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

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 2178)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Petro-king Oilfield Services Limited (the "**Company**") hereby presents the annual results of the Company and its subsidiaries (collectively referred to as the "**Group**", "**we**" or "**our**") for the year ended 31 December 2018 (the "**Year**" or "**2018**").

OVERVIEW

The Group's revenue and loss for the Year were approximately HK$258.9 million (2017: HK$287.8 million) and HK$624.1 million (2017: HK$181.1 million), respectively. Basic loss per share for the Year was HK36.1 cents (2017: HK10.4 cents). The Board has resolved not to recommend the payment of any final dividend for the Year (2017: Nil).

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 fields related products.

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

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

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

GEOGRAPHICAL MARKET ANALYSIS

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

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

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

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

REVENUE FROM THE CHINA MARKET

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

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

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

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

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

REVENUE FROM THE OVERSEAS MARKET

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

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

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

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

OPERATING SEGMENT ANALYSIS

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

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

In 2018, the Group's revenue from oilfield project tools and services amounted to approximately HK$226.8 million, which has decreased by approximately HK$16.8 million or approximately 6.9% from approximately HK$243.6 million in 2017. The decrease was mainly due to the decline in well completion tools sales revenue from the Middle East, the drilling service paused with a key customer in 2018, net off the revenue increase in fracturing projects.

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

Oilfield Project Tools and Services

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

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

Drilling

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

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

Well Completion

In 2018, the Group's revenue from well completion amounted to approximately HK$75.6 million, which has decreased by approximately HK$72.8 million or approximately 49.1% from approximately HK$148.4 million in 2017. The decrease was mainly because no new orders of completion tools sales were received from the key customers in the Middle East and other regions in the China market in 2018.

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

Production Enhancement

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

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

CUSTOMER ANALYSIS

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

The revenue from customer 1 amounted to approximately HK$87.0 million in 2018, which has increased by approximately HK$58.4 million or approximately 204.2% from HK$28.6 million in 2017. Such revenue from this customer was mainly attributable to the increased demand in fracturing services in southwestern China. The revenue from customer 2 amounted to approximately HK$33.5 million in 2018, which has decreased by approximately HK$41.3 million or approximately 55.2% from approximately HK$74.8 million in 2017. This decrease was mainly due to the drop in sales of well completion tools in the China market. The revenue from customer 3 amounted to approximately HK$33.0 million in 2018, which has increased by approximately HK$11.9 million or approximately 56.4% from approximately HK$21.1

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

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our business. We have implemented human resources policies and procedures that detail requirements on compensation dismissal, recruitment, promotion, working hours, equal opportunity and other benefits and welfare. We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right skillset and knowledge, we arranged for a series of training courses that cover technical update of drilling and completion technology, blast management, control at wells and environment management. We also worked with external organisations such as unions and consultants to provide training for the specific needs of the operations. The Group has arranged 49 trainings, more than 9,500 hours in total and 260 employees attended these training programs in 2018. Besides, the company implemented new talents selection system to expand the promotion channel for staff in order to realise a win-win situation for both the Company and employees.

To cope with the development trend of the industry, the Group streamlined the organisation structure and the cost structure of all service lines as well as the supporting departments. The Company paid high attention to talent introduction and has recruited some international experts who are good at market developing as well. The total headcount was 340 employees as at 31 December 2018, remained nearly flat as compared to that of 334 employees as at 31 December 2017.

In order to keep the Group’s human resources policies and procedures abreast with the industry development, the Group reviewed its human resources management system and made certain transformation aiming at a long-term development of the Group’s engineer talents and implemented a new performance based compensation system in 2018 encouraging staff ownership and team spirit.

RESEARCH AND DEVELOPMENT

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

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

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

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

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

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

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

In 2019, the Group will continue to focus on the research and development of down-hole completion tools and technologies, as well as certain specific high-end drilling tools and technologies, including $9^{5}/_{8}$" 5,000 Psi electric submersible pump packer, 7" 5,000 Psi electric submersible pump packer, $4^{1}/_{2}$" slimline tubing retrievable safety valve. In order to maintain its leading position in the high-end oilfield service sector, the Group will continue its effort in developing oilfield service tools and technologies through in-house research and development and through cooperation with oilfield service technology companies.

OUTLOOK

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2018	2017
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*4*	**384,354**	501,271
Intangible assets	*5*	**95,485**	306,634
Land use rights		**9,731**	10,452
Financial asset at fair value through profit or loss		**5,184**	–
Available-for-sale financial asset		**–**	5,184
Other receivables and deposits		**38,824**	39,230
Deferred tax assets		**2,193**	3,724
		535,771	866,495
Current assets			
Inventories	*6*	**80,951**	121,000
Trade receivables	*7*	**205,957**	407,331
Contract assets		**7,059**	–
Other receivables and deposits		**79,442**	100,078
Prepayments		**23,700**	11,771
Pledged bank deposits		**11,702**	8,457
Cash and cash equivalents		**39,315**	24,708
		448,126	673,345
Total assets		**983,897**	1,539,840

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
EQUITY AND LIABILITIES			
Equity			
Share capital		**2,001,073**	2,001,073
Other reserves		**34,872**	83,308
Accumulated losses		**(1,573,284)**	(962,556)
		462,661	1,121,825
Non-controlling interests		**959**	1,960
Total equity		**463,620**	1,123,785
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*9*	**216,460**	47,305
Deferred tax liabilities		**230**	1,025
		216,690	48,330
Current liabilities			
Trade payables	*8*	**127,803**	119,578
Other payables and accruals		**95,087**	83,746
Contract liabilities		**8,449**	–
Bank and other borrowings	*9*	**72,248**	164,401
		303,587	367,725
Total liabilities		**520,277**	416,055
Total equity and liabilities		**983,897**	1,539,840

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Loss for the year attributable to:			
Owners of the Company		**(623,070)**	(180,262)
Non-controlling interests		**(1,001)**	(880)
		(624,071)	(181,142)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(656,934)**	(123,553)
Non-controlling interests		**(1,001)**	(880)
		(657,935)	(124,433)
Loss per share attributable to owners of the Company during the year	*14*		
Basic loss per share *(HK cents)*		**(36.1)**	(10.4)
Diluted loss per share *(HK cents)*		**(36.1)**	(10.4)

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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 and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.

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

These consolidated financial information are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial information. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

2.1.1 Going concern

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

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

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

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

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

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

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

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

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

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

The Directors have reviewed the Group's cash flow projections prepared by management, which cover a period of twelve months from 31 December 2018. In the opinion of the Directors, in light of the above, taking into account the anticipated cash flows to be generated from the Group's operations as well as the above plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2018. Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial information on a going concern basis.

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

(i) successful draw down of the Equipment Loan as and when needed;

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

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

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

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

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

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

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

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

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

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

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

		Effective for accounting year beginning on or after
IAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRIC-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements Project (Amendment)	Annual Improvements 2015 – 2017 Cycle	1 January 2019
IAS 1 and IAS 8 (Amendment)	Definition of Material	1 January 2020
IFRS 3 (Amendment)	Definition of Business	1 January 2020

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 information of the Group, except the following set out below:

IFRS 16 "Leases"

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$15,964,000. Of these commitments, approximately HK$4,081,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

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

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

Date of adoption by the Group

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

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

2.2 Changes in accounting policies and disclosures

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

(a) Impact on financial information

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

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

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

(b) IFRS 9 "Financial Instruments"

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

The adoption of IFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies.

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

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

(i) Classification and measurement

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

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

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

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

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

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

(ii) *Impairment of financial assets*

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

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

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

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

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

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

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

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

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

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

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

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

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

3 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 2018 and 2017 is as follows:

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

For the Group's oil field project tools and services, contracts are for periods of one year or less. For the Group's consultancy services, the Group bills the amount based on the time incurred to provide the services. Therefore, the Group uses "right to invoice" practical expedient to recognise revenue in the amount to which the Group has a right to invoice. As permitted under IFRS 15, the transaction price allocated to these unsatisfied controls are not discussed.

(b) Segment results

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

	Oilfield project tools and services *HK$'000*	Consultancy services *HK$'000*	Total *HK$'000*
Year ended 31 December 2018			
Total segment revenue	**226,844**	**32,088**	**258,932**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**226,844**	**32,088**	**258,932**
Segment results	**(508,353)**	**21,315**	**(487,038)**
Net unallocated expenses			**(136,114)**
Loss before income tax			**(623,152)**
Other information:			
Amortisation of intangible assets	**(629)**	**–**	**(629)**
Depreciation	**(61,687)**	**–**	**(61,687)**
Net impairment loss on financial assets	**(160,023)**	**–**	**(160,023)**
Impairment loss of goodwill *(Note 5)*	**(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)**

The segment results for the years ended 31 December 2017 is as follows:

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

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

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

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

The segment results included material costs, technical service fees, depreciation of property, plant and equipment, amortisation of intangible assets, distribution expenses, operating lease rental, employee benefit expenses, research and development expenses, entertainment and marketing expenses, net impairment loss on financial assets, write-off of inventories, impairment loss of goodwill, write-off of property, plant and equipment, other expenses, and finance costs, net, allocated to each operating segment.

(c) Segment assets

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

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

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

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

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

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

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

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

(d) Geographical information

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

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

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

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

(e) Information about major customers

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

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

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

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

4 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machineries	Motor vehicles	Computer equipment	Furniture and fixtures	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017							
Cost	158,208	10,736	614,427	7,590	5,100	15,259	811,320
Accumulated depreciation	(16,209)	(4,349)	(169,678)	(6,342)	(3,699)	(5,435)	(205,712)
Net book amount	141,999	6,387	444,749	1,248	1,401	9,824	605,608
Year ended 31 December 2017							
Opening net book amount	141,999	6,387	444,749	1,248	1,401	9,824	605,608
Additions	–	–	3,701	164	115	102	4,082
Depreciation	(7,794)	(1,466)	(67,475)	(567)	(519)	(2,957)	(80,778)
Disposals	–	–	(61,832)	(139)	(11)	(949)	(62,931)
Written-off	–	–	(174)	–	(139)	–	(313)
Exchange differences	10,962	634	22,891	90	118	908	35,603
Closing net book amount	145,167	5,555	341,860	796	965	6,928	501,271
At 31 December 2017							
Cost	170,638	11,786	539,620	8,094	4,854	14,956	749,948
Accumulated depreciation	(25,471)	(6,231)	(197,760)	(7,298)	(3,889)	(8,028)	(248,677)
Net book amount	145,167	5,555	341,860	796	965	6,928	501,271
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	**–**	**–**	**(796)**	**–**	**–**	**–**	**(796)**
Written-off	**–**	**–**	**(61,732)**	**–**	**(3)**	**(362)**	**(62,097)**
Exchange differences	**(5,171)**	**(87)**	**(14,986)**	**(5)**	**(41)**	**(186)**	**(20,476)**
Closing net book amount	**131,975**	**3,962**	**243,064**	**381**	**820**	**4,152**	**384,354**
At 31 December 2018							
Cost	**164,264**	**11,496**	**439,918**	**7,828**	**4,676**	**13,809**	**641,991**
Accumulated depreciation	**(32,289)**	**(7,534)**	**(196,854)**	**(7,447)**	**(3,856)**	**(9,657)**	**(257,637)**
Net book amount	**131,975**	**3,962**	**243,064**	**381**	**820**	**4,152**	**384,354**

Bank borrowings are secured by the buildings of the subsidiaries of the Group of HK$128,818,000 (2017: HK$140,970,000) (Note 9).

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

During the year ended 31 December 2018, machineries with carrying amount of HK$24,541,000 is purchased under a two-year instalment loan, with interest of 6.7% per annum (Note 9(b)).

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

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

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

5 INTANGIBLE ASSETS

	Goodwill	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017			
Cost	520,687	8,210	528,897
Accumulated amortisation and impairment	(218,341)	(6,121)	(224,462)
Net book amount	302,346	2,089	304,435
Year ended 31 December 2017			
Opening net book amount	302,346	2,089	304,435
Amortisation	–	(1,438)	(1,438)
Exchange differences	3,595	42	3,637
Closing net book amount	305,941	693	306,634
At 31 December 2017			
Cost	520,687	8,343	529,030
Accumulated amortisation and impairment	(214,746)	(7,650)	(222,396)
Net book amount	305,941	693	306,634
At 1 January 2018			
Cost	520,687	8,343	529,030
Accumulated amortisation and impairment	(214,746)	(7,650)	(222,396)
Net book amount	305,941	693	306,634
Year ended 31 December 2018			
Opening net book amount	**305,941**	**693**	**306,634**
Amortisation	**–**	**(658)**	**(658)**
Impairment	**(209,732)**	**–**	**(209,732)**
Exchange differences	**(753)**	**(6)**	**(759)**
Closing net book amount	**95,456**	**29**	**95,485**
At 31 December 2018			
Cost	**519,934**	**8,261**	**528,195**
Accumulated amortisation and impairment	**(424,478)**	**(8,232)**	**(432,710)**
Net book amount	**95,456**	**29**	**95,485**

The slow recovery of the oil and gas market during the year ended 31 December 2018 has caused international oil companies to substantially reduce their capital expenditure, and the oilfield services industry suffered. As a result, the Group's performance in relation to the oilfield project tools and services has been adversely affected. Based on the impairment assessment review, the recoverable amount of the oilfield project tools and services cash generating unit ("**CGU**") was lower than the carrying amount, resulting in an impairment loss of HK$209,732,000 recognised against the goodwill of the oilfield project tools and services during the year ended 31 December 2018.

6 INVENTORIES

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

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

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

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

7 TRADE RECEIVABLES

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

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

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

Before accepting any new customers, the Group entities apply an internal credit assessment policy to assess the potential customer's credit quality. Management closely monitors the credit quality of trade receivables and considers that the trade receivables to be of good credit quality since most counterparties are leaders in the oilfield industry with strong financial position and no history of defaults. The Group generally allows a credit period of 90 days after invoice date to its customers.

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

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

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

Management has assessed the credit quality of customers on a case-by-case basis, taking into account of the financial positions, historical record, amounts and timing of expected receipts and other factors. For customers with higher inherent credit risk, the Group increases the price premium of the transactions to manage the risk. The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement at each year end.

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

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

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

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

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

8 TRADE PAYABLES

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

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

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

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

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

9 BANK AND OTHER BORROWINGS

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

(a) Bank borrowings

Pursuant to the requirements of the banking facilities dated 26 December 2014, the Group is obliged to comply with restrictive financial covenant and certain undertakings. Based on the consolidated financial information for the year ended 31 December 2018, the Group has breached one of the financial covenants. The breach of the financial covenant resulted in bank borrowings of approximately HK$33,819,000 become immediately repayable on demand. In this connection, the Group has classified the entire outstanding bank borrowings under current liabilities.

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

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

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

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

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

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

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

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

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

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

As at 31 December 2018 and 2017, banking facilities of approximately HK$42,000,000 (2017: HK$53,000,000) were granted by banks to the subsidiaries of the Group, all of which have been utilised during the year. The facilities are secured by:

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

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

(c) buildings of the Group (Note 4).

(b) Other borrowings

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

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

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

(iii) a two-year instalment loan with a carrying amount of RMB24,885,000 (equivalent to approximate HK$28,468,000), bearing interest of 6.7% per annum. The loan is borrowed for the purpose of acquiring machineries for the Group's operation. The loan is secured by the corresponding machineries acquired (Note 4).

(c) Finance lease liabilities

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

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

The finance lease liabilities are denominated in RMB.

As at 31 December 2017, finance lease liabilities were secured by certain machineries of the Group amounting to HK$17,974,000 (Note 4).

(d) Convertible bonds

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

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

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

The 2018 Convertible Bonds is calculated as follows:

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

Movements in convertible bonds are analysed as follows:

	2018	2017
	HK$'000	*HK$'000*
Opening amount	**155,576**	145,100
Issuance of 2018 Convertible Bonds	**25,785**	–
Settlement of 2014 Convertible Bonds	**(99,570)**	–
Conversion to bondholder loans	**(62,000)**	–
Interest expenses *(Note 12)*	**8,938**	18,327
Interest paid	**(1,247)**	(7,851)
Closing amount	**27,482**	155,576

10 OTHER EXPENSES

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

11 OTHER GAINS/(LOSSES), NET

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

12 FINANCE INCOME AND COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expenses:		
– Bank and other borrowings	**(11,586)**	(1,238)
– Convertible bonds *(Note 9(d))*	**(8,938)**	(18,327)
– Finance lease liabilities	**(40)**	(307)
– Provision for impairment of trade and other receivables	**–**	(24,721)
Finance costs	**(20,564)**	(44,593)
Finance income:		
– Interest income from bank deposits	**93**	82
Finance costs, net	**(20,471)**	(44,511)

13 INCOME TAX EXPENSE/(CREDIT)

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

(a) Hong Kong profits tax

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

(b) PRC corporate income tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "**CIT Law**"). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law, the CIT rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards.

As at 31 December 2018, Petro-king Oilfield Technology Limited was approved by relevant local tax bureau authorities as the High and New Technological Enterprise, and was entitled to a preferential CIT rate of 15% (2017: 15%) during the year.

The High and New Technological Enterprise qualification is subjected to be renewed every three years. Companies are required to meet certain criteria such as qualified research and development expenses reaching a designated percentage of total revenue, employing certain number of scientific technology and research and development personnel and having certain percentage of income from sale of new/high technology products etc..

(c) Singapore corporate tax

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

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

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

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

14 LOSS PER SHARE

	2018	2017
Loss attributable to owners of the Company *(HK$'000)*	**(623,070)**	(180,262)
Weighted average number of ordinary shares in issue *(Number of shares in thousand)*	**1,726,674**	1,726,674
Basic loss per share *(HK cents)*	**(36.1)**	(10.4)
Diluted loss per share *(HK cents)*	**(36.1)**	(10.4)

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

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

Diluted loss per share for the year ended 31 December 2018 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2017: Same) as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic loss per share.

15 DIVIDEND

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

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the external auditor of the Company:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that the Group reported a net loss attributable to owners of the Company of approximately HK$623,070,000 and operating cash outflow of approximately HK$17,000,000 during the year ended 31 December 2018. As at the same date, the Group had borrowings of approximately HK$72,248,000 that are due within twelve months from the date of the consolidated statement of financial position. In addition, the Group did not comply with one of the financial covenant requirements of a bank borrowing with carrying amount of approximately HK$33,819,000 as at 31 December 2018. On 27 March 2019, the Group agreed with the relevant bank to early repay the entire outstanding amount by several instalments from 28 March 2019 to 30 September 2019. These conditions, along with other matters as described in Note 2.1.1 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

FINANCIAL REVIEW

Revenue

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

Material Costs

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

Depreciation of Property, Plant and Equipment

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

Employee Benefit Expenses

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

Distribution Expenses

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

Technical Service Fees

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

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

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

Write-off of Inventories

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

Provision for impairment of Goodwill

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

Write-off of property, plant and equipment

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

Other Expenses

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

Operating Loss

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

Net Financing Costs

During the year, the Group's net financing costs amounted to approximately HK$20.5 million, which has decreased by approximately HK$24.0 million or approximately 53.9% as compared to that of approximately HK$44.5 million in 2017. Such decrease in 2018 was mainly attributable to the decrease in finance costs relating to the discounting of certain trade and other receivables of approximately HK$24.7 million in 2017.

Loss for the Year

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

Loss Attributable to Owners of the Company

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

Property, Plant and Equipment

Property, plant and equipment mainly include items such as buildings, plant and machinery, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 31 December 2018, the Group's property, plant and equipment amounted to approximately HK$384.4 million, which has decreased by approximately HK$116.9 million or approximately 23.3% from approximately HK$501.3 million as at 31 December 2017. The decrease was primarily due to the depreciation of the property, plant and equipment and the write-of of certain drilling equipment in 2018.

Intangible Assets

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

Inventories

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

Trade Receivables

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

Trade Payables

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

Liquidity and Capital Resources

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

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

As at 31 December 2018, the Group's bank facilities of approximately HK$42.0 million (31 December 2017: HK$53 million) were granted by banks to the subsidiaries of the Group, of which all have been utilised by the subsidiaries.

Gearing ratio

As at 31 December 2018, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 33.9% (31 December 2017: 13.7%). Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings" as shown in the consolidated financial information) less total cash (including "pledged bank deposits" and "cash and cash equivalents" as shown in the consolidated financial information). Total capital is calculated as "equity" as shown in the consolidated financial information plus net debt.

Foreign Exchange Risk

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

Contractual Obligations

The Group leases various offices, warehouses and a land in Singapore under non-cancellable operating lease agreements. The lease terms are between 1 and 28 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group's commitment under operating leases amounted to approximately HK$16.0 million as at 31 December 2018 (2017: HK$19.6 million).

Off-balance Sheet Arrangements

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3 June 2019 to 6 June 2019, both dates inclusive, during which period no share transfers will be registered. In order to determine the identity of the shareholders of the Company entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at its office situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 31 May 2019.

CORPORATE GOVERNANCE

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

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

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

The Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial year ended 31 December 2017; and (ii) publishing the annual report for the year ended 31 December 2017. Such delay has constituted non-compliance with Rules 13.46(2)(a), 13.49(1) and 13.49(2) of the Listing Rules. The Company had published its annual results announcement and annual report for the financial year ended 31 December 2017 on 10 May 2018 and 24 May 2018, respectively.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER BALANCE SHEET DATE

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

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

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

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

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

Pursuant to the requirements of the Code Provisions and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") which composes of three independent non-executive Directors, namely Mr. Leung Lin Cheong (Chairman of the Audit Committee), Mr. Xin Junhe and Mr. Tong Hin Wor. The consolidated financial statements for the Year have been reviewed by the Audit Committee.

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

Hong Kong, 27 March 2019

As at the date of this announcement, the executive Directors are Mr. Wang Jinlong and Mr. Zhao Jindong; the non-executive Directors are Mr. Lee Tommy and Ms. Ma Hua; and the independent non-executive Directors are Mr. Leung Lin Cheong, Mr. Tong Hin Wor and Mr. Xin Junhe.