ii) Resigned as chief executive officer on 31 May 2019.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2018: four) individuals during the year are as follows:

	2019	2018
	HK$'000	HK$'000
Salary	**3,166**	3,684
Employer's contribution to pension scheme	**208**	292
Share-based payment	**752**	2,647
	4,126	6,623

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emoluments band		
– Nil to HK$1,000,000	**–**	–
– HK$1,000,001 - HK$2,000,000	**3**	3
– HK$2,000,001 - HK$3,000,000	**–**	1
	3	4

27 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**	**31 May 2019**
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	17,000,000
– Employees	7,100,000	31,200,000	42,000,000	–	–	–	–
Exercise price	HK$2.60	HK$1.30	HK$0.53	HK$0.53	HK$0.38	HK$0.33	HK$0.19
Contractual option term	Five years	Seven 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	30 May 2026

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.

27 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	31 May 2019
Range of fair value of options granted (HK$)	0.87 - 0.88	0.62 - 0.66	0.19 - 0.25	0.23 - 0.26	0.15 - 0.17	0.14 - 0.16	0.08 - 0.10
Weighted average share price at the grant date (HK$)	2.44	1.28	0.52	0.53	0.35	0.32	0.18
Expected volatility *(Note)*	49.72%	56.49%	47.97%	47.75%	49.59%	49.45%	53.41%
Expected option life	5 years	7 years	7 years	7 years	7 years	7 years	7 years
Dividend yield	1.15%	Nil	Nil	Nil	Nil	Nil	Nil
Annual risk-free interest rate	1.42%	1.37%	0.75%	1.18%	2.19%	2.08%	1.41%

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.

27 SHARE-BASED PAYMENTS (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 31 December 2019 are as follow:

	Exercise price per share option	Number of share options			
		As at 1 January 2019	**Granted during the year**	**Forfeited, lapsed or expired during the year**	**As at 31 December 2019**
Grant date					
29 April 2014	2.55	**5,145,665**	**–**	**(5,145,665)**	**–**
29 May 2015	1.30	**35,039,121**	**–**	**(7,715,039)**	**27,324,082**
26 October 2016	0.53	**45,860,000**	**–**	**(8,820,000)**	**37,040,000**
1 December 2016	0.53	**17,000,000**	**–**	**(17,000,000)**	**–**
28 June 2018	0.38	**3,000,000**	**–**	**(3,000,000)**	**–**
16 August 2018	0.33	**5,000,000**	**–**	**–**	**5,000,000**
31 May 2019	0.19	**–**	**17,000,000**	**–**	**17,000,000**
Total		**111,044,786**	**17,000,000**	**(41,680,704)**	**86,364,082**
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		**0.38**	**–**	**–**	**0.38**
16 August 2018		**0.33**	**–**	**–**	**0.33**
31 May 2019		**–**	**0.19**	**–**	**0.19**

27 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 or 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	–	(10,715,328)	35,039,121
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	(33,456,162)	111,044,786
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		–	0.38	–	0.38
16 August 2018		–	0.33	–	0.33

No share options have been exercised by the option holders during the year ended 31 December 2018 and 2019.

During the year ended 31 December 2019, share-based payment expense of HK$3,545,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (2018: HK$7,938,000) (Note 23).

During the year ended 31 December 2019, share options previously granted of HK$22,390,000 (2018: Nil) has been transferred from share-based payment reserve to accumulated loss upon the expiry of the share options.

28 FINANCE INCOME AND COSTS

	2019 **HK$'000**	2018 HK$'000
Interest expenses:		
– Bank and other borrowings	**(18,889)**	(11,586)
– Convertible bonds *(Note 20(c))*	**(4,868)**	(8,938)
– Finance lease liabilities	**–**	(40)
– Lease liabilities *(Note 7)*	**(513)**	–
Finance costs	**(24,270)**	(20,564)
Finance income:		
– Interest income from bank deposits	**79**	93
Finance costs, net	**(24,191)**	(20,471)

29 INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
Under provision in prior years		
– Singapore corporate tax	**–**	170
– China corporate tax	**277**	6
Deferred tax *(Note 21)*	**2,193**	743
Income tax expense	**2,470**	919

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2018: 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 2019, 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% (2018: 15%) for 2019 to 2022.

29 INCOME TAX EXPENSE (Continued)

(b) PRC corporate income tax (Continued)

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 2019 (2018: 17%).

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

	2019 **HK$'000**	2018 HK$'000
Loss before income tax	**(84,908)**	(623,152)
Tax calculated at domestic tax rates applicable to profit/loss in the respective entities	**(8,576)**	(50,289)
– Under provision for prior years	**277**	176
– Income not subject to tax	**(1,076)**	(641)
– Expenses not deductible for tax purposes	**15,996**	40,830
– Utilisation of previously unrecognised tax loss	**(14,908)**	–
– Write-off of deferred tax previously recognised *(Note 21)*	**2,193**	–
– Reversal of withholding tax on undistributed profits of a subsidiary established in the PRC *(Note 21)*	**–**	(788)
– Tax losses for which no deferred tax assets was recognised	**8,564**	11,631
Income tax expense	**2,470**	919

The weighted average applicable tax rate was 10% (2018: 8%). The increase is primarily due to changes in the profitability of the group companies in the respective jurisdictions.

30 LOSS PER SHARE

	2019	2018
Loss attributable to owners of the Company (HK$'000)	**(87,032)**	(623,070)
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)	**(5.0)**	(36.1)
Diluted loss per share (HK cents)	**(5.0)**	(36.1)

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 2019 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2018: Same) as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic loss per share.

31 DIVIDEND

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash used in operations

	2019 HK$'000	2018 HK$'000
Loss before income tax	**(84,908)**	(623,152)
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**56,407**	72,220
– Depreciation of right-of-use assets *(Note 7)*	**1,902**	–
– Amortisation of intangible assets *(Notes 8)*	**27**	887
– Share-based payment *(Note 23)*	**3,545**	7,938
– Share-based payment – non-employee *(Note 24)*	**6,279**	–
– Net impairment loss on financial assets *(Note 13)*	**75,286**	160,023
– Net impairment loss on contract assets *(Note 16)*	**522**	–
– Provision for inventories losses *(Note 12)*	**21,874**	–
– Write-off of inventories *(Note 12)*	**1,145**	56,230
– Gain on disposals of property, plant and equipment *(Note b)*	**(339)**	(246)
– Loss on disposals of a subsidiary *(Note 35(b))*	**3,582**	–
– Write-off of property, plant and equipment *(Note 6)*	**1,193**	62,097
– Provision for impairment of goodwill *(Note 8)*	**–**	209,732
– Net finance costs	**24,191**	20,471
– Foreign exchange loss/(gain)	**5,142**	(2,606)
	115,848	(36,406)
Changes in working capital:		
– Inventories	**(7,123)**	(21,793)
– Trade and other receivables, deposits and prepayments and contract assets	**(120,037)**	11,363
– Trade, other payables and accruals and contract liabilities	**(3,082)**	33,899
Cash used in operations	**(14,394)**	(12,937)

32 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:

	2019 HK$'000	2018 HK$'000
Net book amount *(Note 6)*	**477**	796
Gain on disposals of property, plant and equipment *(Note 25)*	**339**	246
Less:		
Receivables from disposal of property, plant and equipment	**(499)**	–
Proceeds from disposal of property, plant and equipment	**317**	1,042

(c) Non-cash investing and financing activities

Non-cash investing and financing activities disclosed in other notes are:

- Acquisition of right-of-use assets of HK$7,525,000 during the year ended 31 December 2019 (Note 7); and
- Exchange of 2018 Convertible Bonds during the year ended 31 December 2019 (Note 20(c)).

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

(d) Net debt reconciliation

	2019 HK$'000	2018 HK$'000
Pledged bank deposits	**4,803**	11,702
Cash and cash equivalents	**29,447**	39,315
Bank and other borrowings	**(319,467)**	(288,708)
Lease liabilities	**(12,742)**	–
	(297,959)	(237,691)

Details and the movement of the net debt as at 31 December 2019 and 2018 are as follows:

	Other assets		Liabilities from financing activities					
	Cash and cash equivalents HK$'000	Pledged bank deposits HK$'000	Bank and other borrowings – finance lease liabilities HK$'000	Bank and other borrowings – lease liabilities HK$'000	Bank and other borrowings – bank borrowings HK$'000	Bank and other borrowings – other borrowings HK$'000	Bank and other borrowings – convertible bonds HK$'000	Total HK$'000
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 *(Note)*	–	–	–	–	–	(62,000)	53,062	(8,938)
As at 31 December 2018	39,315	11,702	–	–	(41,757)	(219,469)	(27,482)	(237,691)
As at 1 January 2019	**39,315**	**11,702**	**–**	**–**	**(41,757)**	**(219,469)**	**(27,482)**	**(237,691)**
Recognised on adoption of IFRS 16	**–**	**–**	**–**	**(6,604)**	**–**	**–**	**–**	**(6,604)**
As at 1 January 2019 (Restated)	**39,315**	**11,702**	**–**	**(6,604)**	**(41,757)**	**(219,469)**	**(27,482)**	**(244,295)**
Cash flows	**(9,680)**	**(6,754)**	**–**	**1,447**	**(53,007)**	**21,114**	**2,735**	**(44,145)**
Acquisition - leases	**–**	**–**	**–**	**(7,525)**	**–**	**–**	**–**	**(7,525)**
Foreign exchange adjustments	**(188)**	**(145)**	**–**	**(60)**	**956**	**561**	**–**	**1,124**
Other non-cash movements *(Note)*	**–**	**–**	**–**	**–**	**–**	**–**	**(3,118)**	**(3,118)**
As at 31 December 2019	**29,447**	**4,803**	**–**	**(12,742)**	**(93,808)**	**(197,794)**	**(27,865)**	**(297,959)**

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

(d) Net debt reconciliation (Continued)

Note:

During the year ended 31 December 2018, other non-cash movements represented accrued interest expenses of convertible bonds and the conversion to bondholder loans. During the year ended 31 December 2019, other non-cash movements includes accrued interest expenses of convertible bonds and exchange of 2018 Convertible Bonds.

33 CONTINGENCIES

	2019 **HK$'000**	2018 HK$'000
Performance bonds *(Note)*	**442**	1,749

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.

34 OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 **HK$'000**	2018 HK$'000
No later than 1 year	**1,370**	4,946
Later than 1 year and no later than 5 years	**–**	1,799
Later than 5 years	**–**	9,219
	1,370	15,964

For the year ended 31 December 2018, operating lease payments represented rentals payable by the Group for its offices, warehouses and a land in Singapore. These leases were negotiated for terms ranging from 1 to 28 years. None of the leases included any contingent rentals.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term leases, see Note 2.2 and Note 7 for details.

35 DISPOSAL OF SUBSIDIARIES

(a) Deemed disposal of 26.3% equity interest in a subsidiary

On 23 December 2019, the Group entered into agreements with Mr. Wang JinLong (a shareholder and a Director of the Company), a limited liability partnership wholly-owned by the employees of the Group, and three independent third parties for capital injection in increasing the registered capital of Petro-king Energy Technology (Huizhou) Co., Ltd ("Petro-king Huizhou"), a wholly-owned subsidiary of the Group. Upon the completion, the increase in the registered capital and capital injection by the relevant parties constitutes a deemed disposal of 26.3% of Petro-king Huizhou's equity interest by the Group. The capital increase amounted to RMB25,000,000 (equivalent to approximately HK$27,853,000) and was completed on 30 December 2019.

Upon the completion of the capital increase, the Group's equity interest in Petro-king Huizhou was reduced from 100% to 73.7% and Petro-king Huizhou continued to be a subsidiary of the Group. The remaining equity interest was included in the consolidated statement of financial position. The Group recognised an increase in non-controlling interests of HK$22,693,000 and an increase in equity attributable to owners of the parent of HK$5,160,000. The effect on the equity attributable to the owners of the Group during the year is summarised as follows:

	2019 **HK$'000**
Carrying amount of non-controlling interests disposed	**(22,693)**
Consideration paid/payable by non-controlling interests	**27,853**
Excess of consideration recognised in the transactions with non-controlling interests reserve within equity	**5,160**

During the year ended 31 December 2019, consideration of approximately HK$13,378,000 has been paid by non-controlling interests and the remaining receivables of HK$14,610,000 is included in "other receivables, deposits and prepayments" (Note 13(b)).

35 DISPOSAL OF SUBSIDIARIES (Continued)

(b) Disposal of 100% equity interest in a subsidiary

On 22 March 2019, the Group entered into agreement with an independent third party to dispose 100% equity interest in Petro-king Turbo FZCO, a wholly-owned subsidiary of the Group, for a consideration of US$500,000 (equivalent to approximately HK$3,908,000). The subsidiary was engaged in the provision of oilfield tools and equipment technology services and research and development in the Middle East.

Details of net assets disposed of and the loss on disposal of the equity interest in the subsidiary at the date of disposal were as follows:

	HK$'000
Cash consideration	3,908
Less:	
Carrying amount of net assets disposed of	(7,490)
Loss on disposal of equity interest in a subsidiary *(Note 25)*	(3,582)

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

	HK$'000
Carrying amount of assets and liabilities disposed of:	
Property, plant and equipment *(Note 6)*	3,011
Inventories	5,531
Cash and cash equivalents	465
Trade, other payables and accruals	(1,517)
	7,490
Cash consideration received by cash	3,908
Cash and cash equivalents disposed of	(465)
Net proceeds from disposal of a subsidiary	3,443
Less: net proceeds received during the year	(1,882)
Net proceeds receivable as at 31 December 2019 *(Note 13)*	1,561

36 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 2019 and 2018, and balances arising from related party transactions as at 31 December 2019 and 2018.

Names	**Relationships**
Mr. Wang JinLong	Shareholder and director
Mr. Zhao JinDong	Director
Mr. Zeng WeiZhong *(Note (i))*	Senior management
Ms. Sun JinXia *(Note (ii))*	Senior management
Mr. Shu WaTung Laurence *(Note (iii))*	Senior management
Mr. Chan KwokYuen Elvis *(Note (iv))*	Senior management
Mr. Huang Yu *(Note (v))*	Senior management
King Shine Group Limited	Shareholder
Shenzhen Fluid Science & Technology Corp. Ltd.	Mr. Wang JinLong is the key management personnel of the company

Note:

(i) Resigned from the Group on 31 May 2019.

(ii) Resigned from the Group on 7 May 2019.

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

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

(v) Appointed as Chief Executive Officer on 31 May 2019.

36 RELATED PARTY TRANSACTIONS (Continued)

(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.

	2019 **HK$'000**	2018 HK$'000
Salaries and other short-term employee benefits	**6,631**	7,339
Share-based payments	**676**	2,513
	7,307	9,852

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

	2019 **HK$'000**	2018 HK$'000
Amounts due from related parties *(Note 13) (Note (i))*	**5,286**	6,211
Amounts due to related parties *(Note 19) (Note (ii))*	**(786)**	(182)

As at 31 December 2019 and 2018, the balances are interest-free, unsecured, receivable or repayable on demand.

The carrying values of these balances approximate to their fair values.

Note:

(i) The balances mainly comprise of advance to the Directors and senior management and rental receivables from other related parties.

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

36 RELATED PARTY TRANSACTIONS (Continued)

(c) Related party transactions

The Group had entered into the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transaction	Year ended 31 December 2019 HK$'000	2018 HK$'000
Mr. Wang JinLong	A shareholder and a Director of the Company	Capital injection to Petro-king Huizhou *(Note 35(a))*	**8,913**	–
Shenzhen Fluid Science & Technology Corp. Ltd.	Mr. Wang JinLong is the key management personnel of the company	Rental income from leasing the basement of the Group	**852**	1,685

The transactions were entered into at terms mutually agreed with the related party in the ordinary course of the Group's business.

37 SUBSIDIARIES

As at 31 December 2019, 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 RMB151,300,000
Star Petrotech Pte Ltd.	–	100%	Manufacturing and repairing of other oilfield and gas field machinery and equipment in Singapore	Singapore, Limited liability company 4 February 2009	400,000 ordinary shares at no par value for 1 SGD each
百勤石油技術(惠州)有限公司	–	100%	Provision of oilfield tools and equipment technology services and research and development in the PRC	The PRC, Limited liability company (wholly foreign owned enterprise) 21 September 2012	Registered capital of RMB140,820,000

37 SUBSIDIARIES (Continued)

As at 31 December 2019, the Company has direct and indirect interests in the following principal subsidiaries (Continued):

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of Incorporation and kind of legal entity/date of incorporation	Particulars of issued share capital/ registered capital
江蘇百勤完井技術有限公司	–	100%	Manufacturing and repairing of other oilfield and gas field 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 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 AED 1,000 each
百勤能源科技(惠州)有限公司	–	74%	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 RMB70,675,014

38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
ASSETS		
Non-current asset		
Investments in subsidiaries	**680,617**	724,060
Current assets		
Other receivables and prepayments	**263**	420
Cash and cash equivalents	**86**	2
Total current assets	**349**	422
Total assets	**680,966**	724,482
EQUITY AND LIABILITIES		
Equity		
Share capital	**2,001,073**	2,001,073
Other reserves	**52,178**	62,994
Accumulated losses	**(1,591,589)**	(1,573,293)
Total equity	**461,662**	490,774
LIABILITIES		
Current liabilities		
Other payables and accruals	**17,439**	15,226
Convertible bonds - liability component	**27,865**	27,482
Borrowings	**165,000**	–
Total current liabilities	**210,304**	42,708
Non-current liabilities		
Borrowings	**9,000**	191,000
Total liabilities	**219,304**	233,708
Total equity and liabilities	**680,966**	724,482

The statement of financial position of the Company was approved by the Board of Directors on 30 March 2020 and was signed on its behalf.

Mr. Wang JinLong
Director

Mr. Zhao JinDong
Director

38 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 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 20(c))*	–	3,715	–
Recognition of share-based payment	7,938	–	–
At 31 December 2018	59,279	3,715	(1,573,293)
At 1 January 2019	**59,279**	**3,715**	**(1,573,293)**
Loss for the year	**–**	**–**	**(40,686)**
Exchange of 2018 Convertible Bonds *(Note 20(c))*	**–**	**8,029**	**–**
Recognition of share-based payment	**3,545**	**–**	**–**
Transfer of share-based payment upon expiry of share options	**(22,390)**	**–**	**22,390**
At 31 December 2019	**40,434**	**11,744**	**(1,591,589)**

39 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

(a) Liquidity measures

(i) On 22 January 2020, the Group successfully entered into a supplemental agreement with the creditor of a two-year borrowing with a principal amount of HK$140,000,000. The borrowing was interest bearing at 5.5% per annum, with HK$30,000,000 originally maturing in April 2020 and the remaining balance in July 2020. Pursuant to the supplemental agreement, the entire outstanding principal amount will be repaid by monthly repayments of HK$3,000,000 from 1 April 2020 to 1 December 2020, HK$4,000,000 from 1 January 2021 to 1 December 2021 and HK$5,000,000 from 1 January 2022 to 31 December 2022, respectively;

(ii) On 20 February 2020, the Group entered into a borrowing facilities agreement of approximately RMB19 million (equivalent to approximately HK$21,270,000) with a bank for the working capital needs of the Group's oilfield projects and services. These borrowings are secured by the trade receivable from the customer of the Project and are immediately repayable upon the collection of the receivable from the customer of the Project or upon maturities of the banking facilities, whichever is earlier;

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

(a) Liquidity measures (Continued)

(iii) On 4 March 2020, the Group agreed in writing with a bondholder with principal amount of HK$15,000,000 originally maturing on 28 April 2020 to repay by monthly repayments of HK$1,000,000 from 28 April 2020 to 28 March 2021 and HK$3,000,000 on 28 April 2021, respectively;

(iv) On 24 March 2020, the Group entered into the 2020 Shareholder's Loan, pursuant to which the shareholder has granted a HK$15,000,000 revolving facility to the Group for a term of one year from the date of drawdown. Such facility is unsecured and bears interest at 10% per annum. As at the date of this report, the Group has not yet drawn down any loan from this facility;

(v) On 28 March 2020, the Group entered into subscription agreements with the relevant bondholders agreeing to redeem the outstanding 2019 Convertible Bonds and further issued eight bonds to each of the relevant bondholders in the principal amounts of HK$2,125,000 and HK$1,625,000, respectively, and bearing interest at 13.5% per annum. Each 2020 Bond will be matured on respective maturity dates from 30 June 2020 to 31 March 2022 on a quarterly basis.

The Group also agreed to issue 120,000,000 unlisted warrants to the relevant bondholders ("**warrantholders**"), which entitle the warrantholders to subscribe for shares of the Company at a subscription price of HK$0.12 for each ordinary share of the Company from the date of the issuance of the warrants to 31 March 2023;

(vi) On 28 March 2020, the Group entered into a deed of assignment with the Ex-bondholder and the New Lender, according to which the Ex-bondholder has assigned the bondholder loan with principal amount of HK$6,000,000 to the New Lender; and the due date for payment of the bondholder loan has been extended from 28 April 2020 to 28 April 2021.

(b) Recent drop in international crude oil price

Subsequent to the year end, the recent drop in international crude oil price caused by the price cut in Saudi Arabia may potentially cause a reduction in capital and operating expenditure by the customers which may result in a slow-down in the overall exploration and production activities and casts uncertainty over the future development of the industry. The Group has been actively communicating with its major customers on the progress of their ongoing and future projects. Up to the date of this report, the impacts of the drop in the oil price on the Group's ongoing and future projects remain uncertain and is unable to quantify the related financial effects. The Group will continue to monitor and assess the international crude oil price and evaluate its financial impact on the Group.

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

(c) The outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak")

Following the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been implemented globally. The Group has assessed that as a result of the COVID-19 outbreak, it may have the following possible impacts to the Group:

i. The progress of the Group's projects in the PRC were delayed temporarily in the first quarter due to the postponement of work resumption after the Chinese New Year holidays, which may in turn affect the operating results of the Group for the first half of 2020. Up to the date of this report, the Group is still in the process of assessing the impacts of the COVID-19 outbreak on the operating results of the Group and is currently unable to quantify the related financial effects.

ii. The Group performed impairment review on the non-financial assets of oilfield project tools and services and consultancy services using value-in-use calculations supported by cash flow projections based on the existing conditions as at 31 December 2019. With regards to the impairment review to be performed in 2020, COVID-19 outbreak and its impact on the cash flow projections will be considered. Up to the date of this report, the Group is still in the process of assessing the impacts of the COVID-19 outbreak on the performance of the impairment review on the non-financial assets of oilfield project tools and services and consultancy services and is currently unable to estimate the quantitative impacts to the Group.

iii. The temporarily slowdown of business activities resulted from the COVID-19 outbreak may lead to delay in settlements from its customers. The Group may have to experience longer turnover time for recovering the trade receivables and contract assets which may increase the associated credit risks and the impairment risk on the trade receivables and contract assets in 2020. Up to the date of this report, the Group is still in the process of assessing the impacts of the COVID-19 outbreak on the impairment assessment on the trade receivables and contract assets and is currently unable to estimate the quantitative impacts to the Group.

iv. The Group assessed the provision for inventories losses with reference to the realisability of the inventories based on the existing conditions as at 31 December 2019. The COVID-19 outbreak may have impact on the ongoing and known future projects of its customers which in turn affect the realisability of the inventories. Up to the date of this report, the Group is still in the process of assessing the impacts of the COVID-19 outbreak on the realisability of the inventories and is currently unable to estimate the quantitative impacts to the Group.