2018 Interim Report

PETRO-KING OILFIELD SERVICES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178

Petro-king

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CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Jinlong (王金龍)
Mr. Zhao Jindong (趙錦棟)

NON-EXECUTIVE DIRECTORS

Mr. Ko Po Ming (高寶明)
(resigned on 31 March 2018)
Mr. Lee Tommy (李銘浚)
Ms. Ma Hua (馬華)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SANCTION OVERSIGHT COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗)

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2018 ("**1H2018**"), the Group recorded turnover of approximately HK$105.2 million (1H2017: HK$132.4 million), representing a decrease of approximately 20.5% as compared with the turnover for the six months ended 30 June 2017 ("**1H2017**"). The Group's loss for the period was approximately HK$75.9 million (1H2017: HK$57.9 million). Basic loss per share for the period was approximately HK4.4 cents (1H2017: HK3.3 cents). The Board has resolved not to pay any interim dividend for the period (1H2017: Nil).

For 1H2018, the Group continued to engage 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. Notwithstanding the continual rebound in crude oil price from approximately US$60/barrel at the beginning of 2018 to approximately US$74/barrel by the end of June 2018, the Group recorded a decrease in turnover mainly due to the decrease in income from the well completion business segment. Sales of well completion tools to a major customer in the Middle East has decreased by approximately HK$36.0 million. As the oil well construction projects of this customer have entered into different phases of their project life cycle, its demand for well completion tools has dropped in the current period. Decrease in sales of well completion tools to this customer also contributed to the decrease in revenue from the Middle East geographical segment.

During the period, the Group has provided more fracturing services to certain national oil companies in China, which resulted in an increase in revenue in the production enhancement business segment and contributed to the increase in revenue from the China geographical market.

Revenue from the drilling business segment has slightly increased due to increase in sales of oilfield service tools in overseas region.

As compared with 1H2017, operating loss has increased by approximately 34.5% to approximately HK$59.6 million (1H2017: HK$44.3 million) which is mainly due to the above-explained decrease in revenue and the absence of any gain on disposal of assets-held-for-sale for the current period. The gain on disposal of such assets-held-for-sale in 1H2017 amounted to approximately HK$8.1 million.

During the period under review, net finance costs of the Group has increased by approximately 43.0% to approximately HK$15.3 million (1H2017: HK$10.7 million). Such increase was mainly attributable to the increase in the provisions of trade and other receivables of approximately HK$5.1 million (1H2017: Nil) in 1H2018.

GEOGRAPHICAL MARKET ANALYSIS

	1H2018 ***(HK$ million)***	1H2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2018** ***(%)***	Approximate percentage of total revenue in 1H2017 *(%)*
China market	**77.6**	68.3	13.6%	**73.8%**	51.6%
Overseas markets	**27.6**	64.1	-56.9%	**26.2%**	48.4%
Total	**105.2**	132.4	-20.5%	**100%**	100%

The Group's revenue from the China market has increased by approximately HK$9.3 million or approximately 13.6% to approximately HK$77.6 million in 1H2018 from approximately HK$68.3 million in 1H2017. The increase in revenue from the China market was mainly due to increased demand of fracturing services.

The Group's revenue from the overseas markets has declined by approximately HK$36.5 million or approximately 56.9% to approximately HK$27.6 million in 1H2018 from approximately HK$64.1 million in 1H2017. The decrease in revenue from overseas markets was mainly because delivery of the Group's well completion tools to a customer in the Middle East has reduced substantially in the period as its oilfield projects entered into different phases of their project life cycle.

REVENUE FROM THE CHINA MARKET

	1H2018 **(*HK$ million*)**	1H2017 (*HK$ million*)	Approximate percentage change (%)	**Approximate percentage of total revenue from the China market in 1H2018** **(%)**	Approximate percentage of total revenue from the China market in 1H2017 (%)
Northern China	**2.1**	4.8	-56.3%	**2.7%**	7.0%
Southwestern China	**17.3**	2.6	565.4%	**22.3%**	3.8%
Other regions in China	**58.2**	60.9	-4.4%	**75.0%**	89.2%
Total	**77.6**	68.3	13.6%	**100%**	100%

In 1H2018, the Group's revenue from Northern China amounted to approximately HK$2.1 million, which has dropped by approximately HK$2.7 million or approximately 56.3% from approximately HK$4.8 million in 1H2017. The decrease in revenue was mainly due to the decline in production enhancement services in the current period.

Revenue from Southwestern China amounted to approximately HK$17.3 million in 1H2018, which has increased by approximately HK$14.7 million or approximately 565.4% from approximately HK$2.6 million in 1H2017. The increase in revenue was mainly due to an increased demand of fracturing services in this region.

Revenue from other regions in China amounted to approximately HK$58.2 million in 1H2018, which has decreased by approximately HK$2.7 million or approximately 4.4% from approximately HK$60.9 million in 1H2017. The decrease in revenue was mainly due to the decrease in sales of well completion tools in other regions in China, net of the growth in revenue from the provision of fracturing services.

REVENUE FROM THE OVERSEAS MARKETS

	1H2018 *(HK$ million)*	1H2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from the overseas markets in 1H2018 *(%)***	Approximate percentage of total revenue from the overseas markets in 1H2017 *(%)*
Middle East	**18.0**	58.7	-69.3%	**65.2%**	91.6%
Others	**9.6**	5.4	77.8%	**34.8%**	8.4%
Total	**27.6**	64.1	-56.9%	**100%**	100%

The revenue from the Group's business operations in the Middle East amounted to approximately HK$18.0 million in 1H2018, which has dropped by approximately HK$40.7 million or approximately 69.3% from approximately HK$58.7 million in 1H2017. The decrease was mainly due to the slow-down in sales of well completion tools in the Middle East as discussed above. The revenue from other overseas regions amounted to approximately HK$9.6 million in 1H2018, which has increased by approximately HK$4.2 million or approximately 77.8% from approximately HK$5.4 million in 1H2017. This increase in revenue was mainly due to the increase in sales of oilfield service tools in other overseas regions.

BUSINESS SEGMENT ANALYSIS

	1H2018 ***(HK$ million)***	1H2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2018** ***(%)***	Approximate percentage of total revenue in 1H2017 *(%)*
Oilfield project tools and services	**90.3**	115.3	-21.7%	**85.8%**	87.1%
Consultancy services	**14.9**	17.1	-12.9%	**14.2%**	12.9%
Total	**105.2**	132.4	-20.5%	**100%**	100%

In 1H2018, the Group's revenue arising from oilfield project tools and services amounted to approximately HK$90.3 million, which has decreased by approximately HK$25.0 million or approximately 21.7% from approximately HK$115.3 million in 1H2017. The decrease was mainly due to the decline in sales of well completion tools in the Middle East market.

The Group's revenue from consultancy services amounted to approximately HK$14.9 million in 1H2018 which has decreased by approximately HK$2.2 million or approximately 12.9% from approximately HK$17.1 million in 1H2017. The revenue decreased mainly because of the completion of certain consultancy service projects in 2017.

Oilfield Project Tools and Services

	1H2018 *(HK$ million)*	1H2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from oilfield project tools and services in 1H2018** *(%)*	Approximate percentage of total revenue from oilfield project tools and services in 1H2017 *(%)*
Drilling	**11.4**	9.9	15.2%	**12.6%**	8.6%
Well completion	**36.9**	79.9	-53.8%	**40.9%**	69.3%
Production enhancement	**42.0**	25.5	64.7%	**46.5%**	22.1%
Total	**90.3**	115.3	-21.7%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to approximately HK$11.4 million in 1H2018, which has increased by approximately HK$1.5 million or approximately 15.2% from approximately HK$9.9 million in 1H2017. The increase was mainly due to the increase in sales of drilling tools in the overseas markets, net of the decline in provision of turbine drilling services in the China market.

Well Completion

In 1H2018, the Group's revenue from well completion amounted to approximately HK$36.9 million, which has decreased by approximately HK$43.0 million or approximately 53.8% from approximately HK$79.9 million in 1H2017. The decrease was mainly due to the drop in sales of well completion tools in the Middle East market.

Production Enhancement

In 1H2018, the Group's revenue from production enhancement amounted to approximately HK$42.0 million, which has increased by approximately HK$16.5 million or approximately 64.7% from approximately HK$25.5 million in 1H2017. The increase was mainly due to an increasing demand in fracturing services in the China market. In 1H2018, national oil companies in China has accelerated their investments in shale gas projects, which led to higher utilisation of fracturing equipment.

CUSTOMER ANALYSIS

Customer	**1H2018** ***(HK$ million)***	1H2017 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2018** ***(%)***	Approximate percentage of total revenue in 1H2017 *(%)*
Customer 1	**30.9**	40.2	-23.1%	**29.4%**	30.4%
Customer 2	**17.3**	5.1	239.2%	**16.4%**	3.8%
Customer 3	**14.1**	5.1	176.5%	**13.4%**	3.8%
Customer 4	**9.8**	11.6	-15.5%	**9.3%**	8.8%
Customer 5	**3.4**	39.4	-91.4%	**3.2%**	29.8%
Customer 6	**3.3**	1.3	153.8%	**3.1%**	1.0%
Customer 7	**1.8**	8.9	-79.8%	**1.7%**	6.7%
Customer 8	**–**	6.5	-100.0%	**–**	4.9%
Other customers	**24.6**	14.3	72.0%	**23.5%**	10.8%
Total	**105.2**	132.4	-20.5%	**100%**	100%

Revenue from Customer 1 amounted to approximately HK$30.9 million which has decreased by approximately HK$9.3 million or approximately 23.1%. This revenue was generated from a customer who started business relationship with the Group in the second half of 2016, and the decrease was mainly due to the drop in sales of well completion tools in the China market. Revenue from Customer 2 has increased by approximately HK$12.2 million or approximately 239.2%, from approximately HK$5.1 million in 1H2017 to approximately HK$17.3 million in 1H2018. This increase was mainly attributable to an increased demand in fracturing services in southwestern China. Revenue from Customer 3 amounted to approximately HK$14.1 million, which has increased by approximately HK$9.0 million or approximately 176.5% from approximately HK$5.1 million in 1H2017. This increase was mainly attributable to the growth of revenue from fracturing services in other regions in China. Revenue from Customer 4 amounted to approximately HK$9.8 million, which has decreased by approximately HK$1.8 million or approximately 15.5% from approximately HK$11.6 million in 1H2017. This decrease was mainly due to the completion of certain old wells upgrading technical services in the Middle East at the end of 2017. Revenue from Customer 5 amounted to approximately HK$3.4 million, which has decreased by approximately HK$36.0 million or approximately 91.4% from approximately HK$39.4 million in 1H2017. This decrease was mainly due to the drop in sales of well completion tools in the Middle East. Revenue from Customer 6 amounted to approximately HK$3.3 million, which has increased by approximately HK$2.0 million or approximately 153.8% from approximately HK$1.3 million in 1H2017. This increase was mainly attributable to an increasing demand of production enhancement services in the China market. Revenue from Customer 7 amounted to approximately HK$1.8 million, which has decreased by approximately HK$7.1 million or approximately 79.8% from approximately HK$8.9 million in 1H2017. This decrease was mainly due to the termination of a drilling contract in the China Market as a result of unjustifiable delay in payments from this customer. Revenue from Customer 8 has decreased by approximately HK$6.5 million in 1H2018 because certain consultancy service contracts were already completed in 2017. Revenue from other customers amounted to approximately HK$24.6 million in 1H2018, which has increased by approximately HK$10.3 million or approximately 72.0% from approximately HK$14.3 million in 1H2017.

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. In 1H2018, the Group has arranged 26 trainings with more than 1,842 training hours in total and 85 employees attended these training programs. 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 adjusted the organisation structure and service lines as well as the supporting departments from time to time. The total headcount was 317 employees as at 30 June 2018, which has further decreased as compared to that of 334 employees as at 31 December 2017.

In order to keep the Group's human resources policies and procedures abreast with the industry development, the Group continued to review 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 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 turbine-drilling, directional drilling, multistage fracturing, down-hole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 1H2018, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

- Successfully designed second generation of 5 ½" dissolvable bridge plug, which is under proto-type testing. This kind of tool can substantially shorten the operation time and in turn save operation cost for multistage perforation fracturing operations. This kind of tool should be able to be applied in the Group's production enhancement projects in the second half of 2018.

- Designed a new 4 ½" tubing retrievable safety valve which can withstand working pressure of 20,000 Psi, which is under testing by professional institution. This kind of tool can be used in wells with extra-high pressure and high temperatures. Most of the safety valve suppliers in the market can only provide safety valve that can withstand working pressure of up to 10,000 Psi.

- Continued to focus on the development of 4 ½" and 3 ½" 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 30 June 2018, the Group had 16 utility model patents and 6 innovation patents and was applying for 7 utility model patents and 17 innovation patents.

The Group will continue to focus on developing down-hole completion tools and technologies, as well as certain specific high-end drilling tools and technologies. 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

With the continual rebound in crude oil price, owners of shale gas fields in the PRC (mostly major national oil companies) have started to accelerate their construction plans for their shale gas projects. On 7 August 2018, the Group entered into a sale and purchase agreement for the acquisition of three units of hydraulic fracturing truck and one unit of Cat power pack at a consideration of approximately HK$40.8 million. In the past, the Group only has 15 units of fracturing equipment which cannot form a full and complete fracturing operational unit which limited the Group's ability to participate in large scale shale gas construction projects. Acquiring these four new units of fracturing equipment will enable to Group to participate in such shale gas projects, thereby enhance the Group's revenue and profit. We believe the increase in demand for fracturing services from the construction of shale gas fields will increase the utilisation of our fracturing equipment and the profitability of our Group's production enhancement business segment.

For overseas market, the Group will continue to explore market opportunities in the Middle East, African and South American regions and we have been invited to bid for various oilfield services contracts in these regions.

Looking ahead to the second half of 2018, we will continue to put effort into the marketing and promotion of the Group's oilfield services, tools and technologies so as to increase our market penetration. In addition, the Group will continue to focus on the advancement of its oilfield service technologies and tools in order to further enhance our capability to provide high-end oilfield services in the China and overseas markets. We are positive about the prospect of the oilfield service industry in the second half of 2018.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately HK$105.2 million in 1H2018, which has decreased by approximately HK$27.2 million or approximately 20.5% as compared to that of approximately HK$132.4 million in the same period of 2017. The decrease in revenue was mainly due to the decline in the sales of oilfield project tools in the Middle East which offset the revenue increase from the provision of fracturing services in the China market.

Material Costs

In 1H2018, the Group's material costs were approximately HK$38.6 million, which has decreased by approximately 33.4% or approximately HK$19.4 million as compared to that of approximately HK$58.0 million in 1H2017. Material costs accounted for approximately 36.7% of the revenue in 1H2018, which was lower than that of approximately 43.8% in 1H2017. As the Group generated more revenue from the provision of fracturing services in 1H2018 which utilise fewer materials than other projects, overall material costs decreased in 1H2018.

Depreciation of Property, Plant and Equipment

In 1H2018, the depreciation of property, plant and equipment amounted to approximately HK$37.7 million, which has decreased by approximately HK$3.6 million or approximately 8.7% as compared to that of approximately HK$41.3 million in 1H2017, primarily resulted from the disposal of certain service equipment in the second half of 2017.

Employee Benefit Expenses

In 1H2018, the Group's employee benefit expenses were approximately HK$49.3 million, which has dropped by approximately HK$2.8 million or approximately 5.4% as compared to that of approximately HK$52.1 million in 1H2017. The decrease in employee benefit expenses was mainly resulted from the drop in headcount to streamline the Group's staff structure.

Distribution Expenses

In 1H2018, the Group's distribution expenses amounted to approximately HK$1.4 million, which has decreased by approximately HK$0.6 million or approximately 30.0% from approximately HK$2.0 million in 1H2017. The decrease in distribution expenses was mainly due to the decline in usage of delivery services as a result of the drop in sales of oilfield project tools in 1H2018.

Technical Service Fees

In 1H2018, the Group's technical service fees amounted to approximately HK$7.2 million, which has decreased by approximately HK$2.1 million or approximately 22.6% from approximately HK$9.3 million in 1H2017, and such decrease was in line with the decrease of revenue in 2018.

Other Expenses

In 1H2018, the Group's other expenses were approximately HK$17.1 million, which has increased by approximately HK$1.7 million or approximately 11.0% from approximately HK$15.4 million in 1H2017. The increase was mainly due to consultancy fees charged from professional services.

Net Finance Costs

In 1H2018, the Group's net finance costs amounted to approximately HK$15.3 million, which has increased by approximately HK$4.6 million or approximately 43.0% as compared to that of approximately HK$10.7 million in 1H2017. Such increase was mainly attributable to the increase in provision for impairment of certain trade and other receivables in 1H2018.

Income Tax Expense

In 1H2018, the Group's income tax expense amounted to approximately HK$1.0 million, representing a decrease of approximately HK$1.9 million or approximately 65.5% as compared to approximately HK$2.9 million for the same period in 2017, which was due to the decline of profitability in certain subsidiaries.

Loss for the Period

As a result of the foregoing, the Group recorded a loss of approximately HK$75.9 million in 1H2018 as compared to the loss of approximately HK$57.9 million in the same period of 2017.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company amounted to approximately HK$75.5 million in 1H2018 as compared to the loss of approximately HK$57.5 million in the same period of 2017.

Property, Plant and Equipment

Property, plant and equipment include items such as service equipment, buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 30 June 2018, the Group's property, plant and equipment amounted to approximately HK$457.9 million, which has decreased by approximately HK$43.4 million or approximately 8.7% from approximately HK$501.3 million as at 31 December 2017. The decrease was primarily due to the recognition of depreciation expense in 1H2018 and the disposal of certain service equipment in the second half of 2017.

Intangible Assets

As at 30 June 2018, the Group's intangible assets, including goodwill, amounted to approximately HK$305.4 million, representing a decrease of approximately HK$1.2 million or approximately 0.4% from approximately HK$306.6 million as at 31 December 2017, mainly due to the recognition of amortisation expense and exchange difference from currency appreciation.

Inventories

As at 30 June 2018, the Group's inventories amounted to approximately HK$134.1 million, representing an increase of approximately HK$13.1 million or approximately 10.8% as compared to that of approximately HK$121.0 million as at 31 December 2017. The average turnover days of inventories increased from approximately 508 days in 1H2017 to approximately 598 days in 1H2018. The increase of inventories turnover days was mainly due to the Group's decision to stock up inventories for certain projects for usage in the second half of 2018.

Trade Receivables

As at 30 June 2018, the Group's trade receivables amounted to approximately HK$345.2 million, representing a decrease of approximately HK$62.1 million or approximately 15.2% as compared to that of approximately HK$407.3 million as at 31 December 2017. The average turnover days of trade receivables were approximately 647 days in 1H2018, representing an increase of approximately 101 days as compared to approximately 546 days in 1H2017. The increase of turnover days of trade receivables was mainly due to slower settlement from certain customers in 1H2018.

Trade Payables

As at 30 June 2018, the Group's trade payables were approximately HK$109.6 million, which has decreased by approximately HK$10.0 million or approximately 8.4% as compared to that of approximately HK$119.6 million as at 31 December 2017. The average turnover days of trade payables has increased from approximately 426 days in 1H2017 to approximately 453 days in 1H2018, representing an increase of approximately 27 days. The increase of trade payables days was mainly due to certain suppliers provided longer credit terms to the Group in 1H2018.

Liquidity and Capital Resources

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

As at 30 June 2018, the Group's cash and cash equivalents amounted to approximately HK$15.5 million, representing a decrease of approximately HK$9.2 million as compared to approximately HK$24.7 million as at 31 December 2017. The cash and cash equivalents were mainly held in HK$, RMB and US$.

As at 30 June 2018, bank facilities amounted to approximately HK$48.7 million (31 December 2017: HK$53.1 million) were granted by banks to the Group, of which all have been utilised by the Group.

As at 30 June 2018, the Company had outstanding bondholder loans of HK$62.0 million with a maturity date of 28 September 2019 that bear interest at 10% per annum. The Company has repaid HK$11.0 million to one of the bondholders on 23 July 2018.

On 6 March 2018, the Group has entered into a loan agreement with an independent third party for a two-year borrowing with a principal amount of HK$180.0 million, bearing interest at 5.5% per annum. The Group has partially drawn down HK$30.0 million and HK$110.0 million on 16 April 2018 and 11 July 2018, respectively.

As at 30 June 2018, the Company had outstanding shareholder loan of HK$28.0 million which bore interest at 10% per annum. Such shareholder loan was fully repaid by the Company on 23 July 2018.

As at 30 June 2018, the Company had outstanding convertible bonds with par value of HK$30.0 million with maturity date of 24 November 2019 which bore interest at 8% per annum. Further details of these convertible bonds were disclosed in note 13(iv) of this interim report.

As at 30 June 2018, the Group's bank and other borrowings were made in Hong Kong Dollars, Renminbi and Singapore dollars, of which approximately 79.8% (31 December 2017: 79.9%) bore interest at fixed lending rate.

The Group had not used any financial instrument for hedging during 1H 2018 (1H2017: Nil).

Use of Proceeds

On 24 May 2018, the Company has completed the issue of convertible bonds in aggregate principal amounts of HK$30.0 million. These convertible bonds bear interest at the rate of 8% per annum with maturity date on 24 November 2019. Further details of these convertible bonds were disclosed in the Company's announcements dated 10 and 24 May 2018 and set out in note 13(iv) of this interim report.

The net proceeds from the issue of these convertible bonds were approximately HK$29.5 million and was fully used by the Group as general working capital.

Gearing Ratio

As at 30 June 2018, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 14.2% (31 December 2017: 13.7%). Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the condensed consolidated balance sheet) less cash and cash equivalents and pledged bank deposits. Total capital is calculated as "equity" as shown in the condensed consolidated balance sheet 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 EUR, 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 and others borrowings in foreign currencies.

Contractual Obligations

The Group leases various offices, warehouses and land in Singapore under non-cancellable operating lease agreement. 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 approximately HK$17.6 million as at 30 June 2018.

Off-balance Sheet Arrangements

As at 30 June 2018, the Group did not have any off-balance sheet arrangements (31 December 2017: Nil).

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company is committed to maintain 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 complied 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. The Company had published its annual results announcement and annual report on 10 May 2018 and 24 May 2018, respectively.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2018 (Six months ended 30 June 2017: Nil).

AUDIT COMMITTEE

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2018, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

Our Company

Name of Director/ chief executive	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Wang Jinlong	Interest in a controlled Corporation *(Note 2)*	488,920,138 (L)	28.32%
	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Lee Tommy	Beneficiary of trust *(Note 3)*	337,269,760 (L)	19.53%
	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Zhao Jindong	Beneficial owner *(Note 4 and 5)*	8,788,314 (L)	0.51%
Ms. Ma Hua	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Tong Hin Wor	Beneficial owner *(Note 4)*	109,481 (L)	0.01%
Mr. Zeng Weizhong	Beneficial owner *(Note 6)*	26,006,000 (L)	1.51%

Notes:

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

2. Mr. Wang Jinlong holds approximately 45.24% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 28.32% of the total number of issued shares of the Company. Therefore, Mr. Wang Jinlong is taken to be interested in the number of shares of the Company held by King Shine pursuant to Part XV of the SFO.

3. Lee & Leung (B.V.I.) Limited is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited and Lee & Leung Family Investment Limited are taken to be interested in the number of Shares held by Lee & Leung (B.V.I.) Limited pursuant to Part XV of the SFO.

4. 100,000 share options were granted to each of the Directors on 29 April 2014 pursuant to the Share Option Scheme and were adjusted to 102,173 share options after the completion of the rights issue of the Company on 4 February 2015 and were further adjusted to 109,481 share options after the completion of the rights issue of the Company on 8 July 2016. Therefore under Part XV of the SFO, the Directors are taken to be interested in the underlying shares of the Company that they are entitled to subscribe for subject to the exercise of the share options granted.

5. 2,500,000 share options were conditionally granted to Mr. Zhao Jindong on 29 May 2015 and became unconditional on 7 September 2015 and were adjusted to 2,678,833 share options after the completion of the rights issue of the Company on 8 July 2016. 6,000,000 share options were unconditionally granted to Mr. Zhao Jindong on 26 October 2016. Therefore under Part XV of the SFO, Mr. Zhao Jindong is taken to be interested in the underlying shares of the Company that he is entitled to subscribe for subject to the exercise of the share options granted.

6. 17,000,000 share options were unconditionally granted to Mr. Zeng Weizhong on 1 December 2016. 3,000,000 share options were unconditionally granted to Mr. Zeng Weizhong on 28 June 2018. Therefore under Part XV of the SFO, Mr. Zeng Weizhong is taken to be interested in the underlying shares of the Company that he is entitled to subscribe for subject to the exercise of the share options granted. Apart from the grant of share options, 6,006,000 shares were also beneficially owned by Mr. Zeng Weizhong.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the following persons (other than a Director or chief executive of our Company) had an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Lee Lap	Founder of a discretionary trust *(Note 2)*	337,269,760(L)	19.53%
	Interest in a controlled corporation *(Note 8)*	488,920,138(L)	28.32%
aEasy Finance Holdings Limited	Interest in a controlled corporation *(Note 8)*	488,920,138(L)	28.32%
Zero Finance Group Holdings Limited	Interest in a controlled corporation *(Note 8)*	488,920,138(L)	28.32%
Earth Axis Investment Limited	Interest in a controlled corporation *(Note 8)*	488,920,138(L)	28.32%
aEasy Credit Investment Limited	Interest in a controlled corporation *(Note 8)*	488,920,138(L)	28.32%
Zero Finance Hong Kong Limited ("**Zero Finance**")	Person having a security interest *(Note 8)*	488,920,138(L)	28.32%
HSBC International Trustee Limited	Trustee *(Note 2)*	337,269,760(L)	19.53%
Lee & Leung Family Investment Limited	Interest in a controlled corporation *(Note 2)*	337,269,760(L)	19.53%

Name of shareholder	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Lee & Leung (B.V.I.) Limited	Beneficial owner *(Note 2)*	335,737,745(L)	19.44%
	Interest in a controlled corporation *(Note 2)*	1,532,015(L)	0.09%
TCL Corporation	Interest in a controlled corporation *(Note 3)*	136,303,475(L)	7.89%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**")	Interest in a controlled corporation *(Note 3)*	136,303,475(L)	7.89%
Exceltop Holdings Limited	Interest in a controlled corporation *(Note 3)*	136,303,475(L)	7.89%
Jade Max Holdings Limited	Interest in a controlled corporation *(Note 3)*	136,303,475(L)	7.89%
Jade Win Investment Limited ("**Jade Win**")	Beneficial owner	136,303,475(L)	7.89%
Ms. Zhou Xiaojun	Interest of spouse *(Note 4)*	489,029,619(L)	28.32%
King Shine	Beneficial owner	488,920,138(L)	28.32%
UBS Group AG	Person having a security interest in shares *(Note 5)*	91,121,270(L)	5.28%
UBS AG	Beneficial owner *(Note 6)*	670,857(L) 670,857(S)	0.05% 0.05%
	Person having a security interest in shares *(Note 6)*	70,093,285(L)	5.68%

Name of shareholder	Capacity/Nature of interest	Number of shares *(Note 1)*	Approximate percentage of interest in the Company
Greenwoods Asset Management Holdings Limited	Interest in a controlled corporation *(Note 7)*	62,824,713(L)	5.08%
Greenwoods Asset Management Limited	Interest in a controlled corporation *(Note 7)*	62,824,713(L)	5.08%
Jiang Jinzhi	Interest in a controlled corporation *(Note 7)*	62,824,713(L)	5.08%
Unique Element Corp.	Interest in a controlled corporation *(Note 7)*	62,824,713(L)	5.08%

Notes:

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

2. Lee & Leung (B.V.I.) Limited directly holds approximately 19.44% of the total number of issued shares of the Company. It also holds approximately 63.99% of the issued share capital in Termbray Industries International (Holdings) Limited ("**Termbray Industries**"), where Termbray Industries directly holds 1,532,015 shares of the Company. Therefore, Lee & Leung (B.V.I.) Limited is taken to be interested in the number of shares of the Company held by Termbray Industries pursuant to Part XV of the SFO. Lee & Leung (B.V.I.) Limited is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited and Lee & Leung Family Investment Limited are taken to be interested in the number of Shares held by Lee & Leung (B.V.I.) Limited pursuant to Part XV of the SFO.

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

4. Ms. Zhou holds approximately 17.91% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the shares of the Company in which Mr. Wang is interested for the purpose of the SFO.

5. Information is extracted from the corporate substantial shareholder notice filed by UBS Group AG on 21 November 2017, the interests include 91,121,270 shares of the Company in long position.

6. Information is extracted from the corporate substantial shareholder notice filed by UBS AG on 9 February 2015.

7. Information is extracted from the corporate substantial shareholder notices filed by Greenwoods Asset Management Holdings Limited, Greenwood Asset Management Limited and Unique Element Corp. on 5 February 2015, and the individual substantial shareholder notice filed by Mr. Jiang Jinzhi on 5 February 2015.

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

Save as disclosed above, as at 30 June 2018, the Directors are not aware that there is any party (not being a Director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such shares.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012). There was no outstanding option under the Pre-IPO Share Option Scheme at the beginning of the reporting period and no option was granted during the period under review. Thus, there was no outstanding option under the Pre-IPO Share Option Scheme at the end of the reporting period.

SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. For the six months ended 30 June 2018, 3,000,000 share options have been granted to Mr. Zeng Weizhong under the Share Option Scheme on 28 June 2018. Set out below are details of the movements of share options during the six months ended 30 June 2018:

Grantees	Date of grant	Exercise price (HK$)	Closing price immediately before the date of grant	Options outstanding as at 1 January 2018	Options granted since 1 January 2018	Options exercised since 1 January 2018	Options lapsed/ cancelled since 1 January 2018	Options outstanding as at 30 June 2018
Directors, chief executives and substantial shareholders								
Wang Jinlong	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Zhao Jindong	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
	29 May 2015	1.2132 *(adjusted)*	1.28	2,678,833	–	– *(Note 2)*	–	2,678,833
	26 October 2016	0.529	0.520	6,000,000	–	– *(Note 3)*	–	6,000,000
Ko Po Ming	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 4)*	109,481	–
Lee Tommy	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Ma Hua	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Tong Hin Wor	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
Zeng Weizhong	1 December 2016	0.530	0.530	17,000,000	–	– *(Note 5)*	–	17,000,000
	28 June 2018	0.381	0.350	–	3,000,000	– *(Note 6)*	–	3,000,000
Employees and senior managements	29 April 2014	2.3803 *(adjusted)*	2.44	14,780,132	–	– *(Note 1)*	–	14,780,132
	29 May 2015	1.2132 *(adjusted)*	1.28	42,968,463	–	– *(Note 2)*	985,809	41,982,654
	26 October 2016	0.529	0.520	52,200,000	–	– *(Note 3)*	1,800,000	50,400,000
Others	29 April 2014	2.3803 *(adjusted)*	2.44	109,481	–	– *(Note 1)*	–	109,481
	29 May 2015	1.2132 *(adjusted)*	1.28	107,153	–	– *(Note 2)*	–	107,153
Total				136,500,948	3,000,000	–	2,895,290	136,605,658

Notes:

1. One third of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 April 2015 to 28 April 2019, both dates inclusive.

   Another one third of the share options have been vested on the date falling on the second anniversary of the date of grant and exercisable from 29 April 2016 to 28 April 2019, both dates inclusive.

   The remaining of the share options have been vested on the date falling on the third anniversary of the date of grant and exercisable from 29 April 2017 to 28 April 2019, both dates inclusive.

2. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 May 2016 to 28 May 2022, both dates inclusive.

   Another 20% of the share options have been vested on the date falling on the second anniversary of the date of grant and exercisable from 29 May 2017 to 28 May 2022, both dates inclusive.

   Another 20% of the share options have been vested on the date falling on the third anniversary of the date of grant and exercisable from 29 May 2018 to 28 May 2022, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 29 May 2019 to 28 May 2022, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 29 May 2020 to 28 May 2022, both dates inclusive.

3. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 26 October 2017 to 25 October 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 26 October 2018 to 25 October 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 26 October 2019 to 25 October 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 26 October 2020 to 25 October 2023, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 26 October 2021 to 25 October 2023, both dates inclusive.

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

5. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 1 December 2017 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 1 December 2018 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 1 December 2019 to 30 November 2023, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 1 December 2020 to 30 November 2023, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 1 December 2021 to 30 November 2023, both dates inclusive.

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

   Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 28 June 2020 to 27 June 2025, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 28 June 2021 to 27 June 2025, both dates inclusive.

   Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 28 June 2022 to 27 June 2025, both dates inclusive.

   The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 28 June 2023 to 27 June 2025, both dates inclusive.

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

Hong Kong, 9 August 2018

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**457,942**	501,271
Intangible assets	*8*	**305,426**	306,634
Land use rights	*8*	**10,203**	10,452
Financial asset at fair value through profit or loss	*9*	**5,184**	–
Available-for-sale financial asset	*9*	**–**	5,184
Other receivables, deposits and prepayments	*10(b)*	**41,691**	39,230
Deferred tax assets		**2,730**	3,724
		823,176	866,495
Current assets			
Inventories		**134,083**	121,000
Trade receivables	*10(a)*	**345,164**	407,331
Contract assets		**1,175**	–
Other receivables, deposits and prepayments	*10(b)*	**97,430**	111,849
Pledged bank deposits		**7,791**	8,457
Cash and cash equivalents		**15,488**	24,708
		601,131	673,345
Total assets		**1,424,307**	1,539,840

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
EQUITY AND LIABILITIES			
Equity			
Share capital	*11*	**2,001,073**	2,001,073
Other reserves		**86,833**	83,308
Accumulated losses		**(1,054,194)**	(962,556)
		1,033,712	1,121,825
Non-controlling interests		**1,573**	1,960
Total equity		**1,035,285**	1,123,785
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*13*	**151,290**	47,305
Deferred tax liabilities		**1,022**	1,025
		152,312	48,330
Current liabilities			
Trade payables	*12(a)*	**109,598**	119,578
Other payables and accruals	*12(b)*	**83,447**	83,746
Bank and other borrowings	*13*	**43,665**	164,401
		236,710	367,725
Total liabilities		**389,022**	416,055
Total equity and liabilities		**1,424,307**	1,539,840

The notes on pages 39 to 80 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Six months ended 30 June	
	Note	**2018** **HK$'000**	2017 HK$'000
Revenue	*7*	**105,179**	132,382
Other income		**606**	937
Operating costs			
Material costs		**(38,591)**	(57,982)
Depreciation of property, plant and equipment	*8*	**(37,736)**	(41,280)
Amortisation of intangible assets and land use rights	*8*	**(661)**	(823)
Operating lease rental		**(3,388)**	(3,153)
Employee benefit expenses		**(49,286)**	(52,131)
Distribution expenses		**(1,389)**	(1,972)
Technical service fees		**(7,227)**	(9,307)
Research and development expenses		**(2,231)**	(2,806)
Entertainment and marketing expenses		**(3,292)**	(3,527)
Provision for impairment of trade receivables, net	*10*	**(7,236)**	(3,706)
Other expenses	*14*	**(17,114)**	(15,356)
Other gains, net	*15*	**2,792**	14,434
Operating loss		**(59,574)**	(44,290)
Finance income		**26**	2
Finance costs		**(15,360)**	(10,722)
Finance costs, net	*17*	**(15,334)**	(10,720)
Loss before income tax		**(74,908)**	(55,010)
Income tax expense	*18*	**(997)**	(2,925)
Loss for the period		**(75,905)**	(57,935)
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(8,965)**	19,029
Other comprehensive (loss)/income for the period, net of tax		**(8,965)**	19,029
Total comprehensive loss for the period		**(84,870)**	(38,906)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June **2018** **HK$'000**	 2017 HK$'000
Loss for the period attributable to:			
Owners of the Company		**(75,518)**	(57,512)
Non-controlling interests		**(387)**	(423)
		(75,905)	(57,935)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(84,483)**	(38,483)
Non-controlling interests		**(387)**	(423)
		(84,870)	(38,906)
Loss per share for loss attributable to the ordinary equity holders of the Company:	*19*		
Basic loss per share (HK cents)		**(4.4)**	(3.3)
Diluted loss per share (HK cents)		**(4.4)**	(3.3)

The notes on pages 39 to 80 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2018 as originally presented	**2,001,073**	**83,308**	**(962,556)**	**1,121,825**	**1,960**	**1,123,785**
– Change in accounting policies *(Note 3.3)*	–	2,237	(16,120)	(13,883)	–	(13,883)
Restated total equity as at 1 January 2018	**2,001,073**	**85,545**	**(978,676)**	**1,107,942**	**1,960**	**1,109,902**
Total comprehensive loss for the period ended 30 June 2018	–	**(8,965)**	**(75,518)**	**(84,483)**	**(387)**	**(84,870)**
Total transaction with owners in their capacity as owners						
– Issuance of convertible bonds *(Note 13)*	–	3,715	–	3,715	–	3,715
– Recognition of share-based payment	–	6,538	–	6,538	–	6,538
Total transaction with owners, recognised directly in equity	–	**10,253**	–	**10,253**	–	**10,253**
Balance at 30 June 2018	**2,001,073**	**86,833**	**(1,054,194)**	**1,033,712**	**1,573**	**1,035,285**

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non–controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2017	2,001,073	15,061	(782,294)	1,233,840	2,840	1,236,680
Total comprehensive loss for the period ended 30 June 2017	–	19,029	(57,512)	(38,483)	(423)	(38,906)
Total transaction with owners in their capacity as owners						
– Recognition of share-based payment	–	6,522	–	6,522	–	6,522
Total transaction with owners, recognised directly in equity	–	6,522	–	6,522	–	6,522
Balance at 30 June 2017	2,001,073	40,612	(839,806)	1,201,879	2,417	1,204,296

The notes on pages 39 to 80 form an integral part of this unaudited interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited	
		Six months ended 30 June	
	Note	**2018**	2017
		HK$'000	HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations		**9,053**	(25,761)
Interest paid		**(1,175)**	(629)
Income tax paid		**–**	(1,134)
Net cash inflow/(outflow) from operating activities		**7,878**	(27,524)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(538)**	(8,196)
Proceeds from disposal of property, plant and equipment		**1,690**	–
Proceeds from sales of asset held-for-sale		**–**	4,608
Refund of prepayment for land use right		**–**	5,610
Interest received		**26**	2
Decrease/(increase) in pledged bank deposits		**384**	(729)
Net cash inflow from investing activities		**1,562**	1,295

	Note	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Cash flows from financing activities			
Proceeds from bank and other borrowings	*13*	**70,998**	3,619
Repayments of bank and other borrowings	*13*	**(19,855)**	(11,698)
Proceeds from issuance of 2018 Convertible Bonds	*13*	**29,500**	–
Repayment of Convertible Bonds	*13*	**(99,790)**	–
Advance/(repayment of advance) from related parties		**699**	(392)
Net cash outflow from financing activities		**(18,448)**	(8,471)
Net decrease in cash and cash equivalents		**(9,008)**	(34,700)
Cash and cash equivalents at beginning of period		**24,708**	44,927
Exchange (losses)/gains on cash and cash equivalents		**(212)**	613
Cash and cash equivalents at end of period		**15,488**	10,840

Major non-cash transaction

On 28 March 2018 and 27 April 2018, the Group has agreed with certain bondholders to convert the outstanding Convertible Bonds with principal amounts of HK$47,000,000 and HK$15,000,000 to a term loan facility with maturity date of 28 September 2019.

The notes on pages 39 to 80 form an integral part of this unaudited interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED 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 the Main Board of The Stock Exchange of Hong Kong Limited on 6 March 2013. This interim condensed consolidated financial information is presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with the International Accounting Standard ("**IAS**") 34, "Interim financial reporting".

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") and any public announcements made by the Group during the interim reporting period.

During the period ended 30 June 2018, the Group reported a net loss attributable to owners of the Company of approximately HK$75,518,000. In addition, the Group had not repaid convertible bonds of HK$157,000,000 by the original maturity date of 29 March 2018 (the "**Convertible Bonds**").

Pursuant to the requirements of the banking facilities dated 26 December 2014, the Group is obliged to comply with restrictive financial covenant and certain undertakings. Based on the condensed consolidated financial information for the period ended 30 June 2018, the Group has breached the financial covenant. The breach of the financial covenant constituted events of default under the banking facilities, which may cause the relevant bank borrowings of approximately HK$39,373,000 to become immediately repayable. In this connection, the Group has classified the entire outstanding bank borrowings under current liabilities (See Note 13).

2 BASIS OF PREPARATION (Continued)

The directors of the Group completed a series of transactions to repay the Convertible Bonds and strengthen the Group's working capital, including:

(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 Group completed partial drawdown of HK$30,000,000 of the 2018 Term Loan on 16 April 2018 and the drawdown of the remaining HK$150,000,000 principal is subject to the Lender obtaining clearance from the relevant authorities to make the funds available. On 11 July 2018, the Group has further completed the drawdown of HK$110,000,000. The total drawdown of the 2018 Term Loan increased to HK$140,000,000 as of the date of this report.

(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 Loan**").

(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, bondholders that held Convertible Bonds with aggregate principal amount of HK$71,000,000 and a bondholder that held Convertible Bonds with principal amount of HK$39,000,000 have 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 become payable.

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

(v) On 27 April 2018, the Group has 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 of the Convertible Bonds to the Second Extended Payment Dates to convert the outstanding Convertible Bonds to the Bondholder Loan. Upon the completion of the conversion, the total principal amount of the Bondholder Loan outstanding increased to HK$62,000,000.

2 BASIS OF PREPARATION (Continued)

(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 24 May 2018, the Group has satisfied all the conditions set out in the subscription agreement and obtained the necessary regulatory approvals for the issuance of 18-months 8% convertible bonds ("**2018 Convertible Bonds**") to raise HK$30,000,000. The net proceeds from the issuance of the 2018 Convertible Bonds will be used to enhance its financial position and support the plans to expand its operations.

(viii) On 30 May 2018 and 23 July 2018, the Group has fully settled the outstanding Shareholder Loan with aggregate principle amounts of HK$40,000,000 and incremental interest of HK$683,000.

(ix) On 23 July 2018, the Group has partially repaid the outstanding Bondholder Loan with aggregate principal amounts of HK$11,000,000 and accrued incremental interest of HK$262,000. Upon the repayment, the total principal amount of the Bondholder Loan outstanding decreased to HK$51,000,000.

(x) On 8 August 2018, the Group has obtained a conditional waiver from the financier in respect of the financial covenant that the Group breached. Subject to the fulfillment of certain requirement, the financier agrees not to demand repayment by the Group before 30 September 2018.

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

The directors of the Group have reviewed the Group's cash flow projections prepared by the management, which cover a period of twelve months from 30 June 2018. In the opinion of the directors, in light of the above, taking into account the anticipated cash flows to be generated from the Group's operations as well as the above plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2018. Accordingly, the directors consider that it is appropriate to prepare the condensed consolidated financial information on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the annual financial statements of the Group for the year ended 31 December 2017, except for the estimation of income tax and the adoption of new and amended standards as set out below.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3.3 below.

The following amendments to existing standards are effective to the Group for accounting periods beginning on or after 1 January 2018 but did not result in any significant impact on the results and financial position of the Group. No retrospective adjustments are required.

IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (Amendment)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IAS 28 (Amendments)	Investment in Associates and Joint Ventures
IAS 40 (Amendments)	Transfers of Investment Property
Annual improvement project	Annual Improvements 2014-2016 Cycle
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

The following new standards, amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2019.

		Effective for accounting periods beginning on or after
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

(a) IFRS 16, Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$17,566,000 (Note 21). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim period within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies

The following explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on financial information

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

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

Balance sheet (extract)	Audited 31 December 2017 As originally presented HK$'000	IFRS 9 HK$'000	IFRS 15 HK$'000	**Unaudited 1 January 2018 Restated HK$'000**
Non-current assets				
Financial asset at fair value through profit or loss ("**FVTPL**")	–	5,184	–	**5,184**
Available-for-sale financial asset ("**AFS**")	5,184	(5,184)	–	**–**
	5,184	–	–	**5,184**
Current assets				
Trade receivables	407,331	(12,503)	–	**394,828**
Contract assets	–	–	274	**274**
Other receivables, deposits and prepayments	111,849	(1,654)	–	**110,195**
	519,180	(14,157)	274	**505,297**
Equity				
Other reserves	(83,308)	(2,237)	–	**(85,545)**
Accumulated losses	(962,556)	(16,394)	274	**(978,676)**
	(1,045,864)	(18,631)	274	**(1,064,221)**

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments – Impact on adoption

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in Note 3.3 (c) below.

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

	Note	**Unaudited 2018 HK$'000**
Closing accumulated losses 31 December – IAS 39/IAS 18		**(962,556)**
Reclassify investments from AFS to FVTPL	*(i)*	**(2,237)**
Increase in provision for trade and other receivables	*(ii)*	**(14,157)**
Opening accumulated losses 1 January – IFRS 9 (before restatement for IFRS 15)		**(978,950)**

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. All classes of financial assets and financial liabilities had the same carrying amounts in accordance with IAS 39 and IFRS 9 on 1 January 2018.

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

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments - Impact on adoption (Continued)

(i) Classification and measurement (Continued)

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

	Unaudited	
	Effect on AFS reserve HK$'000	**Effect on accumulated losses HK$'000**
Opening balance - IAS 39	(2,237)	–
Reclassify non-trading equities from AFS to FVTPL	2,237	(2,237)
Opening balance – IFRS 9	–	(2,237)

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

(ii) Impairment of financial assets

The Group has two type of financial assets that are subject to IFRS 9's new expected credit loss model.

- Trade and other receivables
- Contract assets

The Group was required to revise its impairment methodology under IFRS 9 for each class of assets. The impact of the change in impairment methodology on the Group's accumulated losses and equity is disclosed in the table in Note 3.3(a) above.

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

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments - Impact on adoption (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables. The Group has therefore concluded that the expected loss rates for trade receivables and contract assets.

On that basis, the loss allowance of trade receivables and contract assets as at 1 January 2018 was determined according to provision matrix where trade receivables that are less than twelve months overdue are provided for at expected loss rates of 5% - 13% and trade receivables more than twelve months overdue are 100% provided for.

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

	Unaudited Trade receivables and contract assets HK$'000
At 31 December 2017 – calculated under IAS 39	152,187
Amounts restated through opening accumulated losses	12,503
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	164,690

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments - Impact on adoption (Continued)

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and deposits. Applying the expected credit risk model resulted in the recognition of a loss allowance of HK$1,654,000 on 1 January 2018 and a decrease in the allowance by HK$122,000 in the six months ended 30 June 2018.

(c) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**FVOCI**"), or through profit or loss), and
- those to be measured at amortised cost.

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

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

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(c) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

(ii) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies all its debt instruments as amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other losses, net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the condensed consolidated statement of comprehensive income.

Equity instruments

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

Changes in the fair value of financial assets at FVTPL are recognised in "other gains, net" in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured in FVOCI are not reported separately from other changes in fair value.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(c) *IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)*

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) *IFRS 15 Revenue from Contracts with Customers – Impact of adoption*

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

	Audited	**Unaudited**	
	IAS 18 carrying amount 31 December 2017 HK$'000	**Remeasurement HK$'000**	**IFRS 15 carrying amount 1 January 2018 HK$'000**
Current contract assets	–	274	274

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

	Unaudited 2018 HK$'000
Accumulated losses – after IFRS 9 restatement	(978,950)
Recognition of contract assets for services rendered	274
Opening accumulated losses 1 January – IFRS 9 and IFRS 15	(978,676)

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(e) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

(i) Oilfield project tools and services

The Group provides services on oilfield project in a wide range of areas at various stage in the life of an oilfield principally in drilling, well completion and production enhancement to its customers. The services mainly consist of providing oilfield development plan, procurement advice services and installation of tools and equipment and on-site project management. The Group also assembles and sells oilfield project tools to the customers.

Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. The customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

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

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

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

3.3 Changes in accounting policies (Continued)

(e) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018 (Continued)

(ii) Consultancy services

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

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

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

Revenue from providing services is recognised in the accounting period in which the services are rendered. With contracts including an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice.

(iii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management policies since year end.

5.2 Credit risk

Credit risk arises from cash and cash equivalents and pledged bank deposits, as well as credit exposures to the customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a good reputation are accepted. For credit exposures to the customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Credit risk is managed at company level, except for credit risk relating to trade receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

The Group has policies in place to ensure that sales of its services and products are made to customers with sufficient level of creditworthiness and the Group generally grants its customers a credit term of up to three months.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

Individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group maintains different billing policies for different customers based on the negotiated terms with each customer. The Group will issue progress billing at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment and due date of payment varies from contract to contract. The Group negotiates with those debtors with overdue balances to agree a repayment schedule by both parties and regularly evaluates the credit quality of its debtors to assess the necessity to revise the credit term.

The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement. Considered certain customers of the Group faced deterioration in the credit ratings and worse off in the market parameter which indicates an increase in the credit default risk. In addition, the management has assessed the credit quality of customers on a case-by-case basis, taking into account the financial positions, historical record, amounts and timing of expected receipts and other factors. For those trade receivables where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amount of the trade receivables and the present value of estimated recoverable future cash flows discounted at the borrowing rate of the relevant debtors.

The Group's consolidated results would be heavily affected by the financial capability of its debtors to fulfill their obligations with the Group. The Group's credit risk monitoring activities relating to the debtors include review of the credit profile, business prospects, background and their financial capacities. As at 30 June 2018, management has determined to record provision for doubtful receivables of HK$157,151,000 (31 December 2017: HK$152,867,000) which represents the impairment and discounting effect of receivables due from the Group's certain debtors.

5.3 Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and cash equivalents and access to debt or equity funding from major financial institutions or investors to meet its liquidity requirements in the short and long term.

During the period ended 30 June 2018, the Group reported a net loss attributable to owners of the Company of approximately HK$75,518,000. In addition, the Group had not repaid convertible bonds of HK$157,000,000 by the original maturity date of 29 March 2018. The directors of the Group completed a series of transactions to repay the Convertible Bonds and strengthen the Group's working capital as summarised in Note 2 of these condensed consolidated financial information.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.4 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 30 June 2018 and 31 December 2017.

	Level 3	
	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Asset		
Financial asset at fair value through profit or loss/available-for-sale financial asset *(Note 3.3)*		
– listed equity security	**5,184**	5,184

There were no transfers among levels 1, 2 and 3 during the period.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Since all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.4 Fair value estimation (Continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at 30 June 2018 and 31 December 2017, no observable market price is available for the fair value of listed equity securities as there is no trading record in the market during the period/year. The following table presents the changes in level 3 instruments at fair value at 30 June 2018 and 2017.

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Financial asset at fair value through profit or loss/available-for-sale financial asset	**5,184**	7,421
Total losses for the period included in profit or loss at the end of the period	**–**	–

6 SEASONAL NATURE OF THE BUSINESS

For most of the Group's businesses, and particularly the oilfield business, the first half of the financial period is marked by lower business volumes than in the second half of the year as most of the customers, particularly state-owned enterprises, set annual budgets and finalise work scope early in the year and request work to be done later in the year, particularly in the third and fourth quarters.

Sales levels and results in the first half cannot therefore be extrapolated to the full financial year.

7 SEGMENT INFORMATION

The Chief Operating Decision Maker ("**CODM**") has been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment 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 operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

Revenue recognised during the six months ended 30 June 2018 and 2017 are as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Oilfield project tools and services		
– Drilling work	**11,444**	9,848
– Well completion work	**36,934**	79,934
– Production enhancement work	**41,950**	25,479
Total oilfield project tools and services	**90,328**	115,261
Consultancy services	**14,851**	17,121
Total revenue	**105,179**	132,382

7 SEGMENT INFORMATION (Continued)

	Unaudited		
	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Six months ended 30 June 2018			
Total segment revenue	90,328	14,851	105,179
Inter-segment revenue	–	–	–
Revenue from external customers	90,328	14,851	105,179
Timing of revenue recognition			
At a point in time	45,847	–	45,847
Over time	44,481	14,851	59,332
	90,328	14,851	105,179
Segment results	(15,179)	7,710	(7,469)
Net unallocated expenses			(67,439)
Loss before income tax			(74,908)
Other information:			
Amortisation of intangible assets	(506)	–	(506)
Depreciation	(33,360)	–	(33,360)
Provision for impairment of trade receivables, net	(6,214)	(1,022)	(7,236)

7 SEGMENT INFORMATION (Continued)

	Unaudited		
	Oilfield project tools and services HK$'000	Consultancy services HK$'000	Total HK$'000
Six months ended 30 June 2017			
Total segment revenue	115,261	17,121	132,382
Inter-segment revenue	–	–	–
Revenue from external customers	115,261	17,121	132,382
Timing of revenue recognition			
At a point in time	84,631	–	84,631
Over time	30,630	17,121	47,751
	115,261	17,121	132,382
Segment results	(5,191)	15,654	10,463
Net unallocated expenses			(65,473)
Loss before income tax			(55,010)
Other information:			
Amortisation of intangible assets	(679)	–	(679)
Depreciation	(36,412)	–	(36,412)
Provision for impairment of trade receivables, net	(3,706)	–	(3,706)

7 SEGMENT INFORMATION (Continued)

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 segment's results to total loss before income tax is provided as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Segment results	**(7,469)**	10,463
Other income	**606**	937
Depreciation of property, plant and equipment	**(4,376)**	(4,868)
Amortisation of other intangible assets	**(155)**	(144)
Operating lease rental	**(2,227)**	(1,950)
Employee benefit expenses	**(38,594)**	(43,868)
Entertainment and marketing expenses	**(3,107)**	(2,967)
Other expenses	**(12,828)**	(9,466)
Other gains, net	**2,792**	6,981
Finance income	**26**	2
Finance costs	**(9,576)**	(10,130)
Loss before income tax	**(74,908)**	(55,010)

The segment results included the 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, other gains, net, and finance costs allocated to each operating segment.

8 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LAND USE RIGHT

	Unaudited			
	Property, plant and equipment	**Intangible assets – computer software**	**Intangible assets - goodwill**	**Land use rights**
	HK$'000	HK$'000	HK$'000	HK$'000
Six months ended 30 June 2018				
Net book value				
Opening amount as at 1 January 2018	**501,271**	**693**	**305,941**	**10,452**
Additions	**538**	**–**	**–**	**–**
Depreciation and amortisation	**(37,736)**	**(542)**	**–**	**(119)**
Disposals	**(1,807)**	**–**	**–**	**–**
Exchange differences	**(4,324)**	**1**	**(667)**	**(130)**
Closing amount as at 30 June 2018	**457,942**	**152**	**305,274**	**10,203**
Six months ended 30 June 2017				
Net book value				
Opening amount as at 1 January 2017	605,608	2,089	302,346	9,926
Additions	1,396	–	–	–
Depreciation and amortisation	(41,280)	(713)	–	(110)
Transferred to asset held-for-sale *(Note (i))*	(11,583)	–	–	–
Disposals	(23,317)	–	–	–
Exchange differences	17,545	21	2,294	316
Closing amount as at 30 June 2017	548,369	1,397	304,640	10,132

Note (i):

On 22 January 2017, the Group entered into an agreement to transfer the ownership of a machinery totaling HK$11,583,000 to an independent third party at a consideration of HK$11,668,000. The transfer will be completed within one year.

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

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Listed equity security in the PRC – non-current	**5,184**	5,184

Movement of financial asset at fair value through profit or loss ("**FVTPL**")/available-for-sale financial asset is as follows:

	Unaudited Six months ended 30 June	
	2018 HK$'000	2017 HK$'000
Opening amount	**5,184**	7,421
Change in fair value	**–**	–
Closing amount	**5,184**	7,421

At 1 January 2018, the Group made an irrevocable election to present all changes in the fair value of the available-for-sale financial asset to the profit or loss, as explained in Note 3 of the condensed consolidated financial information.

The fair value of the equity investment is determined based on cash flows discounted with the pre-tax discount rate 19% (31 December 2017: 19%) which reflect specific risks related to the listed equity security. Management has taken into account the factor of minority interest in the fair value of the listed equity securities.

10 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade receivables

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Trade receivables	**502,315**	560,198
Less: provision for impairment of trade receivables	**(157,151)**	(152,867)
Trade receivables – net	**345,164**	407,331

As at 30 June 2018 and 31 December 2017, ageing analysis of gross trade receivables by services completion and delivery date are as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Up to 3 months	**79,919**	78,229
3 to 6 months	**19,700**	57,397
6 to 12 months	**93,535**	104,564
Over 12 months	**309,161**	320,008
Trade receivables	**502,315**	560,198
Less: provision for impairment of trade receivables	**(157,151)**	(152,867)
Trade receivables – net	**345,164**	407,331

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

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

(a) Trade receivables (Continued)

Management has assessed the credit quality of customers on a case-by-case basis, taking into account 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' pattern of settlement on a timely basis.

The Group applies the simplified approach to provide for expected credit losses prescribed in IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of the trade receivables to measure the expected credit losses. The expected credit losses rate for the trade receivables are determined according to a provision matrix where trade receivables that are less than twelve months overdue are provided for at expected loss rates of 5% – 13% and trade receivables more than twelve months overdue are 100% provided for.

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 period end, management has determined to record a provision for doubtful receivables of approximately HK$157,151,000 as at 30 June 2018 (31 December 2017: HK$152,867,000).

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

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Opening amount	**152,867**	409,214
Opening loss allowance as at 1 January 2018		
– calculated under IFRS 9	**12,503**	–
Provision for receivables impairment	**13,995**	6,828
Reversal of provision for receivables impairment	**(4,247)**	(3,122)
Write off of provision for receivables impairment	**(16,997)**	(8,802)
Exchange differences	**(970)**	4,794
Closing amount	**157,151**	408,912

As at 30 June 2018, the recognition of provision for receivables impairment had been included in "provision for impairment of trade receivables, net" of HK$7,236,000 (30 June 2017: HK$3,706,000) and "finance costs" of HK$2,512,000 (30 June 2017: Nil).

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

(b) Other receivables, deposits and prepayments

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Deposits and other receivables – third parties	**17,801**	18,201
Receivables from disposal of machines	**29,776**	33,809
Receivables on land bidding in the PRC	**2,870**	2,908
Value-added tax recoverable	**72,862**	76,868
Rental deposits	**1,505**	1,086
Cash advances to staff	**4,810**	4,992
Advances to the Directors and senior management *(Note 22)*	**1,984**	1,444
Prepayments for materials	**5,615**	8,410
Prepayments for rents and others	**1,898**	3,361
	139,121	151,079
Less:		
Non-current value-added tax recoverables	**(41,691)**	(39,230)
Non-current portion	**(41,691)**	(39,230)
Current portion	**97,430**	111,849

11 SHARE CAPITAL

	Unaudited	
	Number of shares '000	**Total** HK$'000
Issued and fully paid:		
At 1 January 2018 and 30 June 2018	**1,726,674**	**2,001,073**
At 1 January 2017 and 30 June 2017	1,726,674	2,001,073

12 TRADE AND OTHER PAYABLES AND ACCRUALS

(a) Trade payables

As at 30 June 2018 and 31 December 2017, the ageing analysis of the trade payables based on invoice date are as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Up to 3 months	**25,084**	25,968
3 to 6 months	**7,812**	2,916
6 to 12 months	**9,570**	6,823
Over 12 months	**67,132**	83,871
	109,598	119,578

(b) Other payables and accruals

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Other payables		
– Third parties	**54,699**	63,026
– Related parties *(Note 22)*	**3,905**	2,670
Accrued payroll and welfare	**16,356**	10,821
Other tax and surcharge payables	**8,487**	7,229
	83,447	83,746

13 BANK AND OTHER BORROWINGS

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Non-current		
Bank borrowings *(Note (i))*	**7,158**	47,305
Other borrowings *(Note (ii))*	**92,000**	–
Shareholder loan *(Note (iii))*	**28,000**	–
Convertible bonds – liability component *(Note (iv))*	**24,132**	–
	151,290	47,305
Current		
Non-current bank borrowings reclassified as current *(Note (i))*	**39,373**	–
Bank borrowings *(Note (i))*	**2,147**	5,801
Finance lease liabilities	**–**	3,024
Convertible bonds – liability component *(Note (iv))*	**2,145**	155,576
	43,665	164,401
	194,955	211,706

13 BANK AND OTHER BORROWINGS (Continued)

Movements in bank and other borrowings are analysed as follows:

	Unaudited HK$'000
Six months ended 30 June 2018	
Opening amount	**211,706**
Proceeds from bank and other borrowings	**70,998**
Repayments of bank and other borrowings	**(19,855)**
Proceeds from issuance of convertible bonds	**29,500**
Repayment of convertible bonds	**(99,790)**
Convertible bonds-liability component *(Note (iv))*	**2,991**
Exchange differences	**(595)**
Closing amount	**194,955**
Six months ended 30 June 2017	
Opening amount	194,663
Proceeds from bank and other borrowings	3,619
Repayments of bank and other borrowings	(5,073)
Convertible bonds-liability component *(Note (iv))*	6,161
Finance lease liabilities	(2,909)
Exchange differences	2,877
Closing amount	199,338

(i) Bank borrowings

As at 30 June 2018, banking facilities of approximately HK$49,000,000 (31 December 2017: HK$53,000,000) were granted by banks to the Group, of which all have been utilised by the Group (31 December 2017: all). The Group does not have undrawn banking facilities (31 December 2017: Nil). The facilities are secured by:

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

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

(iii) buildings of the Group.

13 BANK AND OTHER BORROWINGS (Continued)

(i) Bank borrowings (Continued)

Pursuant to the requirements of the banking facilities dated 26 December 2014, the Group is obliged to comply with restrictive financial covenant and certain undertakings. Based on the condensed consolidated financial information for the period ended 30 June 2018, the Group has breached certain financial covenant. The breach of the financial covenant constituted events of default under the banking facilities, which may cause the relevant bank borrowings of approximately HK$39,373,000 to become immediately repayable. In this connection, the Group has classified the entire outstanding bank borrowings under current liabilities.

On 8 August 2018, the Group has obtained a conditional waiver from the financier in respect of the financial covenant that the Group breached. Subject to the fulfillment of certain requirement, the financier agrees not to demand repayment by the Group before 30 September 2018.

(ii) Other borrowings

As at 30 June 2018, other borrowings of the Group include:

(a) Bondholders Loans agreed with certain bondholders of HK$62,000,000 with a maturity date of 28 September 2019 that bear interest at 10% per annum.

(b) a two-year borrowing with a principal amount of HK$180,000,000, bearing interest at 5.5% per annum and partially drawdown of HK$30,000,000 on 16 April 2018. The Group further completed the drawdown of HK$110,000,000 on 11 July 2018.

On 23 July 2018, the Group has partially repaid the outstanding Bondholder Loan with aggregate principal amounts of HK$11,000,000 and accrued incremental interest of HK$262,000. Upon the repayment, the total principal amount of the Bondholder Loan outstanding decreased to HK$51,000,000.

13 BANK AND OTHER BORROWINGS (Continued)

(iii) Shareholder loan

On 26 April 2018, the Group entered into a loan agreement to borrow HK$40,000,000 from a shareholder with the maturity date on 26 October 2019 and bears interest at 10% per annum (Note 22).

On 30 May 2018 and 23 July 2018, the Group has fully settled the outstanding Shareholder Loan with aggregate principle amounts of HK$40,000,000 and incremental interest of HK$683,000.

(iv) Convertible bonds

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Convertible bonds	**26,277**	155,576

On 24 May 2018, the Company issued 2018 Convertible Bonds at a par value of HK$30,000,000, bearing interest at the rate of 8% per annum and payable semi-annually in arrears. The maturity date of the convertible bonds will be on 24 November 2019. The holder has the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK$0.47 per conversion share at any period commencing from the date of issuance of the convertible bonds and up to the close of business on the maturity date. The values of the liability component and the equity conversion component were determined at the completion 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 18.6% which is based on market interest rates for a number of comparable convertible bonds denominated in US$ and certain parameters specific to the Group's liquidity risk. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair value of the liability component and is included in other reserves in equity. Subsequently, the liability component is carried at amortised cost.

13 BANK AND OTHER BORROWINGS (Continued)

(iv) Convertible bonds (Continued)

The 2018 Convertible Bonds is calculated as follows:

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

Movements in convertible bonds are analysed as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Opening amount	**155,576**	145,100
Issuance of convertible bonds	**25,785**	–
Settlement of convertible bonds	**(95,000)**	–
Conversion to bondholder loans	**(62,000)**	–
Interest expenses	**6,706**	9,877
Interest paid	**(4,790)**	(3,716)
Closing amount	**26,277**	151,261
Less: Non-current convertible bonds – liability component	**(24,132)**	–
Current portion	**2,145**	151,261

14 OTHER EXPENSES

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Communications	**522**	514
Professional service fee	**4,233**	1,769
Motor vehicle expenses	**503**	737
Travelling	**4,839**	3,694
Office utilities	**2,706**	3,989
Other tax-related expenses and custom duties	**130**	550
Others	**4,181**	4,103
	17,114	15,356

15 OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Foreign exchange gains	**2,258**	7,656
Losses on disposals of property, plant and equipment	**(117)**	(613)
Gains on disposals of assets held-for-sale	**–**	8,066
Others	**651**	(675)
	2,792	14,434

16 SHARE-BASED PAYMENTS

The Company adopted a share option scheme (the "**Scheme**" or "**Share Option Scheme**") to attract, retain and motivate the grantees to strive for future developments and expansion of the Group. The Share Option Scheme was approved and adopted on 18 February 2013, pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group. Share options were granted to directors, selected employees and a consultant of the Company.

The Share Option Scheme is valid and effective for a period of 10 years commencing on the adoption date of the scheme. Details of share options granted under the share options scheme are as follows:

	Share options by grant date				
	29 April 2014	**29 May 2015**	**26 October 2016**	**1 December 2016**	**28 June 2018**
Number of ordinary shares issued upon exercise:					
– Directors	800,000	2,500,000	6,000,000	–	–
– Senior management	12,100,000	26,000,000	20,000,000	17,000,000	3,000,000
– Employees	7,100,000	31,200,000	42,000,000	–	–
Exercise price	HK$2.60	HK$1.30	HK$0.53	HK$0.53	HK$0.38
Contractual option term	Five years	Seven years	Seven years	Seven years	Seven years
Expiry date	28 April 2019	28 May 2022	25 October 2023	30 November 2023	27 June 2025

For the share options granted on 29 April 2014, the vesting period of the share options ranges from one to three years. All the options are conditional in which only one-third and two-third are vested and exercisable after one and two years from the grant date, respectively. The remaining options are vested and exercisable after three years from the grant date.

For the other share options granted, the vesting period of the share options ranges from one to five years. All the options are conditional in which one-fifth is vested and exercisable on every anniversary since the grant date of the respective share options.

The Group does not have a legal or constructive obligation to repurchase or settle the options in cash.

16 SHARE-BASED PAYMENTS (Continued)

The fair values of services received in return for share options granted are measured by reference to the fair value of share options granted. The range of fair value of options granted determined by using the Binomial model and significant inputs into the model were as follows:

	Share options by grant date				
	29 April 2014	29 May 2015	26 October 2016	1 December 2016	28 June 2018
Range of fair value of options granted (HK$)	0.87 – 0.88	0.62 – 0.66	0.19 – 0.25	0.23 – 0.26	0.15 – 0.17
Weighted average share price at the grant date (HK$)	2.44	1.28	0.52	0.53	0.35
Expected volatility *(Note)*	49.72%	56.49%	47.97%	47.75%	49.59%
Expected option life	5 years	7 years	7 years	7 years	7 years
Dividend yield	1.15%	Nil	Nil	Nil	Nil
Annual risk-free interest rate	1.42%	1.37%	0.75%	1.18%	2.19%
Expected post-vesting exit rate	10.82% – 13.23%	6.49% – 17.32%	7.94% – 18.19%	7.94%	7.12%

Note:

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

Possibility of forfeiture is taken into account by reference to the historical employee turnover for the estimation of the fair value of options granted.

Adjustments were made to the exercise prices and the number of share options dated 29 April 2014 and 29 May 2015 which were outstanding after the completion of the rights issue in February 2015.

The variables and assumptions used in estimating the fair value of the share options were the director's best estimates. Change in subjective input assumptions can materially affect the fair value.

16 SHARE-BASED PAYMENTS (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 30 June 2018 are as follow:

		Number of share options			
	Exercise price per share option	**As at 1 January 2018**	**Granted during the period**	**Forfeited/ lapsed during the period**	**As at 30 June 2018**
Grant date					
29 April 2014	**2.55**	**15,546,499**	**–**	**(109,481)**	**15,437,018**
29 May 2015	**1.30**	**45,754,449**	**–**	**(985,809)**	**44,768,640**
26 October 2016	**0.53**	**58,200,000**	**–**	**(1,800,000)**	**56,400,000**
1 December 2016	**0.53**	**17,000,000**	**–**	**–**	**17,000,000**
28 June 2018	**0.38**	**–**	**3,000,000**	**–**	**3,000,000**
Total		**136,500,948**	**3,000,000**	**(2,895,290)**	**136,605,658**
Weighted average exercise price (HK$)					
Grant date					
29 April 2014		**2.38**	**–**	**–**	**2.38**
29 May 2015		**1.21**	**–**	**–**	**1.21**
26 October 2016		**0.53**	**–**	**–**	**0.53**
1 December 2016		**0.53**	**–**	**–**	**0.53**
28 June 2018		**–**	**0.38**	**–**	**0.38**

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 30 June 2017 are as follow:

		Number of share options		
	Exercise price per share option	As at 1 January 2017	Forfeited/ lapsed during the period	As at 30 June 2017
Grant date				
29 April 2014	2.55	20,692,171	(3,831,886)	16,860,285
29 May 2015	1.30	59,320,053	(6,472,057)	52,847,996
26 October 2016	0.53	68,000,000	(8,300,000)	59,700,000
1 December 2016	0.53	17,000,000	–	17,000,000
Total		165,012,224	(18,603,943)	146,408,281
Weighted average exercise price (HK$)				
Grant date				
29 April 2014		2.38	–	2.38
29 May 2015		1.21	–	1.21
26 October 2016		0.53	–	0.53
1 December 2016		0.53	–	0.53

During the period ended 30 June 2018, share-based payment expense of HK$6,538,000 for the Share Option Scheme was recognised in the consolidated statement of comprehensive income (30 June 2017: HK$6,522,000).

17 FINANCE COSTS, NET

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Interest expenses:		
– Bank and other borrowings	**(3,472)**	(628)
– Finance lease liabilities	**(48)**	(217)
– Interest cost for convertible bonds	**(6,706)**	(9,877)
– Provision for impairment of trade receivables *(Note 10)*	**(2,512)**	–
– Provision for impairment of other receivables	**(2,622)**	–
Finance costs	**(15,360)**	(10,722)
Finance income:		
– Interest income from bank deposits	**26**	2
Finance income	**26**	2
Finance costs, net	**(15,334)**	(10,720)

18 INCOME TAX EXPENSE

The Company was incorporated in the B.V.I. and under the current B.V.I. tax regime, is not subject to income tax.

For the Company's subsidiaries, income tax is provided on the basis of their profits for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purpose. The applicable enterprise income tax rate for the PRC subsidiaries of the Group was 25% for the six months ended 30 June 2018 (2017: 25%), based on the relevant PRC tax laws and regulations, except those subsidiaries that were approved by relevant local tax bureau authorities as the High-technological Enterprise, and were entitled to a preferential Enterprise income tax rate of 15% (2017: 15%) during the period. Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (2017: 17%) during the period. In accordance with the two-tiered profits tax regime, Hong Kong profits tax was calculated on 8.25% of the first HK$2,000,000 and 16.5% of the remaining balance of the estimated assessable profits for the period ended 30 June 2018 (30 June 2017: 16.5%).

18 INCOME TAX EXPENSE (Continued)

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Current tax	**–**	–
Deferred tax	**997**	2,925
Income tax expense	**997**	2,925

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

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Loss attributable to owners of the Company (HK$'000)	**(75,518)**	(57,512)
Weighted average number of ordinary shares in issue (Number of shares in thousand)	**1,726,674**	1,726,674
Basic and diluted loss per share (HK cents)	**(4.4)**	(3.3)

Basic loss per share are calculated by dividing the loss attributable to owners of the Company by the weighted average number of shares in issue.

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.

For the period ended 30 June 2018 and 2017, diluted loss per share was the same as basic loss per share since all potential ordinary shares are anti-dilutive 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.

20 CONTINGENCIES

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Performance bonds *(Note (i))*	**1,678**	1,731

Note (i):

Performance bonds related to the guarantees provided by the banks to the Group's customers in respect of the sales of tools and equipment or provision of services in overseas projects. In the event of non-performance, the customers might call upon the performance bonds and the Group would be liable to the banks in respect of the performance bonds provided.

21 COMMITMENTS

(a) Operating lease commitments – Group as lessee

The Group leases various offices, residential properties and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 28 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
No later than 1 year	**5,310**	5,456
Later than 1 year and no later than 5 years	**2,998**	4,356
Later than 5 years	**9,258**	9,771
	17,566	19,583

22 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2018 and 2017, and balances arising from related party transactions as at 30 June 2018 and 31 December 2017.

Name	**Relationships**
Mr. Wang JinLong	Director
Mr. Zhao JinDong	Director
Ms. Sun JinXia	Senior management
Mr. Shu WaTung Laurence	Senior management
Mr. Lin JingYu	Senior management
Mr. Zhang TaiYuan	Senior management
Mr. Ren Wensheng	Senior management
King Shine Group Limited	Shareholder

(a) Key management compensation

Key management personnel are deemed to be the members of the board of directors and top management of the Company who have the responsibility for the planning and controlling the activities of the Group.

	Unaudited Six months ended 30 June	
	2018 HK$'000	2017 HK$'000
Salaries and other short-term employee benefits	**5,087**	4,490
Share-based payments	**3,209**	3,308
	8,296	7,798

(b) Shareholder loan and interests

On 26 April 2018, the Group has entered into a loan agreement to borrow HK$40,000,000 from a shareholder (the "**Shareholder loan**") with a maturity date of 26 October 2019 and bears interest at 10% per annum. The Shareholder loan is partially repaid on 30 May 2018. The interest expenses from the Shareholder loan approximate to HK$610,000 for the period ended 30 June 2018.

22 RELATED PARTY TRANSACTIONS (Continued)

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

	Unaudited As at 30 June 2018 HK$'000	Audited As at 31 December 2017 HK$'000
Amounts due from related parties *(Note 10) (Note (i))*	**1,984**	1,444
Amounts due to related parties *(Note 12) (Note (ii))*	**(3,905)**	(2,670)

As at 30 June 2018 and 31 December 2017, the balances are interest-free, unsecured, receivable or repayable on demand and approximate to their fair values.

Note (i):

The balances mainly comprise of advance to the Directors and senior management.

Note (ii):

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

23 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

(a) Purchase of equipment

On 7 August 2018, the Group entered into an agreement to purchase certain equipment from an independent third party at the consideration of approximately HK$40,777,000. The consideration is expected to be funded by internal resources and financing loan to be obtained by the Group. Further details of this transaction were disclosed in the Company's announcement dated 7 August 2018.

(b) Waiver obtained for the banking facilities

On 8 August 2018, the Group has obtained a conditional waiver from a financier in respect of a financial covenant that the Group breached. The financier agrees not to demand repayment subject to the fulfillment of certain requirement by the Group on or before 30 September 2018.