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 2019

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 2019 (the "**Year**" or "**2019**").

OVERVIEW

The Group's revenue and loss for the Year were approximately HK$478.2 million (2018: HK$258.9 million) and HK$87.4 million (2018: HK$624.1 million), respectively. Basic loss per share for the Year was HK5.0 cents (2018: HK36.1 cents). The Board has resolved not to recommend the payment of any final dividend for the Year (2018: 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 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 in revenue was mainly due to the increase in revenue from the provision of production enhancement services for shale gas field projects in the People's Republic of China (the "**PRC**" or "**China**"). 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.

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	2018	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
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
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 Northernwestern 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	2018	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
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
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 customers 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 in revenue 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 trainings, 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.

In 2020, 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 7”x3 1/2” and 6 5/8”x2 7/8” 5,000 PSI electric submersible pump packer, 4 1/2” and 5 1/2” fluid loss valve, 7” slimline tubing retrievable safety valve and fast drill bridge plug. 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

During the Year, Brent crude oil price fluctuated between approximately US$52–75/barrel. The outbreak of the coronavirus 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 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 and spread of the coronavirus 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 announcement, the impacts of the drop in the oil price and the worldwide spread of the coronavirus 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2019	2018
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*4*	**357,679**	384,354
Intangible assets		**95,462**	95,485
Right-of-use assets		**21,814**	–
Land use rights		**–**	9,731
Financial asset at fair value through profit or loss		**7,298**	5,184
Other receivables and deposits		**31,219**	38,824
Deferred tax assets		**–**	2,193
		513,472	535,771
Current assets			
Inventories	*5*	**56,890**	80,951
Trade receivables	*6*	**240,498**	205,957
Contract assets	*7*	**51,680**	7,059
Other receivables and deposits		**60,352**	79,442
Prepayments		**9,446**	23,700
Pledged bank deposits		**4,803**	11,702
Cash and cash equivalents		**29,447**	39,315
		453,116	448,126
Total assets		**966,588**	983,897

	Note	As at 31 December 2019 HK$'000	2018 HK$'000
EQUITY AND LIABILITIES			
Equity			
Share capital		**2,001,073**	2,001,073
Other reserves		**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
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*9*	**25,478**	216,460
Lease liabilities		**10,155**	–
Deferred tax liabilities		**233**	230
		35,866	216,690
Current liabilities			
Trade payables	*8*	**132,761**	127,803
Other payables and accruals		**83,423**	95,087
Contract liabilities	*7*	**12,247**	8,449
Lease liabilities		**2,587**	–
Bank and other borrowings	*9*	**293,989**	72,248
		525,007	303,587
Total liabilities		**560,873**	520,277
Total equity and liabilities		**966,588**	983,897

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**478,245**	258,932
Other income		**852**	1,685
Operating costs			
Material costs		**(110,131)**	(110,029)
Depreciation of property, plant and equipment	*4*	**(56,407)**	(72,220)
Depreciation of right-of-use assets		**(1,902)**	–
Amortisation of intangible assets and land use rights		**(27)**	(887)
Operating lease rental		**(4,362)**	(6,413)
Employee benefit expenses		**(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	*10*	**(50,181)**	(44,928)
Net impairment loss on financial assets		**(75,286)**	(160,023)
Net impairment loss on contract assets		**(522)**	–
Provision for inventories losses	*5*	**(21,874)**	–
Write-off of inventories	*5*	**(1,145)**	(56,230)
Provision for impairment of goodwill		**–**	(209,732)
Write-off of property, plant and equipment	*4*	**(1,193)**	(62,097)
Other (losses)/gains, net	*11*	**(1,390)**	6,467
Operating loss		**(60,717)**	(602,681)
Finance income	*12*	**79**	93
Finance costs	*12*	**(24,270)**	(20,564)
Finance costs, net		**(24,191)**	(20,471)
Loss before income tax		**(84,908)**	(623,152)
Income tax expense	*13*	**(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		**(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)

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'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	*14*		
Basic loss per share *(HK cents)*		**(5.0)**	(36.1)
Diluted loss per share *(HK cents)*		**(5.0)**	(36.1)

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 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 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. Certain comparative figures have been reclassified to conform with the current year presentation.

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;

(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;

(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;

(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;

(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 announcement, 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 information on a going concern basis.

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 information.

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 information.

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 information of the Group.

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 information.

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.

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.

(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	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.

(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

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 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.

(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)**
Year ended 31 December 2019			
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	**(75,286)**	**–**	**(72,286)**
Net impairment loss on contract assets	**(522)**	**–**	**(522)**
Write-off of inventories *(Note 5)*	**(1,145)**	**–**	**(1,145)**
Provision for inventories losses *(Note 5)*	**(21,874)**	**–**	**(21,874)**
Write-off of property, plant and equipment *(Note 4)*	**(1,193)**	**–**	**(1,193)**
Finance costs	**(5,680)**	**–**	**(5,680)**

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	(160,023)	–	(160,023)
Impairment loss of goodwill	(209,732)	–	(209,732)
Write-off of inventories *(Note 5)*	(56,230)	–	(56,230)
Write-off of property, plant and equipment *(Note 4)*	(62,097)	–	(62,097)
Income tax expense	(169)	–	(169)
Finance costs	(1,799)	–	(1,799)

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	2018
	HK$'000	*HK$'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.

(c) Segment assets

The segment assets as at 31 December 2019 are as follows:

	Oilfield project tools and services	**Consultancy services**	**Total**
	HK$'000	***HK$'000***	***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

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:

	2019 ***HK$'000***	2018 *HK$'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

(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.

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 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	–	–	(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
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	**–**	**–**	**(355)**	**–**	**(122)**	**–**	**(477)**
Disposal of a subsidiary	**–**	**–**	**(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 9).

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 9(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.

5 INVENTORIES

	2019	2018
	HK$'000	*HK$'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.

6 TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'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 9).

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

	2019	2018
	HK$'000	*HK$'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	2018
	HK$'000	*HK$'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.

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

	2019	2018
	HK$'000	*HK$'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).

7 CONTRACT ASSETS/(LIABILITIES)

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

8 TRADE PAYABLES

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

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

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

9 BANK AND OTHER BORROWINGS

	2019	2018
	HK$'000	*HK$'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	2018
	HK$'000	*HK$'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

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**	41,757
	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 4)*;

(d) trade receivables of the Group of HK$90,035,000 (2018: Nil) *(Note 6)*; and

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

(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 4).

(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

Movements in convertible bonds are analysed as follows:

	2019	2018
	HK$'000	*HK$'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	**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. 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.

10 OTHER EXPENSES

	2019	2018
	HK$'000	*HK$'000*
Auditor's remuneration	**3,500**	3,800
Communication	**1,392**	1,532
Professional service fee	**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 9(c))*	**6,279**	–
Others	**7,175**	6,628
Less: other expenses attributable for research and development	**(3,589)**	(3,627)
	50,181	44,928

11 OTHER (LOSSES)/GAINS, NET

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

12 FINANCE INCOME AND COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest expenses:		
– Bank and other borrowings	**(18,889)**	(11,586)
– Convertible bonds *(Note 9(c))*	**(4,868)**	(8,938)
– Finance lease liabilities	**–**	(40)
– Lease liabilities	**(513)**	–
Finance costs	**(24,270)**	(20,564)
Finance income:		
– Interest income from bank deposits	**79**	93
Finance costs, net	**(24,191)**	(20,471)

13 INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Under provision in prior years		
– Singapore corporate tax	**–**	170
– China corporate tax	**277**	6
Deferred tax	**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%) from 2019 to 2022.

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	2018
	HK$'000	*HK$'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	**2,193**	–
– Reversal of withholding tax on undistributed profits of a subsidiary established in the PRC	**–**	(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.

14 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.

15 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).

16 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

(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;

(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 announcement, 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 announcement, 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.

(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 announcement, 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 announcement, 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 announcement, 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 announcement, 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.

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 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.

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$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.

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 for 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 the 2019 Convertible Bonds.

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 of this announcement.

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 of these consolidated financial information.

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 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'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).

Off-balance Sheet Arrangements

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

Significant Events after the End of the Reporting Period

Other than those disclosed in Note 16 to this annual result announcement, no other significant event has occurred after the end of the reporting period and up to the date of this announcement.

DATE OF ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

Information regarding the date of the forthcoming annual general meeting and the date of closure of register of members in relation to the forthcoming annual general meeting will be further announced separately by the Company in due course.

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 (the "**Code Provision(s)**") of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") set out 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, 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 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. Tommy Lee, 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 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.

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 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

Pursuant to the requirements of the Code Provisions and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") comprising three independent non-executive Directors, namely Mr. Leung Lin Cheong (the 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, 30 March 2020

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.