Petro-king
百勤油服

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 2017 AND RESUMPTION OF TRADING

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 2017.

OVERVIEW

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

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

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

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

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

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

THE CHINA MARKET

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

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

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

THE OVERSEAS MARKET

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

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

GEOGRAPHICAL MARKET ANALYSIS

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

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

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

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

REVENUE FROM THE CHINA MARKET

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

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

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

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

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

REVENUE FROM THE OVERSEAS MARKET

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

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

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

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

BUSINESS SEGMENT ANALYSIS

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

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

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

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

Oilfield Project Tools and Services

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

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

Drilling

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

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

Well Completion

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

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

Production Enhancement

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

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

CUSTOMER ANALYSIS

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

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

HUMAN RESOURCES

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

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

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

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself in introducing innovative products and services in various oilfield service lines, such as turbine-drilling, directional drilling, multistage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 2017, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

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

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

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

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

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

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

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

The Group will continue to focus on developing down-hole completion tools and technology, as well as certain specific high-end drilling tools and technology. In order to maintain its leading position in the high-end oilfield service sector, the Group has set up new research and development center to expand its tools and technology further through in-house research and development and cooperation with oilfield service technology companies.

OUTLOOK

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2017	2016
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**501,271**	605,608
Intangible assets	*4*	**306,634**	304,435
Land use rights		**10,452**	9,926
Available-for-sale financial asset		**5,184**	7,421
Other receivables, deposits and prepayments		**39,230**	44,975
Deferred tax assets		**3,724**	7,634
		866,495	979,999
Current assets			
Inventories		**121,000**	170,816
Trade receivables	*5*	**407,331**	401,750
Other receivables, deposits and prepayments		**111,849**	86,801
Pledged bank deposits		**8,457**	4,234
Restricted bank balance		**–**	5,581
Cash and cash equivalents		**24,708**	44,927
		673,345	714,109
Assets classified as held for sale		**–**	29,400
		673,345	743,509
Total assets		**1,539,840**	1,723,508

		As at 31 December	
		2017	2016
	Note	***HK$'000***	*HK$'000*
EQUITY AND LIABILITIES			
Equity			
Share capital		**2,001,073**	2,001,073
Other reserves		**83,308**	15,061
Accumulated losses		**(962,556)**	(782,294)
		1,121,825	1,233,840
Non-controlling interests		**1,960**	2,840
Total equity		**1,123,785**	1,236,680
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*7*	**47,305**	178,030
Deferred tax liabilities		**1,025**	6,360
		48,330	184,390
Current liabilities			
Trade payables	*6*	**119,578**	174,210
Other payables and accruals		**83,746**	109,378
Current income tax liabilities		**–**	2,217
Bank and other borrowings	*7*	**164,401**	16,633
		367,725	302,438
Total liabilities		**416,055**	486,828
Total equity and liabilities		**1,539,840**	1,723,508

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Year ended 31 December 2017 HK$'000	 2016 HK$'000
Loss for the year attributable to:			
Owners of the Company		**(180,262)**	(443,353)
Non-controlling interests		**(880)**	(1,994)
		(181,142)	(445,347)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(123,553)**	(474,131)
Non-controlling interests		**(880)**	(1,994)
		(124,433)	(476,125)
Loss per share attributable to owners of the Company during the year	*13*		
Basic loss per share *(HK cents)*		**(10)**	(29)
Diluted loss per share *(HK cents)*		**(10)**	(29)

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Petro-king Oilfield Services Limited (the "**Company**") was incorporated in British Virgin Islands on 7 September 2007 as an exempted company with limited liability. The address of the Company's registered office is at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands ("**B.V.I.**").

The Company is an investment holding company and its subsidiaries (together "**the Group**") are principally engaged in the provision of oilfield technology and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial information are set out below. 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 an available-for-sale financial asset, which is carried at fair value.

The preparation of consolidated financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

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

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

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

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

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

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

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

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

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

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

The directors of the Company have reviewed the Group's cash flow projections prepared by management, which cover a period of twelve months from 31 December 2017. In the opinion of the directors, in light of the above, taking into account the anticipated cash flows to be generated from the Group's operations as well as the above plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2017. Accordingly, the directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

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

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

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

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

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

2.2 Changes in accounting policies and disclosures

(a) Amendments to standards adopted by the Group

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

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

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

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

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

3 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the Chief Executive Officer, vice president and directors who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services.

They are also managed according to different nature of products and services. Most of these entities engaged in just single business, except a few entities deal with diversified operations. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

(a) Revenue

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

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

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

	Oilfield project tools and services *HK$'000*	Consultancy services *HK$'000*	Total *HK$'000*
Year ended 31 December 2017			
Total segment revenue	**243,637**	**44,211**	**287,848**
Inter-segment revenue	**–**	**–**	**–**
Revenue from external customers	**243,637**	**44,211**	**287,848**
Segment results	**(69,343)**	**26,665**	**(42,678)**
Net unallocated expenses			**(140,165)**
Loss before income tax			**(182,843)**
Other information:			
Amortisation of intangible assets	**(1,369)**	**–**	**(1,369)**
Depreciation	**(69,621)**	**–**	**(69,621)**
Provision for impairment of trade and other receivables, net *(Note 5)*	**(3,072)**	**–**	**(3,072)**
Impairment loss of goodwill	**–**	**–**	**–**
Provision for inventories loss	**(21,126)**	**–**	**(21,126)**
Income tax expense	**(249)**	**–**	**(249)**
Year ended 31 December 2016			
Total segment revenue	340,796	51,646	392,442
Inter-segment revenue	–	–	–
Revenue from external customers	340,796	51,646	392,442
Segment results	(250,457)	34,615	(215,842)
Net unallocated expenses			(225,350)
Loss before income tax			(441,192)
Other information:			
Amortisation of intangible assets	(1,125)	–	(1,125)
Depreciation	(82,346)	–	(82,346)
Provision for impairment of trade and other receivables, net *(Note 5)*	(16,077)	–	(16,077)
Impairment loss of goodwill *(Note 4)*	(213,859)	–	(213,859)
Provision for inventories loss	(3,639)	–	(3,639)
Income tax expense	(2,179)	–	(2,179)

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

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

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

The segment results included material costs, technical service fees, depreciation of property, plant and equipment, amortisation of intangible assets, distribution expenses, operating lease rental, employee benefit expenses, research and development expenses, entertainment and marketing expenses, provision for impairment of trade receivables, net, other expenses, impairment loss of goodwill, other losses, net, and finance costs, net, allocated to each operating segment.

(b) Assets

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

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

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

	Oilfield project tools and services *HK$'000*	Consultancy services *HK$'000*	Total *HK$'000*
As at 31 December 2016			
Segment assets	1,355,504	136,774	1,492,278
Unallocated assets			231,230
Total assets			1,723,508
Total assets include:			
Additions to non-current assets (other than financial instruments and deferred tax assets)	23,492	–	23,492

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the consolidated financial 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, deposits and prepayments, pledged bank deposits and cash and cash equivalents.

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

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

(c) Geographical information

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

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

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

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

(d) Information about major customers

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

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

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

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

4 INTANGIBLE ASSETS

	Goodwill	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2016			
Cost	520,687	8,210	528,897
Accumulated amortisation and impairment	(3,787)	(4,625)	(8,412)
Net book amount	516,900	3,585	520,485
Year ended 31 December 2016			
Opening net book amount	516,900	3,585	520,485
Amortisation	–	(1,420)	(1,420)
Impairment loss	(213,859)	–	(213,859)
Exchange differences	(695)	(76)	(771)
Closing net book amount	302,346	2,089	304,435
At 31 December 2016			
Cost	520,687	8,210	528,897
Accumulated amortisation and impairment	(218,341)	(6,121)	(224,462)
Net book amount	302,346	2,089	304,435
Year ended 31 December 2017			
Opening net book amount	**302,346**	**2,089**	**304,435**
Amortisation	**–**	**(1,438)**	**(1,438)**
Exchange differences	**3,595**	**42**	**3,637**
Closing net book amount	**305,941**	**693**	**306,634**
At 31 December 2017			
Cost	**520,687**	**8,343**	**529,030**
Accumulated amortisation and impairment	**(214,746)**	**(7,650)**	**(222,396)**
Net book amount	**305,941**	**693**	**306,634**

The low oil price during the year ended 31 December 2016 has caused oil and gas companies to substantially reduce their capital expenditure and the oilfield services industry suffered. As a result, the Group's performance in relation to the oilfield project tools and services has been adversely affected. Based on the impairment assessment evaluated by the Group, the recoverable amount of the oilfield project tools and services segment was lower than the carrying amount of the CGU. This shortfall leads to the recognition of impairment loss of goodwill of HK$213,859,000 in the oilfield project tools and services segment during the year ended 31 December 2016.

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

5 TRADE RECEIVABLES

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

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

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

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

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

Long aged receivables that were past due but not impaired relate to customers that have good trade records without default history. Based on past experience and the credit quality of the counterparties, there is no evidence of impairment in respect of these balances and the balances are considered fully recoverable.

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

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

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

	2017	2016
	HK$'000	*HK$'000*
United States dollar ("**US$**")	**308,741**	297,346
Chinese Renminbi ("**RMB**")	**89,633**	70,436
European dollar ("**Euro**")	**8,957**	33,968
	407,331	401,750

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

Certain customers of the Group experienced significant and rapid deterioration in the credit ratings as well as other market parameters which indicated an increase in the credit default risk. Based on the above, at year end, management has determined to record a provision for doubtful receivables as at 31 December 2017 amounted to HK$152,867,000 (2016: HK$409,214,000), which represents the provision for impairment and discounting effect of total receivable due from the Group's certain debtors. The ageing of these receivables by services completion or delivery date at the respective balance sheet dates is as follows:

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

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

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

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

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

6 TRADE PAYABLES

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

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

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

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

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

7 BANK AND OTHER BORROWINGS

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

(a) Bank borrowings

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) buildings of the Group.

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

(b) Finance lease liabilities

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

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

The finance lease liabilities are denominated in RMB.

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

(c) Convertible bonds

On 30 March 2015, the Company issued convertible bonds at a par value of HK$157,000,000, bearing interest at the rate of 5% per annum and payable semi-annually in arrears. The net proceeds of the convertible bonds is HK$153,860,000. The maturity date of the convertible bonds is 29 March 2018. The holders have the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK$1.39 per conversion share (adjusted to HK$1.26 per conversion share thereafter) at any period commencing from 6 months after the date of issuance of the convertible bonds and up to 30 days immediately prior to the maturity date. The values of the liability component and the equity conversion component were determined at the completion date of the 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 13.6% which is based on market interest rates for a number of comparable convertible bonds denominated in US$ and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair value of the liability component and is included in other reserves in equity. Subsequently, the liability component is carried at amortised cost.

Adjustment was made to the conversion price from HK$1.39 per conversion share to HK$1.26 per conversion share after the completion of the rights issue on 8 July 2016.

The convertible bonds recognised on 30 March 2015 is calculated as follows:

	HK$'000
Net proceeds of convertible bonds issued on 30 March 2015	153,860
Equity component	(28,462)
Liability component at initial recognition	125,398

Movements in convertible bonds are analysed as follows:

	2017	2016
	HK$'000	*HK$'000*
Opening amount	**145,100**	134,245
Interest expenses *(Note 11)*	**18,327**	18,727
Interest paid	**(7,851)**	(7,872)
Closing amount	**155,576**	145,100
Less: Non-current convertible bonds – liability component	**–**	(137,741)
Current portion	**155,576**	7,359

8 OTHER EXPENSES

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

9 FOREIGN EXCHANGE LOSSES, NET

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

10 OTHER LOSSES, NET

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

11 FINANCE INCOME AND COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest expenses:		
– Bank borrowings	**(1,238)**	(4,554)
– Convertible bonds *(Note 7(c))*	**(18,327)**	(18,727)
– Finance lease liabilities	**(307)**	(689)
– Net foreign exchange losses on financing activities	**–**	(585)
– Provision for impairment of trade receivables *(Note 5)*	**(20,542)**	–
– Provision for impairment of other receivables	**(4,179)**	–
Finance costs	**(44,593)**	(24,555)
Finance income:		
– Interest income from bank deposits	**82**	486
Finance costs, net	**(44,511)**	(24,069)

12 INCOME TAX (CREDIT)/EXPENSE

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

(i) Hong Kong profits tax

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

(ii) PRC enterprise income tax

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

As at 31 December 2017, Petro-king Oilfield Technology Limited was approved by relevant local tax bureau authorities as the High and New Technological Enterprise, and was entitled to a preferential EIT rate of 15% (2016: 15%) during the year.

The High and New Technological Enterprise qualification is subject to be renewed every 3 years. Companies are required to meet certain criteria such as qualified research & development expenses reaching a designated percentage of total revenue, employing certain number of scientific technology and research and development personnel and having certain percentage of income from sale of new/high technology products etc.

(iii) Singapore corporate tax

Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% for the year ended 31 December 2017 (2016: 17%).

13 LOSS PER SHARE FOR THE LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

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

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

Diluted loss per share for the year ended 31 December 2017 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2016: Same) as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic loss per share.

14 DIVIDEND

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

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 Company as at 31 December 2017, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with 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$180,262,000 and operating cash outflow of approximately HK$30,420,000 during the year ended 31 December 2017. In addition, the Group had borrowings of approximately HK$164,401,000 as at 31 December 2017 that are due within twelve months from the date of the consolidated statement of financial position, including approximately HK$155,576,000 of convertible bonds which the Group did not repay by the original maturity date of 29 March 2018. These conditions, along with other matters as described in Note 2.1.1 to the consolidated financial statements, indicate that the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

FINANCIAL REVIEW

Revenue

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

Material Costs

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

Depreciation of Property, Plant and Equipment

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

Employee Benefit Expenses

During the year, the Group's employee benefit expenses were HK$105.1 million, which has dropped by HK$7.0 million or 6% as compared to that of HK$112.1 million in 2016. The decrease in employee benefit expenses mainly resulted from the optimisation of the staff structure and the strengthening of the cost control in the harsh market environment, where the headcount has decreased by 4% from 349 in 2016 to 334 in 2017.

Distribution Expenses

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

Technical Service Fees

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

Provision for Impairment of Trade Receivables, Net

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

Other Expenses

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

Operating Loss

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

Net Financing Costs

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

Loss for the Year

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

Loss Attributable to Owners of the Company

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

Property, Plant and Equipment

Property, plant and equipment mainly include items such as buildings, plant and machinery, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 31 December 2017, the Group's property, plant and equipment amounted to HK$501.3 million, which has decreased by HK$104.3 million or 17% from HK$605.6 million as at 31 December 2016. The decrease was primarily due to the depreciation of the property, plant and equipment and disposal of equipment.

Intangible Assets

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

Inventories

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

Trade Receivables

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

Trade Payables

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

Liquidity and Capital Resources

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

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

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

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

Gearing ratio

As at 31 December 2017, the Group's gearing ratio (calculated as net debt divided by total capital) was 14% (31 December 2016: 10%). Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings" as shown in the consolidated financial information) less total cash (including "pledged bank deposits", "restricted bank balance" and "cash and cash equivalents" as shown in the consolidated financial information). Total capital is calculated as "equity" as shown in the consolidated financial information plus net debt.

Foreign Exchange Risk

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

Contractual Obligations

The Group leases various offices, warehouses and a land in Singapore under non-cancellable operating lease agreements. The lease terms are between 1 and 29 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group's commitment under operating leases amounted to HK$19.6 million as at 31 December 2017.

Off-balance Sheet Arrangements

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25 June 2018 to 28 June 2018, both dates inclusive, during which period no share transfers will be registered. In order to determine the identity of the shareholders of the Company entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at its office situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 22 June 2018.

CORPORATE GOVERNANCE

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER BALANCE SHEET DATE

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

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

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

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

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

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

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

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") which composes of three independent non-executive Directors, namely Mr. Leung Lin Cheong (Chairman of the Audit Committee), Mr. Xin Junhe and Mr. Tong Hin Wor. The consolidated financial statements for the year ended 31 December 2017 have been reviewed by the Audit Committee.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on 29 March 2018 pending the release of this annual results announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 11 May 2018.

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

Hong Kong, 10 May 2018

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.