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PETRO-KING OILFIELD SERVICES LIMITED

百勤油田服務有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 2178)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

The board (the “**Board**”) of directors (the “**Directors**”) of Petro-king Oilfield Services Limited (the “**Company**”) hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”, “**we**” or “**our**”) for the six months ended 30 June 2018 (“**1H2018**”).

BUSINESS REVIEW

For 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	1H2017	Approximate	Approximate	Approximate
	(HK\$ million)	(HK\$ million)	percentage	percentage of	percentage of
			change	total revenue	total revenue
			(%)	from the	from the
				overseas	overseas
				markets in	markets in
				1H2018	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	1H2017	Approximate	Approximate	Approximate
	(HK\$ million)	(HK\$ million)	percentage	percentage of	percentage of
			change	total revenue	total revenue
			(%)	in 1H2018	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 Projects Tools and Services

	1H2018	1H2017	Approximate	Approximate	Approximate
	(HK\$ million)	(HK\$ million)	percentage	percentage of	percentage of
			change	total revenue	total revenue
			(%)	from oilfield	from oilfield
				project tools	project tools
				and services	and services
				in 1H2018	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	<u>105.2</u>	<u>132.4</u>	<u>-20.5%</u>	<u>100%</u>	<u>100%</u>

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 (the “**Equipment**”) 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.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
	<i>Note</i>		
EQUITY AND LIABILITIES			
Equity			
Share capital		2,001,073	2,001,073
Other reserves		86,833	83,308
Accumulated losses		(1,054,194)	(962,556)
		<u>1,033,712</u>	<u>1,121,825</u>
Non-controlling interests		<u>1,573</u>	<u>1,960</u>
Total equity		<u>1,035,285</u>	<u>1,123,785</u>
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	7	151,290	47,305
Deferred tax liabilities		<u>1,022</u>	<u>1,025</u>
		<u>152,312</u>	<u>48,330</u>
Current liabilities			
Trade payables	6	109,598	119,578
Other payables and accruals		83,447	83,746
Bank and other borrowings	7	<u>43,665</u>	<u>164,401</u>
		<u>236,710</u>	<u>367,725</u>
Total liabilities		<u>389,022</u>	<u>416,055</u>
Total equity and liabilities		<u>1,424,307</u>	<u>1,539,840</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2018	2017
		HK\$'000	HK\$'000
Revenue	4	105,179	132,382
Other income		606	937
Operating costs			
Material costs		(38,591)	(57,982)
Depreciation of property, plant and equipment		(37,736)	(41,280)
Amortisation of intangible assets and land use rights		(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		(7,236)	(3,706)
Other expenses	8	(17,114)	(15,356)
Other gains, net	9	2,792	14,434
Operating loss		(59,574)	(44,290)
Finance income		26	2
Finance costs		(15,360)	(10,722)
Finance costs, net	10	(15,334)	(10,720)
Loss before income tax		(74,908)	(55,010)
Income tax expense	11	(997)	(2,925)
Loss for the period		(75,905)	(57,935)
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(8,965)	19,029

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2018	2017
		HK\$'000	HK\$'000
Other comprehensive (loss)/income for the period, net of tax		<u>(8,965)</u>	<u>19,029</u>
Total comprehensive loss for the period		<u>(84,870)</u>	<u>(38,906)</u>
Loss for the period attributable to:			
Owners of the Company		(75,518)	(57,512)
Non-controlling interests		<u>(387)</u>	<u>(423)</u>
		<u>(75,905)</u>	<u>(57,935)</u>
Total comprehensive loss for the period attributable to:			
Owners of the Company		(84,483)	(38,483)
Non-controlling interests		<u>(387)</u>	<u>(423)</u>
		<u>(84,870)</u>	<u>(38,906)</u>
Loss per share for loss attributable to the ordinary equity holders of the Company:	<i>12</i>		
Basic loss per share (HK cents)		(4.4)	(3.3)
Diluted loss per share (HK cents)		<u>(4.4)</u>	<u>(3.3)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	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
Cash flows from financing activities			
Proceeds from bank and other borrowings	7	70,998	3,619
Repayments of bank and other borrowings		(19,855)	(11,698)
Proceeds from issuance of 2018 Convertible Bonds		29,500	—
Repayment of Convertible Bonds		(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.

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 7).

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.
- (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 on or 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 ACCOUNTING POLICIES

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 3.4 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

3.2 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

3.3 Impact of standards issued but not yet applied by the Group

(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. 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.

3.4 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.

	Audited 31 December 2017 As originally presented HK\$'000	IFRS 9 HK\$'000	Unaudited 1 January 2018 IFRS 15 HK\$'000	Restated HK\$'000
Balance sheet (extract)				
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)
	<u>(1,045,864)</u>	<u>(18,631)</u>	<u>274</u>	<u>(1,064,221)</u>

(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 3.4 (c) below.

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

	<i>Note</i>	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)	<u>(14,157)</u>
Opening accumulated losses 1 January – IFRS 9 (before restatement for IFRS 15)		<u>(978,950)</u>

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

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

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

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 3.4(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.

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 rate 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	<u>12,503</u>
Opening loss allowance as at 1 January 2018	
– calculated under IFRS 9	<u>164,690</u>

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.

(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.

(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 IAS 18 carrying amount 31 December 2017 HK\$'000	Unaudited Remeasurement 1 January 2018 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	<u>274</u>
Opening accumulated losses 1 January – IFRS 9 and IFRS 15	<u>(978,676)</u>
<i>(e) IFRS 15, Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018</i>	
<i>(i) Oilfield project tools and services</i>	

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.

(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 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
	<i>HK\$’000</i>	<i>HK\$’000</i>
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

The segment information for the six months ended 30 June 2018 and 2017 are as follows:

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

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

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)
	<u>(74,908)</u>	<u>(55,010)</u>
Loss before income tax	<u>(74,908)</u>	<u>(55,010)</u>

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.

5 TRADE RECEIVABLES

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

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	Audited
	As at	As at
	30 June	31 December
	2018	2017
	HK\$'000	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	<u>309,161</u>	<u>320,008</u>
Trade receivables	502,315	560,198
Less: provision for impairment of trade receivables	<u>(157,151)</u>	<u>(152,867)</u>
Trade receivables – net	<u>345,164</u>	<u>407,331</u>

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.

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 provision matrix where trade receivables that are less than twelve months overdue are provided for at expected loss rate 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 as at 30 June 2018 amounted to approximately HK\$157,151,000 (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).

6 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

7 BANK AND OTHER BORROWINGS

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

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 (<i>Note (iv)</i>)	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 (<i>Note (iv)</i>)	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.

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 a 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. The financier agrees not to demand repayment subject to the fulfillment of certain requirement 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.

(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.

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	Audited
	As at	As at
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
Convertible bonds	<u>26,277</u>	<u>155,576</u>

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.

The 2018 Convertible Bonds is calculated as follows:

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

Movements in convertible bonds are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(4,790)</u>	<u>(3,716)</u>
Closing amount	26,277	151,261
Less: Non-current convertible bonds – liability component	<u>(24,132)</u>	<u>–</u>
Current portion	<u>2,145</u>	<u>151,261</u>

8 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
	<u>17,114</u>	<u>15,356</u>

9 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)
	<u>2,792</u>	<u>14,434</u>

10 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 (<i>Note 5</i>)	(2,512)	–
– Provision for impairment of other receivables	(2,622)	–
	<u>(15,360)</u>	<u>(10,722)</u>
Finance costs		
Finance income:		
– Interest income from bank deposits	26	2
	<u>26</u>	<u>2</u>
Finance income		
	<u>26</u>	<u>2</u>
Finance costs, net	<u>(15,334)</u>	<u>(10,720)</u>

11 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%).

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current tax	–	–
Deferred tax	<u>997</u>	<u>2,925</u>
Income tax expense	<u>997</u>	<u>2,925</u>

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

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

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.

13 DIVIDEND

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

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 7(iv) of this interim results announcement.

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).

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).

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.

REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

Hong Kong, 9 August 2018

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