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TSC Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 206)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the “Board”) of directors (the “Directors”) of TSC Group Holdings Limited (the “Company” or “TSC”) announces the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018, together with the unaudited comparative figures for the corresponding period in 2017 as follows:

RESULTS HIGHLIGHTS

- The Group’s revenue for the six months ended 30 June 2018 reached approximately US\$29.6 million, representing a decrease of approximately 35.6% from US\$45.9 million for the same period in 2017;
- Gross profit amounted to approximately US\$6.5 million for the six months ended 30 June 2018, representing a decrease of approximately 53.6% from US\$14.1 million for the same period in 2017;
- Net loss attributed to equity shareholders of the Company amounted to approximately US\$6.8 million for the six months ended 30 June 2018, representing an increase of 82.7% from US\$3.7 million for the same period in 2017;
- Loss per share for the six months ended 30 June 2018 was US0.53 cent, representing a decrease of 1.9% compared with US0.54 cent for the same period in 2017;
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018.

CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2018	2017
		(unaudited)	(unaudited)
		(Note)	
	Notes	US\$'000	US\$'000
Revenue	3, 4	29,556	45,881
Cost of sales		<u>(23,023)</u>	<u>(31,803)</u>
Gross profit		6,533	14,078
Other revenue and net income	5	477	831
Selling and distribution expenses		(2,536)	(4,085)
General and administrative expenses		(9,590)	(10,465)
Other operating expenses		<u>(506)</u>	<u>(4,126)</u>
Loss from operations		(5,622)	(3,767)
Finance costs	6 (a)	<u>(1,367)</u>	<u>(1,807)</u>
Loss before taxation	6	(6,989)	(5,574)
Income tax	7	<u>4</u>	<u>1,853</u>
Loss for the period		<u><u>(6,985)</u></u>	<u><u>(3,721)</u></u>
Attributable to:			
Equity shareholders of the Company		(6,849)	(3,748)
Non-controlling interests		<u>(136)</u>	<u>27</u>
Loss for the period		<u><u>(6,985)</u></u>	<u><u>(3,721)</u></u>
Loss per share			
Basic and diluted	9	<u><u>(US0.53 cent)</u></u>	<u><u>(US0.54 cent)</u></u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Loss for the period	(6,985)	(3,721)
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of subsidiaries and associates (with nil tax effect)	(511)	1,469
Total comprehensive income for the period	<u>(7,496)</u>	<u>(2,252)</u>
Attributable to:		
Equity shareholders of the Company	(7,112)	(2,280)
Non-controlling interests	<u>(384)</u>	<u>28</u>
Total comprehensive income for the period	<u>(7,496)</u>	<u>(2,252)</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2018 (unaudited)	As at 31 December 2017 (audited) (Note)
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	39,142	41,200
Investment properties		8,376	8,157
Interests in leasehold land held for own use under operating leases		7,530	7,552
Other intangible assets		708	1,620
Interest in associates		287	288
Other financial assets		1,355	1,455
Deferred tax assets		13,095	13,083
		70,493	73,355
CURRENT ASSETS			
Inventories		172,005	29,765
Trade and other receivables	<i>11</i>	80,580	55,964
Gross amount due from customers for contract work		–	133,085
Amount due from a related company		101	101
Tax recoverable		2,117	405
Pledged bank deposits		1,665	563
Cash and cash equivalents		34,523	15,287
		290,991	235,170
Non-current asset classified as held for sale		–	6,082
		290,991	241,252

		As at 30 June 2018 (unaudited) US\$'000	As at 31 December 2017 (audited) (Note) US\$'000
	Notes		
CURRENT LIABILITIES			
Trade and other payables	12	236,996	234,207
Contract liabilities		45,326	–
Bank loans and other borrowings		9,975	47,601
Tax payable		1,497	4,811
		<u>293,794</u>	<u>286,619</u>
NET CURRENT LIABILITIES		<u>(2,803)</u>	<u>(45,367)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>67,690</u>	<u>27,988</u>
NON-CURRENT LIABILITIES			
Bank loans and other borrowings		11,988	14,321
Deferred tax liabilities		359	–
		<u>12,347</u>	<u>14,321</u>
NET ASSETS		<u>55,343</u>	<u>13,667</u>
CAPITAL AND RESERVES			
Share capital	13	18,854	9,094
Reserves		36,695	4,395
Total equity attributable to equity shareholders of the Company		55,549	13,489
Non-controlling interests		(206)	178
TOTAL EQUITY		<u>55,343</u>	<u>13,667</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to equity shareholders of the Company												Non-controlling interests	Total equity
	Share capital	Share premium	Merger reserve	Exchange reserve	Employee share-based compensation reserve	Share held for share award plan	Capital reserve	Revaluation reserve	Reserve funds	Fair value reserve (non-recycling)	Accumulated losses	Total		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		
Balance at 1 January 2017	9,094	127,805	2,161	(13,965)	5,336	(1,285)	5,482	627	8,295	–	(48,254)	95,296	778	96,074
Changes in equity for the six months ended 30 June 2017:														
Loss for the period	–	–	–	–	–	–	–	–	–	–	(3,748)	(3,748)	27	(3,721)
Other comprehensive income	–	–	–	1,479	–	–	–	–	(11)	–	–	1,468	1	1,469
Total comprehensive income	–	–	–	1,479	–	–	–	–	(11)	–	(3,748)	(2,280)	28	(2,252)
Equity-settled share-based transactions	–	–	–	–	78	–	–	–	–	–	–	78	–	78
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(552)	(552)
Transfer from reserve funds	–	–	–	–	–	–	–	–	(104)	–	104	–	–	–
Balance at 30 June 2017 (unaudited)	9,094	127,805	2,161	(12,486)	5,414	(1,285)	5,482	627	8,180	–	(51,898)	93,094	254	93,348
Balance at 1 January 2018	9,094	127,805	2,161	(13,317)	3,775	(1,285)	5,482	627	8,295	–	(129,148)	13,489	178	13,667
Impact on initial application of HKFRS 15	–	–	–	–	–	–	–	–	–	–	(13,946)	(13,946)	–	(13,946)
Impact on initial application of HKFRS 9	–	–	–	(42)	–	–	–	–	–	(3,207)	1,041	(2,208)	–	(2,208)
Adjusted balance at 1 January 2018	9,094	127,805	2,161	(13,359)	3,775	(1,285)	5,482	627	8,295	(3,207)	(142,053)	(2,665)	178	(2,487)
Changes in equity for the six months ended 30 June 2018:														
Loss for the period	–	–	–	–	–	–	–	–	–	–	(6,849)	(6,849)	(136)	(6,985)
Other comprehensive income	–	–	–	(263)	–	–	–	–	–	–	–	(263)	(248)	(511)
Total comprehensive income	–	–	–	(263)	–	–	–	–	–	–	(6,849)	(7,112)	(384)	(7,496)
Issue of new shares	9,760	55,566	–	–	–	–	–	–	–	–	–	65,326	–	65,326
Equity-settled share-based transactions	–	–	–	–	(3,775)	–	–	–	–	–	3,775	–	–	–
Balance at 30 June 2018 (unaudited)	18,854	183,371	2,161	(13,622)	–	(1,285)	5,482	627	8,295	(3,207)	(145,127)	55,549	(206)	55,343

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Operating activities		
Cash used in operations	(10,463)	(3,188)
The People's Republic of China ("PRC") enterprise income tax and overseas tax paid	(766)	(1,354)
Net cash used in operating activities	(11,229)	(4,542)
Investing activities		
Proceeds from sales of/Payment for the purchase of property, plant and equipment	5,747	(335)
Interest received	73	32
Increase in pledged bank deposits	(1,038)	(324)
Net cash generated from/(used in) investing activities	4,782	(627)
Financing activities		
Proceeds from issue of new shares	65,326	–
(Repayment of)/proceeds from bank loans and other borrowings	(38,808)	9,120
Interest paid	(913)	(1,318)
Dividends paid to non-controlling interests	–	(551)
Net cash generated from financing activities	25,605	7,251
Net increase in cash and cash equivalents	19,158	2,082
Cash and cash equivalents at 1 January	15,287	9,952
Effect of foreign exchanges rates change	78	76
Cash and cash equivalents at 30 June	34,523	12,110

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 February 2005 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and was listed on the Main Board (the “Main Board”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 June 2009.

The condensed consolidated financial statements for the six months ended 30 June 2018 have not been audited by the Company’s auditors, but have been reviewed by the Company’s audit committee. The Company’s audit committee has no disagreement with the accounting treatments which had been adopted by the Group.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange, including compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments measured at fair value through other comprehensive income as explained in note 2(b) below.

The condensed consolidated financial statements have been prepared on a going concern basis, notwithstanding the net current liabilities of US\$2,803,000 at 30 June 2018, as the Group’s ultimate holding company, China Merchants Group Limited, has undertaken to provide adequate financial support to maintain the Group as a going concern and to enable it to meet its liabilities as and when they fall due.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out below.

(a) Overview of change in accounting policies

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards (“HKFRSs”) and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and/or HKFRS 15:

	At 31 December 2017 US\$'000	Impact on initial application of HKFRS 9 US\$'000	Impact on initial application of HKFRS 15 US\$'000	At 1 January 2018 US\$'000
Deferred tax assets	13,083	306	–	13,389
Total non-current assets	73,355	306	–	73,661
Inventories	29,765	–	137,837	167,602
Trade and other receivables	55,964	(2,514)	5,905	59,355
Gross amount due from customers for contract work	133,085	–	(133,085)	–
Tax recoverable	405	–	1,834	2,239
Total current assets	241,252	(2,514)	12,491	251,229
Trade and other payables	(234,207)	–	16,086	(218,121)
Contract liabilities	–	–	(45,326)	(45,326)
Tax payable	(4,811)	–	2,803	(2,008)
Total current liabilities	(286,619)	–	(26,437)	(313,056)
Net current liabilities	(45,367)	(2,514)	(13,946)	(61,827)
Total assets less current liabilities	27,988	(2,208)	(13,946)	11,834
Net assets/(liabilities)	13,667	(2,208)	(13,946)	(2,487)
Reserves	4,395	(2,208)	(13,946)	(11,759)
Total equity attributable to equity shareholders of the Company	13,489	(2,208)	(13,946)	(2,665)
Total equity	13,667	(2,208)	(13,946)	(2,487)

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) **HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation***

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on accumulated losses and reserves and the related tax impact at 1 January 2018.

US\$'000

Accumulated losses

Transferred to fair value reserve (non-recycling) relating to financial assets now measured at FVOCI	(3,207)
Recognition of additional expected credit losses on:	
– financial assets measured at amortised cost	2,467
Related tax	(301)
Net decrease in accumulated losses at 1 January 2018	(1,041)

Fair value reserve (non-recycling)

Transferred from accumulated losses relating to equity securities now measured at FVOCI and decrease in fair value reserve (non-recycling) at 1 January 2018	(3,207)

Exchange reserve

Re-translation of financial assets measured at amortised cost after recognition of additional expected credit losses and decrease in exchange reserve at 1 January 2018	(42)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 US\$'000	Reclassification US\$'000	Remeasurement US\$'000	HKFRS 9 carrying amount at 1 January 2018 US\$'000
Financial assets carried at amortised cost				
Trade and other receivables (<i>note (i)</i>)	<u>55,964</u>	<u>5,905</u>	<u>(2,514)</u>	<u>59,355</u>
Financial assets measured at FVOCI (non-recyclable)				
Equity securities (<i>note (ii)</i>)	<u>–</u>	<u>1,455</u>	<u>–</u>	<u>1,455</u>
Financial assets classified as available-for-sale under HKAS 39 (<i>note (ii)</i>)	<u>1,455</u>	<u>(1,455)</u>	<u>–</u>	<u>–</u>

Note:

- (i) Gross amount due from customers for contract work of US\$5,905,000 were reclassified to trade and other receivables at 1 January 2018 as a result of the initial application of HKFRS 15 (see note 2(c)(ii)).
- (ii) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in Persta Resources Inc. at FVOCI (non-recycling), as the investment is held for strategic purposes.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) *Credit losses*

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates); and
- contract assets as defined in HKFRS 15 (see note 2(c)).

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to US\$2,514,000, which increased accumulated losses by US\$2,166,000 and gross deferred tax assets by US\$306,000 and decreased exchange reserve by US\$42,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	<i>US\$'000</i>
Loss allowance at 31 December 2017 under HKAS 39	68,577
Additional credit loss recognised at 1 January 2018 on:	
– Trade receivables	<u>2,514</u>
Loss allowance at 1 January 2018 under HKFRS 9	<u><u>71,091</u></u>

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):
 - the determination of the business model within which a financial asset is held; and
 - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to HKFRS 15 on accumulated losses and the related tax impact at 1 January 2018:

	<i>US\$'000</i>
Accumulated losses	
Later revenue and profit recognition for construction contracts previously recognised under HKAS 11	18,583
Related tax	(4,637)
Net increase in accumulated losses at 1 January 2018	<u><u>13,946</u></u>

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) *Timing of revenue recognition*

Previously, revenue arising from construction contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The timing of revenue recognition for construction contracts of the Group is affected by the adoption of HKFRS 15. These construction contracts involve the design, manufacture, installation and commissioning of rig products and capital equipment as packages customised for the customers. The rig products and capital equipment produced or related work in progress may have alternative use to the Group and/or the contracts that the rig products and capital equipment related to do not have enforceable right to payment for performance completed to date. These contracts therefore do not fall into any of these 3 situations. Accordingly, revenue from these construction contracts which was previously recognised over time under HKAS 11 is only recognised at a single point in time when the control of such products and equipment is transferred to the customers (i.e. upon the transfer of legal title and the customers' acceptance of the products/equipment), upon the adoption of HKFRS 15.

As a result of this change in accounting policy, the Group has made adjustments to opening balances at 1 January 2018 which increased accumulated losses by US\$13,946,000, decreased contract assets by US\$127,180,000, increased contract liabilities by US\$29,240,000, increased tax recoverable by US\$1,834,000, decreased tax payable by US\$2,803,000 and increased inventories (work in progress) by US\$137,837,000.

(ii) *Presentation of contract assets and liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to construction in progress were recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and were presented in the statement of financial position as the “Gross amount due from customers for contract work” (as an asset) or the “Gross amount due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customer were presented as “Trade debtors and bills receivable” under “Trade and other receivables”. Amounts received before the related work is performed are included in “Other payables and accrued charges” under “Trade and other payables”.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

- a. Among “Gross amounts due from customers for contract work” amounting to US\$133,085,000, US\$127,180,000 and US\$5,905,000 are now included under contract assets and “Trade and other receivables” respectively;
- b. “Other payables and accrued charges” amounting to US\$16,086,000 is now included under contract liabilities; and
- c. As explained in (i) above, adjustments to opening balances have been made to decrease contract assets by US\$127,180,000, increase contract liabilities by US\$29,240,000 and increase inventories (work in progress) by US\$137,837,000 in respect of the Group’s construction of rig products and capital equipment.

3. REVENUE

The principal activities of the Group are the design, manufacturing, installation and commissioning of capital equipment and packages on land and offshore rigs, oilfield expendables and supplies and the provision of engineering services.

All revenue are within the scope of HKFRS 15. Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
		(Note)
	<i>US\$'000</i>	<i>US\$'000</i>
Capital equipment and packages		
– Sales of capital equipment	11,662	11,767
– Construction contracts revenue	<u>–</u>	<u>4,505</u>
	11,662	16,272
Oilfield expendables and supplies		
– Sales of expendables and supplies	15,564	26,747
Engineering services		
– Service fee income	<u>2,330</u>	<u>2,862</u>
	<u>29,556</u>	<u>45,881</u>

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c)).

4. REVENUE AND SEGMENT REPORTING

The Group manages its business by divisions, which are organised by a mixture of both business units (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Capital equipment and packages: the design, manufacturing, installation and commissioning of capital equipment and packages on land and offshore rigs
- Oilfield expendables and supplies: the manufacturing and trading of oilfield expendables and supplies
- Engineering services: the provision of engineering services

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of interest in associates, deferred tax assets, other financial assets, cash and cash equivalents, pledged bank deposits, tax recoverable and other unallocated head office and corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segment, with the exception of bank loans and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit/(loss) is "segment results" i.e. "adjusted earnings before finance costs and taxes" of individual segment. To arrive at segment results, the Group's earnings are further adjusted for share of results of associates, if any, finance costs and items not specifically attributed to individual segment, such as Directors' and auditors' remuneration and other head office or corporate income and expenses.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment revenue), depreciation and amortisation. Inter-segment revenue is priced with reference to prices charged to external parties for similar orders.

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Capital equipment and packages		Oilfield expendables and supplies		Engineering services		Total	
	Unaudited		Unaudited		Unaudited		Unaudited	
	For the period ended		For the period ended		For the period ended		For the period ended	
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2018	2017	2018	2017	2018	2017	2018	2017
	(Note)		(Note)		(Note)		(Note)	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from external customers	11,662	16,272	15,564	26,747	2,330	2,862	29,556	45,881
Inter-segment revenue	1,367	87	9,516	1,279	470	–	11,353	1,366
Reportable segment revenue	<u>13,029</u>	<u>16,359</u>	<u>25,080</u>	<u>28,026</u>	<u>2,800</u>	<u>2,862</u>	<u>40,909</u>	<u>47,247</u>
Reportable segment results	<u>2,256</u>	<u>(2,708)</u>	<u>(5,916)</u>	<u>136</u>	<u>(1,240)</u>	<u>(412)</u>	<u>(4,900)</u>	<u>(2,984)</u>

The segment assets and liabilities as at 30 June 2018 and 31 December 2017 is set out below:

	Capital equipment and packages		Oilfield expendables and supplies		Engineering services		Total	
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2018	2017	2018	2017	2018	2017	2018	2017
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
	(Note)		(Note)		(Note)		(Note)	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Reportable segment assets	219,356	211,431	80,466	63,587	7,517	6,793	307,339	281,811
Reportable segment liabilities	<u>(234,627)</u>	<u>(195,903)</u>	<u>(36,358)</u>	<u>(36,433)</u>	<u>(10,239)</u>	<u>(1,246)</u>	<u>(281,224)</u>	<u>(233,582)</u>

Note: The Group has initially applied HKFRS 15 using cumulative method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c)).

(b) **Reconciliation of reportable segment revenue, profit or loss, assets and liabilities**

	Unaudited For the six months ended 30 June	
	2018 <i>US\$'000</i>	2017 <i>US\$'000</i>
Revenue		
Reportable segment revenue	40,909	47,247
Elimination of inter-segment revenue	(11,353)	(1,366)
Consolidated revenue	29,556	45,881
Loss		
Segment results	(4,900)	(2,984)
Finance costs	(1,367)	(1,807)
Unallocated head office and corporate income and expenses	(722)	(783)
Consolidated loss before taxation	(6,989)	(5,574)
	As at 30 June 2018 (unaudited) <i>US\$'000</i>	As at 31 December 2017 (audited) <i>US\$'000</i>
Assets		
Reportable segment assets	307,339	281,811
Interest in associates	287	288
Deferred tax assets	13,095	13,083
Other financial assets	1,355	1,455
Tax recoverable	2,117	405
Pledged bank deposits	1,665	563
Cash and cash equivalents	34,523	15,287
Unallocated head office and corporate assets	1,103	1,715
Condensed consolidated total assets	361,484	314,607
Liabilities		
Reportable segment liabilities	(281,224)	(233,582)
Bank loans and other borrowings	(21,963)	(61,922)
Tax payable	(1,497)	(4,811)
Deferred tax liabilities	(359)	–
Unallocated head office and corporate liabilities	(1,098)	(625)
Consolidated total liabilities	(306,141)	(300,940)

(c) Geographic information

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties, interest in leasehold land held for own use under operating lease, other intangible assets, interest in associates and other financial assets ("specified non-current assets"). The geographical location of customers is based on the location of the customers. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, investment properties and interest in leasehold land held for own use under operating leases, the location of the operations to which they are allocated, in the case of intangible assets and the location of operations, in the case of interest in associates and other financial assets.

	Revenue from external customers		Specified non-current assets	
	For the six months ended 30 June 2018 (unaudited) US\$'000	For the six months ended 30 June 2017 (unaudited) US\$'000	As at 30 June 2018 (unaudited) US\$'000	As at 31 December 2017 (audited) US\$'000
Hong Kong	–	–	198	228
Mainland China	12,411	7,804	51,795	53,643
North America	12,379	22,183	4,143	5,147
South America	1,133	11,493	56	39
Europe	3,018	1,721	1,106	1,171
Indonesia	–	927	–	26
Singapore	–	65	–	–
Others (Other part of Asia, India etc.)	615	1,688	100	18
	<u>29,556</u>	<u>45,881</u>	<u>57,398</u>	<u>60,272</u>

5. OTHER REVENUE AND NET INCOME

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
	<i>US\$'000</i>	<i>US\$'000</i>
Interest income	73	32
Government subsidies	47	336
Others	357	463
	<u>477</u>	<u>831</u>

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
	<i>US\$'000</i>	<i>US\$'000</i>
Interest on bank loans and other borrowings	<u>1,367</u>	<u>1,807</u>

(b) Other items

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
	<i>US\$'000</i>	<i>(Note)</i> <i>US\$'000</i>
Amortisation of interest in leasehold land held for own use under operating lease and intangible assets	1,064	1,064
Depreciation	2,043	2,043
Write-down of on inventories	–	389
Reversal of impairment losses on doubtful debts	–	(170)
Net foreign exchange loss	86	1,569
Gain on disposal of property, plant and equipment	–	(103)
Auditors' remuneration	<u>249</u>	<u>251</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

7. INCOME TAX

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
	US\$'000	US\$'000
Current tax		
Provision for the period		
– The People's Republic of China ("PRC") enterprise income tax	(50)	72
– Overseas corporate income tax	(50)	236
	(100)	308
Over-provision in respect of prior years	–	(1,886)
	(100)	(1,578)
Deferred tax		
Origination of temporary differences	104	(275)
	4	(1,853)

No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong sustained losses for taxation purpose. Taxation for subsidiaries in other jurisdictions is charged at the corresponding current rates of taxation ruling in the relevant jurisdictions. During both periods, certain PRC subsidiaries subject to tax at reduced rates of 15% under the relevant PRC tax rules and regulations.

8. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share for the six months ended 30 June 2018 are based on the loss attributable to ordinary equity shareholders of the Company of approximately US\$6,849,000 (six months ended 30 June 2017: US\$3,748,000) and the weighted average number of 1,302,828,779 (six months ended 30 June 2017: 702,025,204) ordinary shares in issue during the period.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the six months ended 30 June 2018 and 2017 because the potential ordinary shares outstanding were anti-dilutive.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, additions to property, plant and equipment amounted to approximately US\$335,000 (six months ended 30 June 2017: US\$335,000).

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 <i>US\$'000</i> (unaudited)	As at 31 December 2017 <i>US\$'000</i> (audited)
Trade debtors and bills receivable	113,172	108,703
Less: impairment losses recognised on doubtful debts	(71,090)	(68,577)
	42,082	40,126
Other receivables, prepayments and deposits	38,498	15,838
	80,580	55,964

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and engineering services are normally 30 to 90 days. The credit terms offered to customers of capital equipment and packages are negotiated on a case-by-case basis. Deposits ranging from 10% to 30% of the contract sum are usually required. The balance of 60% to 85% would be payable upon contract milestones being completed. The remaining 5% to 10% of the contract sum represents the retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of the onsite testing, whichever is earlier.

Trade debtors and bills receivable (net of impairment loss recognised for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	As at 30 June 2018 <i>US\$'000</i> (unaudited)	As at 31 December 2017 <i>US\$'000</i> (audited)
Current	8,468	5,657
Less than 1 month past due	4,333	3,356
1 to 3 months past due	5,053	5,477
More than 3 months but within 12 months past due	9,098	17,315
More than 12 months past due	15,130	8,321
Amounts past due	33,614	34,469
	42,082	40,126

12. TRADE AND OTHER PAYABLES

	As at 30 June 2018 US\$'000 (unaudited)	As at 31 December 2017 US\$'000 (audited)
Trade creditors and bills payable	184,633	196,286
Other payables and accrued charges	52,363	37,921
	<u>236,996</u>	<u>234,207</u>

Trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	As at 30 June 2018 US\$'000 (unaudited)	As at 31 December 2017 US\$'000 (audited)
Within 1 month	156,078	174,982
More than 1 month but within 3 months	8,403	2,153
More than 3 months but within 12 months	7,523	9,891
More than 12 months but within 24 months	11,224	8,597
More than 24 months	1,405	663
	<u>184,633</u>	<u>196,286</u>

13. SHARE CAPITAL

As at 9 February 2018, China Merchants Great Wall Ocean Technology Strategic Development Industry Fund (“China Merchants Great Wall Ocean Fund”) completed the acquisition of TSC Group by the issuance of additional shares and currently holds 51.94% shares of TSC group, which emerging as the controlling shareholder of the TSC Group.

14. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these condensed consolidated financial statements, the Group entered into the following related party transactions with subsidiaries of a substantial shareholder of the Group.

Transactions with related companies

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
	<i>US\$'000</i>	<i>US\$'000</i>
Sales of capital equipment and packages	785	797

In the opinion of the Company's Directors, the above transactions were carried out on normal commercial terms and in the ordinary course of business.

15. EMPLOYEE SHARE-BASED ARRANGEMENT

The Group operates a share award plan as part of the benefits of its employees. Under the share award plan, the Board is allowed to make awards as long-term incentives for selected senior executives of the Group in addition to share option plan which they may be eligible to receive under the share award plan.

The employee share-based compensation expenses in relation to the options and share awards are charged to profit or loss under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

During the six months ended 30 June 2018, no share options were granted under the share award plan.

16. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

TSC Group is a global product, services and solutions provider serving both the worldwide onshore and offshore oil and gas E&P industries.

The Products and services of the Company are mainly used for drilling and developing of oil and gas, which include two major segments: (1) capital equipment and packages business, (2) provision of maintenance, repair and operations (MRO) of products and services for rigs.

Capital Equipment and Packages business: the design, manufacture, installation, and commissioning of capital equipment and packages for onshore and offshore rigs. Equipment product includes: cranes, mechanical piping, jacking system, power control and transmission system, tension adjustment and compensation equipment and systems, etc., which can be used for various offshore rigs, workover platform or vessels and onshore rigs. Maintenance, repair and operations (MRO) of products and services: including oilfield consumables, manufacturing, selling and maintenance services for accessories and parts.

As at 9 February 2018, China Merchants Great Wall Ocean Technology Strategic Development Industry Fund (“China Merchants Great Wall Ocean Fund”) completed the acquisition of TSC Group by the issuance of additional shares and currently holds 51.94% shares of TSC group, which emerging as the controlling shareholder of the TSC Group.

INDUSTRIAL REVIEW

In the first half of 2018, the overall situation of oil and gas industrial has improved, as the price of Brent crude oil increased gradually from US\$69.08 per barrel in January 2018 to US\$74.4 per barrel in June 2018, representing an increase of 7.7%, with an increase of 60% as compared with the price of US\$46.37 per barrel in June 2017. With the rebound of oil prices, worldwide offshore drilling and capital expenditure on upstream have increased as well, the demand for various platforms is on the rise, and day rates and utilization rates are increasing gradually. Currently, the utilization of jack-up drilling rigs has reached around 70%, the day rates have reached US\$48,000 to US\$88,000. These indications showed that the market demand for oil and gas exploration services and equipment will increase in the future.

BUSINESS REVIEW

During the first half of this year, the sales revenue of the Company was US\$29.6 million, representing a decrease of 35.6% as compared to that of the corresponding period of last year, and net loss attributed to equity shareholders of the Company amounted to approximately US\$6.8 million. Such loss was mainly due to the increase in upstream capital investment had a delayed effect on the transmission of the industrial chain, therefore, it took for time for the Company to increase orders and improve its performance. For the past three years, the capital investment in upstream E&P in the industry continuously decreased, resulting in the shrink of potential production capacity of oil companies, while there were over 40% of jack-up drilling rigs with a life span of more than 30 years, the trend of renewal was prominent. As oil prices remained reasonable, the Company's results will gradually improve.

FINANCIAL REVIEW

	30 June 2018 (unaudited) US\$'000	30 June 2017 (unaudited) US\$'000	Decrease	
			US\$'000	%
Revenue	29,556	45,881	16,325	35.6
Gross profit	6,533	14,078	7,545	53.6
Gross profit margin	22.1%	30.7%		
Loss from operations	(5,622)	(3,767)	(1,855)	49.2
Loss for the period	(6,985)	(3,721)	(3,264)	87.7
Loss per share				
Basic	(US0.53 cent)	(US0.54 cent)		
Diluted	(US0.53 cent)	(US0.54 cent)		

Revenue for the first six months of 2018 decreased by 35.6% to US\$29.6 million from US\$45.9 million in 2017. The net loss for the first six months of 2018 was US\$6.8 million, while the net loss for the same period in 2017 was US\$3.7 million. The increment of such loss was mainly due to the prevailing depressed drilling market which decreased in revenue in the Capital Equipment and Packages segment.

Segment Information by Business Segments

	30 June 2018		30 June 2017		Increase/(Decrease)	
	US\$'000	% of total	US\$'000	% of total	US\$'000	%
Revenue						
Capital Equipment and Packages	11,662	39.5%	16,272	35.5%	(4,610)	(28.3)
Oilfield Expendables and Supplies	15,564	52.7%	26,747	58.2%	(11,183)	(41.8)
Engineering Services	2,330	7.8%	2,862	6.3%	(532)	(18.6)
Total	<u>29,556</u>	<u>100%</u>	<u>45,881</u>	<u>100.0%</u>	<u>(16,325)</u>	<u>(35.6)</u>

Capital Equipment and Packages

Revenue from the Capital Equipment and Packages segment decreased from US\$16.3 million in the first half year of 2017 to US\$11.7 million in the first half year of 2018. This was mainly due to the decrease of demand from upstream oil and gas companies and the market of related products.

Oilfield Expendables and Supplies (MRO Supplies)

Revenue from the Oilfield Expendables and Supplies segment decreased from US\$26.7 million in the first half year of 2017 to US\$15.6 million in the first half year of 2018. It was mainly due to drop in global drilling activities. Hence the demand of MRO supplies decreased in the market.

Engineering Services (MRO Services)

The revenue from Engineering Services segment remained stable in the first half of 2018 and amounted to US\$2.3 million compared with the revenue amounted to US\$2.9 million for the same period in 2017.

Gross Profit and Gross Profit Margins

Overall gross profit decreased by 53.6% from US\$14.1 million to US\$6.5 million which was in line with the decrease of 35.6% in the Group's revenue. Gross profit margin decreased to 22.1% in the first half of 2018. The decrease in gross profit is mainly due to the reduction in sales order received and the production facilities were not fully utilised during the first half of 2018.

Other Revenue and Net Income

Other revenue and net income decreased from US\$0.8 million in the first half of 2017 to US\$0.5 million in the first half of 2018, the decrease was mainly due to a US\$0.3 million PRC government subsidy and design fee were included in the first half of 2017, while no such income was recorded for the same period in 2018.

Operating Expenses and Loss Attributable to Equity Shareholders of the Company

Selling & Distribution Expenses

Selling & distribution expenses decreased by 37.9% from US\$4.1 million in the first half year of 2017 to US\$2.5 million in the first half year of 2018.

General & Administrative Expenses

General & administration expenses decreased by 8.4% from US\$10.5 million in the first half of 2017 to US\$9.6 million in the first half of 2018. The decrease was because management focused on cost reduction.

Other Operating Expenses

Other operating expenses decreased from US\$4.1 million for the first half of 2017 to US\$0.5 million for the first half of 2018. It was mainly due to tight cost control for the six months ended 30 June 2018.

Finance Costs

Finance costs remained stable at US\$1.4 million in the first half year of 2018.

Group's Liquidity and Capital Resources

As at 30 June 2018, the Group carried fixed assets of approximately US\$55.0 million (31 December 2017 – US\$56.9 million) comprising property, plant and equipment, investment properties and interest in leasehold land held for own use under operating leases. The Group had intangible assets of approximately US\$0.7 million (31 December 2017 – US\$1.6 million).

As at 30 June 2018, the Group's interest in associates was approximately US\$0.3 million (31 December 2017 – US\$0.3 million). The Group had deferred tax assets of approximately US\$13.1 million (31 December 2017 – US\$13.1 million). The Group had other financial assets of approximately US\$1.4 million (31 December 2017 – US\$1.5 million).

As at 30 June 2018, the Group had current assets of approximately US\$291.0 million (31 December 2017 – US\$241.3 million). Current assets mainly comprised cash at bank and in hand of approximately US\$34.5 million (31 December 2017 – US\$15.3 million), pledged bank deposits of approximately US\$1.7 million (31 December 2017 – US\$0.6 million), inventories of approximately US\$172.0 million (31 December 2017 – US\$29.8 million), trade and other receivables of approximately US\$80.6 million (31 December 2017 – US\$56.0 million), gross amount due from customers for contract work of US\$Nil (31 December 2017 – US\$133.1 million), tax recoverable of approximately US\$2.1 million (31 December 2017 – US\$0.4 million) and amount due from a related company of approximately US\$0.1 million (31 December 2017 – US\$0.1 million).

As at 30 June 2018, current liabilities amounted to approximately US\$293.8 million (31 December 2017 – US\$286.6 million), mainly comprising trade and other payables of approximately US\$237.0 million (31 December 2017 – US\$234.2 million), bank loans and other borrowings of approximately US\$10.0 million (31 December 2017 – US\$47.6 million), tax payable of approximately US\$1.5 million (31 December 2017 – US\$4.8 million), contract liabilities of approximately US\$45.3 million (31 December 2017: Nil). The decrease in bank loans and other borrowings was mainly due to repayment of the issued bond in Mid 2018.

As at 30 June 2018, the Group had non-current liabilities of approximately US\$12.3 million (31 December 2017 – US\$14.3 million), comprising bank loans and other borrowings of approximately US\$12.0 million (31 December 2017 – US\$14.3 million) and deferred tax liabilities of approximately US\$0.4 million (31 December 2017 – US\$Nil). Gearing ratio was 84.7%, as compared to 95.7% as at 31 December 2017.

Significant Investments and Disposals

On 21 July 2017, two equity transfer agreements in relation to the disposals of the equity interests in an indirect wholly-owned subsidiary of the Company were entered into between the Group and the relevant purchasers: Agreement A: pursuant to which Thousand Code Limited (“TCL”) agreed to sell 21.05% of the equity interests in Qingdao TSC to Beijing He Ju Tian Yang Investment Management Centre (北京合聚天揚投資管理中心(有限合伙)) (“Purchaser A”) at the cash consideration of RMB25,684,000; and Agreement B: pursuant to which TCL agreed to sell 28% of the equity interests in Qingdao TSC to Zheng Yuan Heng Tong (Tianjin) Petroleum Technology Limited (正源恒通(天津)石油科技合夥企業(有限合伙)) (“Purchaser B”) at the cash consideration of RMB34,159,720.00. The completion of the Agreements has not yet taken place.

Save as disclosed above, there were no other significant investments or disposals during the reporting period.

Capital Structure

At the beginning of the year at 1 January 2018, there were 707,120,204 shares in issue (the “Shares”) and the Company carried a share capital of approximately US\$9,094,000.

During the first six months in year 2018, the Company issued 765,186,000 shares to Prime Force Investment Corporation under the subscription of Subscription Shares by China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) and 850,000 shares to option holders who exercised their options under the Company employee share option schemes. At 30 June 2018, the Company had 1,473,156,204 Shares in issue, and a paid up capital of approximately US\$183,371,000.

Charges on Assets

To secure the loans from banks, the Group has charged certain assets to banks. Details are set out as follows:

- (i) Interest in leasehold land held for own use under operating leases, buildings, inventories, trade receivables and plant and machinery with aggregate net book value of US\$60.9 million (2017: US\$57.7 million).
- (ii) Corporate guarantees given by Qingdao TSC Offshore Equipment Co. Ltd, TSC-HHCT (Xian) Control Technologies Limited, Zhengzhou TSC Offshore Equipment Co. Ltd. and TSC Oil and Gas Services Holdings Ltd. to the extent of banking facilities outstanding of US\$10.8 million (2017: US\$10.8 million) as at 30 June 2018.
- (iii) Corporate guarantee given by the Company to the extent of banking facilities outstanding of US\$4.2 million (2017: US\$4.2 million) as at 30 June 2018.
- (iv) Guarantees given by the directors of the Company (the “Director”) to the extent of banking facilities outstanding of US\$0.3 million (2017: US\$0.3 million) as at 31 December 2017. No guarantee fee was received by the director as at 30 June 2018.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain aspects of the subsidiaries’ statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants were breached.

The Group closely monitors its compliance with these covenants. As at 30 June 2018, none of the covenants relating to the Group’s bank loans has been breached.

Foreign Currency Exchange Exposures

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has foreign exchange exposure as most of the Group's subsidiaries in the PRC carried out production locally with Renminbi while approximately 50% of the Group's turnover was denominated in United States dollars. As at 30 June 2018, no related hedges were made by the Group.

In order to mitigate that foreign exchange exposure, we may utilise foreign currency forward contracts to better match the currency of our revenues and associated costs in the future. However, we do not use foreign currency forward contracts for trading or speculative purposes. The Group will actively explore ways to hedge or reduce currency exchange risk in future.

Contingent Liabilities

As at 30 June 2018, the Company has outstanding guarantees issued to banks in respect of banking facilities granted to a subsidiary. The Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued is the facilities drawn down by a subsidiary of US\$Nil (2017: US\$Nil).

Employees and Remuneration Policy

As at 30 June 2018, the Group had approximately 516 full-time staff in Hong Kong, the PRC, the USA, the UK, Brazil, Singapore, Mexico and Venezuela. The Group's remuneration policy is basically determined in accordance with the performance of individual employee and the market condition. The Group also provides other benefits to its employees, including medical schemes, pension contributions, share option schemes, Share Award Plan and Share Award Incentive Scheme.

Future Plans for Material Investments, Capital Assets and Capital Commitment

On top of developing its existing business of oil and gas drilling facilities, we are also actively seeking opportunities to develop new business. Currently, for assets such as drilling and production platforms, vessels of ocean engineering and oil and gas business, their values are at a low level. The Company is actively seeking opportunities of assets investment and services business.

Strategy, Prospects and Order Book

During the first half of 2018, the Company completed the issuance of additional shares and introduction of new shareholders. The issuance of additional shares enriched the Company's capital. Besides, through the settlement of due claims, the debts of the Company was decreased, capital structure was optimized and the risks of liquid was reduced.

In response to lower revenues, the Company implemented several measures to cut down costs, such as reducing manpower, pay reductions at all levels, closing down loss-making businesses and companies, downsizing institutions and internal restructuring. In addition, the Company would also increase cash flow and rebuild its balance sheet by disposing of idle assets.

After China Merchants Great Wall Ocean Fund became the substantial shareholder of the Company, the synergy between both parties gradually surfaced. The capital advantage, professional team, business network of the fund, together with our industry experience, insight and brand will help the Company expand and grasp investment opportunities in oil and gas industry chain.

Share Award Plan

The Company adopted a share award plan ("Share Award Plan") on 16 January 2015 (the "Adoption Date of Share Award Plan"). The Share Award Plan does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules and is awarded at the discretion of the Company. The purpose of the Share Award Plan is to recognise the contributions of officers and employees of the Group (the "Eligible Persons"), excluding any Directors and any other connected persons of the Group, towards the development of the Group in the past or as incentives to selected grantees to achieve higher than target profits for the Group and to align the interests of the selected grantees with sustainable growth and development of the Group.

The total number of Shares purchased under the Share Award Plan shall not exceed 3% of the issued Shares at the Adoption Date of the Share Award Plan. A trust has been set up and Treasure Maker Investments Limited has been appointed as the trustee (the "Trustee"). Pursuant to the Share Award Plan, the Trustee may purchase Shares from the public market out of cash contributed by the Company from time to time. Shares purchased under the Share Award Plan will be held in trust for the Eligible Persons until such Shares are vested in accordance with the provisions of the rules relating to the Share Award Plan. The Share Award Plan will be effective for a period until 15 January 2025 unless terminated at the discretion of the Board at an earlier date.

No grant was made during the six months ended 30 June 2018. As at 30 June 2018, the Trustee held 5,095,000 Shares (representing 0.35% of the issued share capital of the Company) on trust under the Share Award Plan.

Share Award Incentive Scheme

The Company adopted a share award incentive scheme (“Share Award Incentive Scheme”) on 27 May 2016 (the “Adoption Date of Share Award Incentive Scheme”). The purposes of the Share Award Incentive Scheme are (i) to align the interests of Eligible Persons with those of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares; and (ii) to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group. The Share Award Incentive Scheme is a separate scheme from the Share Award Plan, which is specifically for granting share awards sourced from existing Shares purchased from the stock market. The Share Award Incentive Scheme will give the Company flexibility in granting awards of new Shares. The Share Award Incentive Scheme will be effective until 26 May 2026 unless terminated at the discretion of the Board at an earlier date.

The Company has approved the adoption of the Share Award Incentive Scheme on 27 May 2016 by the shareholders by poll at the AGM, pursuant to which new Shares of not more than 3% of the total number of issued Shares as at the Adoption Date of Share Award Incentive Scheme (i.e. 21,213,606 new Shares) will be allotted and issued to the Trustee and will be held on trust by the Trustee for the selected participants before vesting. For details, please refer to the Company’s announcement dated 7 April 2016 and the Company’s circular dated 8 April 2016.

No grant was made during the six months ended 30 June 2018. As at 30 June 2018, the total number of shares that may be granted under the Share Award Incentive Scheme is 21,213,606 Shares, representing 1.44% of the issued share capital of the Company.

CHANGE IN INFORMATION OF DIRECTOR

The change in the information of directors since the publication of the 2017 annual report is set out below pursuant to Rule 13.51(B)(1) of the Listing Rules:

Directors’ position

Mr. Jiang Bing Hua has been re-designated as the Co-Chairman, following completion of the Subscription of Agreement, while remaining as an Executive Director with effect from 9 February 2018.

APPOINTMENT OF EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Wang Hongyuan has been appointed as an Executive Director, Executive Chairman and Chief Executive Officer with effect from 9 February 2018.

APPOINTMENT AND RESIGNATION OF EXECUTIVE DIRECTORS

- Mr. Yang Guohui has been appointed as an Executive Director and Chief Operating Officer (“COO”) with effect from 9 February 2018, and he has resigned as an Executive Director with effect from 1 April 2018 due to work reallocation. Mr. Yang remains as the COO of the Group.
- Mr. Wang Yong had been resigned as an Executive Director and Chief Executive Officer with effect from 9 February 2018, following completion of the Subscription Agreement, and he has been re-appointed as President of the Group.

APPOINTMENT AND RESIGNATION OF NON-EXECUTIVE DIRECTORS

- Ms. Li Rong has been appointed as a Non-Executive Director with effect from 9 February 2018.
- Mr. Lou Dongyang has been appointed as a Non-Executive Director with effect from 1 April 2018.
- Mr. Jiang Longsheng resigned as a Non-Executive Director with effect from 9 February 2018, following completion of the Subscription Agreement.
- Mr. Brian Chang resigned as a Non-Executive Director with effect from 9 February 2018, following completion of the Subscription Agreement.

APPOINTMENT AND RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

- Mr. Guan Zhichuan resigned as Independent Non-Executive Director on 18 May 2018 because he, being a professor at the College of Petroleum Engineering of the China University of Petroleum, wanted to devote more time to his teaching.
- Dr. Lu Xiaoming resigned as Independent Non-Executive Director on 18 May 2018 in pursuit of his personal career development and to focus more on his family matters.

- Mr. Zou Zhendong has been appointed as an Independent Non-Executive Director with effect from 18 May 2018.
- Mr. Chen Weidong has been appointed as an Independent Non-Executive Director with effect from 5 June 2018.

CHANGE OF BOARD COMMITTEES MEMBERS

- On 9 February 2018, Mr. Guan Zhichuan ceased to be the chairman but remains as a member of the Remuneration Committee; Mr. Zhang Menggui, Morgan ceased to be a member of the Remuneration Committee and the chairman of the Compliance Committee; Mr. Jiang Bing Hua ceased to be the chairman of the Nomination Committee; Dr. Lu Xiaoming has been appointed as the chairman of the Remuneration Committee; Mr. Wang Hongyuan has been appointed as a member of the Remuneration Committee and the chairman of the Nomination Committee; and Mr. Yang Guohui has been appointed as the chairman of the Compliance Committee.
- On 1 April 2018, Mr. Yang Guohui ceased to be the chairman of the Compliance Committee of the Company; and Mr. Lou Dongyang has been appointed as the chairman of the Compliance Committee.
- On 18 May 2018, Dr. Lu Xiaoming ceased to be the chairman of the Remuneration Committee of the Company, member of the Audit Committee of the Company and member of the Nomination Committee of the Company; Mr. Guan Zhichuan ceased to be the member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Compliance Committee of the Company; Mr. Zou Zhendong has been appointed as the chairman of the Remuneration Committee, member of the Audit Committee and member of the Nomination Committee of the Company.
- On 5 June 2018, Mr. Chen Weidong has been appointed as a member of each of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Compliance Committee of the Company respectively.

The Company would like to take this opportunity to thank Mr. Jiang Longsheng, Mr. Brian Chang, Mr. Guan Zhichuan and Dr. Lu Xiaoming for their valuable contribution during their tenure as Directors of the Company.

Subsequent Events

On 1 July 2018, Mr. Lim Joo Heng, Paul (“Mr. Lim”) has resigned as acting chief financial officer (“CFO”) and he will continue to hold all other positions of the Company, and Mr. Xie Shaohua (“Mr. Xie”) will become CFO of the Company. Mr. Xie will take over the management of financial matters of the Company.

Mr. Xie, aged 47, will be appointed as CFO of the Company with effect from 1 July 2018. Mr. Xie graduated from Central University of Finance and Economics in 1993 and received master degrees at the University of International Business and Economics and The Chinese University of Hong Kong in 2003 and 2005 respectively. Mr. Xie is a Chinese senior accountant. In 2016, he was awarded by the Ministry of Finance as a national leader in accounting (enterprise). From November 1998 to October 2002, he worked in the finance department of SINOTRANS & CSC Group Company (H shares, stock code: 00598). From November 2002 to May 2007, he served as the deputy general manager of the finance department of Sinotrans Limited. From September 2007 to June 2018, he was appointed as Deputy General Manager and Chief Financial Controller of Sinotrans Shipping Co., Ltd. (red chip, stock code: 00368). Mr. Xie has over 15 years of experience in financial management of H-shares and red chip companies. He is familiar with domestic, international and Hong Kong accounting standards, and is familiar with domestic and Hong Kong taxation policies. He has strong professional knowledge and organizational management capabilities, and more than 17 years of experience in the shipping industry.

The Board would like to express its gratitude to Mr. Lim for his valuable contributions to the Company during his term of office.

Save as disclosed in this announcement, no subsequent events occurred after 30 June 2018 which may have significant effects on the assets and liabilities of future operations of the Group.

CHANGE OF CONTROLLING SHAREHOLDER

On 14 December 2017, the Company entered into a subscription agreement (“Subscription Agreement”) with China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (the “Subscriber”). Pursuant to the Subscription Agreement, the Company had conditionally agreed to allot and issue to the Subscriber or Prime Force Investment Corporation (the “Subscriber Nominee”), and the Subscriber had conditionally agreed to subscribe for, or nominate the Subscriber Nominee to subscribe for, at Completion, 765,186,000 Subscription Shares at the Subscription Price of HK\$512,674,620, being HK\$0.67 per Subscription Share. An application was made by the Subscriber to the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (the “Executive”) for the Whitewash Waiver in respect of the allotment and issuance of the Subscription Shares. On 5 February 2018, the Company held the extraordinary general meeting (“EGM”) at which all Resolutions set out in the notice of the EGM dated 19 January 2018 were duly passed by the Independent Shareholders by way of poll. The Executive granted the Whitewash Waiver on 1 February 2018, subject to the fulfillment of the conditions set out therein. Accordingly, no mandatory general offer under Rule 26 of the Takeovers Code was required to be made by the Subscriber Nominee as a result of the subscription of the Subscription Shares pursuant to the Subscription Agreement. All conditions precedent in respect of the Subscription have been fulfilled and completion of the Subscription took place on 9 February 2018. Further details regarding the Subscription Agreement were as set out in the announcement dated 14 December 2017 and the circular dated 19 January 2018.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and Chief Executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules, were as follows:

Long positions in ordinary Shares and underlying Shares of the Company:

Name of Directors	Number of issued ordinary Shares of HK\$0.10 each in the Company				Total	Approximate percentage of the Company's issued share capital (Note 4)
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Zhang Menggui (Note 1)	4,656,000	–	120,046,200	–	124,702,200	8.46%
Mr. Jiang Bing Hua (Note 1)	4,656,000	–	120,046,200	–	124,702,200	8.46%
Mr. Chan Ngai Sang, Kenny	500,000	–	–	–	500,000	0.03%

Notes:

- Global Energy Investors, LLC. is the beneficial owner of 120,046,200 Shares. The entire share capital of Global Energy Investors, LLC. is beneficially owned as to 50% each by Mr. Zhang Menggui and Mr. Jiang Bing Hua, both are the executive Directors of the Company. Accordingly, both Mr. Zhang Menggui and Mr. Jiang Bing Hua are deemed to be interested in the 120,046,200 Shares beneficially owned by Global Energy Investors, LLC. under Part XV of the SFO.
- The percentage is calculated on the basis of 1,473,156,204 Shares in issue as at the date of this announcement.

Save as disclosed above, as at 30 June 2018, none of the Directors or Chief Executives of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the following persons had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(i) Long positions in ordinary Shares and underlying Shares of the Company:

Name	Capacity and nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of the Company's issued share capital (Note 7)
China Great Wall AMC (International) Holdings Company Limited (Note 1)	Corporate	765,186,000 Shares	51.94%
China Great Wall Asset Management Co., Ltd. 中國長城資產管理股份有限公司 (Note 1)	Corporate	765,186,000 Shares	51.94%
China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (Notes 1,2,3 & 4)	Corporate	765,186,000 Shares	51.94%
China Merchants Great-Wall GP Limited (Note 2)	Corporate	765,186,000 Shares	51.94%
Great Wall International Investment V Limited (Note 3)	Corporate	765,186,000 Shares	51.94%
Prime Force Investment Corporation (Note 4)	Corporate	765,186,000 Shares	51.94%
China Merchants Group Limited 招商局集團有限公司 (Note 4)	Corporate	765,186,000 Shares	51.94%

Name	Capacity and nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of the Company's issued share capital (Note 7)
Madam Chen Fengying (Note 5)	Interest of the spouse	124,702,200 Shares	8.46%
Madam Zhang Jiuli (Note 6)	Interest of the spouse	124,702,200 Shares	8.46%
Global Energy Investors, LLC. (Note 7)	Corporate	120,046,200 Shares	8.15%
China International Marine Containers (Group) Company Limited (Note 8)	Corporate	92,800,000 Shares	6.30%
China International Marine Containers(Hong Kong) Limited (Note 8)	Corporate	92,800,000 Shares	6.30%

Notes:

1. China Great Wall AMC (International) Holdings Company Limited ("GWAMC International") holds 25% of the equity interest in China Merchants Great-Wall GP Limited ("Fund GP") and is a wholly owned subsidiary of China Great Wall Asset Management Co., Ltd. ("GW Asset Management"). Therefore, both GWAMC International and GW Asset Management are both deemed to be interested in the 765,186,000 Shares that China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) ("Fund LP") are interested in under Part XV of the SFO.
2. Fund GP is the general partner of Fund LP and is therefore deemed to be interested in the 765,186,000 Shares that Fund LP are interested in under Part XV of the SFO.
3. Great Wall International Investment V Limited holds approximately 39.986% of the limited partnership interests in Fund LP and is therefore deemed to be interested in the 765,186,000 Shares that Fund LP are interested in under Part XV of the SFO.

4. China Merchants Capital Management (International) Limited holds 45% of the equity interest in Fund GP and is a wholly owned subsidiary of China Merchants Capital Management Co. Ltd., which in turn is wholly owned by China Merchants Capital Investment Co., Ltd. China Merchants Capital Holdings (International) Limited holds approximately 9.996% of the limited partnership interests in Fund LP and is a wholly owned subsidiary of China Merchants Capital Holdings Co. Ltd., which in turn is wholly owned by China Merchants Capital Investment Co., Ltd.

China Merchants Industry Holdings Co., Ltd. (“CM Industry”) holds 30% of the equity interest in Fund GP and approximately 29.989% of the limited partnership interests in Fund LP and is a wholly owned subsidiary of China Merchants Holdings (Hong Kong) Company Ltd. (“CM HK”).

Both China Merchants Capital Investment Co., Ltd. and CM HK are wholly owned subsidiaries of China Merchants Steam Navigation Company Limited, which is the wholly owned subsidiary of China Merchants Group Limited* (招商局集團有限公司) (“CM Group”).

Therefore, each of China Merchants Capital Management (International) Limited, China Merchants Capital Management Co. Ltd., China Merchants Capital Investment Co., Ltd., China Merchants Capital Holdings (International) Limited, China Merchants Capital Holdings Co. Ltd., CM Industry, CM HK, China Merchants Steam Navigation Company Limited, CM Group are deemed to be interested in the 765,186,000 Shares that Fund LP are interested in under Part XV of the SFO.

Prime Force Investment Corporation (“Prime Force”) is a company incorporated in the British Virgin Islands and is wholly-owned by Fund LP and Fund LP is therefore deemed to be interested in the 765,186,000 Shares that Prime Force is interested in under Part XV of the SFO.

5. These interests represent the same block of Shares and share options held by Mr. Zhang Menggui as shown in the above section headed “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES”. Since Madam Chen Fengying is the spouse of Mr. Zhang Menggui, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.
6. These interests represent the same block of Shares and share options held by Mr. Jiang Bing Hua as shown in the above section headed “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES”. Since Madam Zhang Jiuli is the spouse of Mr. Jiang Bing Hua, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.
7. This interest represents the same block of corporate interest held by Mr. Zhang Menggui and Mr. Jiang Bing Hua as shown in the above section headed “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES”.
8. China International Marine Containers (Hong Kong) Limited (“CIMC HK”) is the beneficial owner of 92,800,000 Shares. CIMC HK is a wholly-owned subsidiary of China International Marine Containers (Group) Company Limited (“CIMC Group”). Therefore, CIMC Group is deemed to be interested in the 92,800,000 Shares of the Company held by CIMC HK under Part XV of the SFO.
9. The percentage is calculated on the basis of 1,473,156,204 Shares in issue as at the date of this announcement.

(ii) Long positions in Shares of a subsidiary of the Company:

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding
Jurun Limited	Xingbo Limited	21%
TSC Manufacturing and Supply De Colombia S.A.S	Independence Drilling S.A.	40%
ATS Energy LLC	Axion Services Inc.	33%
	Petromax Industry Inc.	16%
Texas Unconventional Resources LLC	Mr. YANG Anping	20%
OIM Pte. Ltd.	Offshore CC FZE	5%

Save as disclosed above, as at 30 June 2018, no persons (other than the Directors and Chief Executives of the Company whose interests are set out under the paragraph headed “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES” above and the section headed “SHARE OPTION SCHEMES” below), had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

SHARE OPTION SCHEMES

The purpose of the Pre-IPO Share Option Scheme (the “Pre-IPO Scheme”), Post-IPO Share Option Scheme (the “Post-IPO Scheme”) and the New Share Option Scheme (the “New Scheme”) are to create incentive to the employees, Directors and other eligible participants.

Pre-IPO Scheme and Post-IPO Scheme

Pursuant to written resolutions of all shareholders of the Company on 19 and 20 October 2005, the Company adopted a Pre-IPO Scheme and a Post-IPO Scheme respectively.

The Pre-IPO Scheme ceased to be effective on 21 November 2005, and there are no more share options available as at 31 December 2015.

Pursuant to the Post-IPO Scheme, the Directors granted (i) 7,280,000 share options at HK\$2.43 each to 14 employees of the Group on 10 May 2007, (ii) 9,700,000 share options at HK\$5.60 each to 51 employees and 2 consultants of the Group on 12 November 2007, (iii) 2,000,000 share options at HK\$5.23 each to 3 employees of the Group on 15 January 2008, (iv) 5,000,000 share options at HK\$2.32 each to 6 employees of the Group on 12 August 2008, and (v) 16,050,000 share options at HK\$0.54 each to 8 Directors and 38 employees of the Group on 29 December 2008.

Based on a valuation report done by an independent valuer, Jones Lang LaSalle Sallmanns, the value of the options granted on 10 May 2007, 12 November 2007, 15 January 2008, 12 August 2008 and 29 December 2008 under the Post-IPO Scheme were HK\$7,252,000, HK\$21,812,000, HK\$4,166,000, HK\$4,736,000 and HK\$3,499,200 respectively.

The closing prices of the Company's Shares on the preceding option granted on 9 May 2007, 9 November 2007, 14 January 2008, 11 August 2008 and 24 December 2008 under the Post-IPO Scheme were HK\$2.50, HK\$5.58, HK\$5.18, HK\$2.22 and HK\$0.50 respectively.

On 4 November 2008, the refreshed scheme mandate limit of 54,890,800 Shares in respect of the granting of share options under the Post-IPO Scheme (the "Refreshment") was approved at the extraordinary general meeting duly convened and held. On 13 November 2008, the Stock Exchange has granted the listing of, and permission to deal in, the Shares which may fall to be issued and allotted upon the exercise of any options that may be granted under the Refreshment.

The Post-IPO Scheme including the Refreshment, was conditionally terminated by the Board on 6 May 2009. Upon the transfer of the listing of shares of the Company from the GEM to the Main Board on 5 June 2009, the termination of the Post-IPO Scheme became effective. Thereafter, no further option had been offered or granted under the Post-IPO Scheme. All share options previously granted but unexercised under the Post-IPO Scheme were lapsed on 15 March 2018 due to change of the control of the Company (as defined in the Codes on Takeovers and Mergers and Share Repurchase).

New Scheme

On 5 August 2009 (the “Adoption Date”), the adoption of the new Share Option Scheme for granting up to 56,254,040 share options (the “New Scheme”) which complies with the Listing Rules was approved at the extraordinary general meeting duly convened and held. On 10 August 2009, the Stock Exchange has granted the listing of, and permission to deal in, the Shares which may fall to be issued and allotted upon the exercise of any options that may be granted under the New Scheme. This became effective from the Adoption Date and will expire on 5 August 2019. Pursuant to the New Scheme, the Directors granted (i) 20,295,000 share options at HK\$2.06 each to 82 employees of the Group on 18 September 2009, (ii) 9,070,000 share options at HK\$1.27 each to 29 employees of the Group on 1 September 2010, (iii) 2,400,000 share options at HK\$1.97 each to 2 employees of the Group on 21 February 2011, (iv) 10,780,000 share options at HK\$1.02 each to 18 employees of the Group on 4 September 2012, (v) 6,025,000 share options at HK\$2.9 each to 23 employees of the Group on 30 August 2013, (vi) 2,400,000 share options at HK\$4.16 each to 6 employees of the Group on 2 September 2014, and (vii) 1,500,000 share options at HK\$2.11 each to 9 employees of the Group on 24 December 2014. Based on valuation reports done by independent valuers, Jones Lang LaSalle Sallmanns and Ascent Partners, the value of the options granted on 18 September 2009, 1 September 2010, 21 February 2011, 4 September 2012, 30 August 2013, 2 September 2014 and 24 December 2014 under the New Scheme were HK\$18,701,000, HK\$4,602,100, HK\$1,973,100, HK\$6,934,500, HK\$11,305,500, HK\$5,232,000 and HK\$1,652,000 respectively. The closing price of the Company’s Shares on the preceding option granted on 17 September 2009, 31 August 2010, 18 February 2011, 3 September 2012, 29 August 2013, 1 September 2014, and 23 December 2014 under the New Scheme were HK\$1.85, HK\$1.23, HK\$1.92, HK\$1.01, HK\$2.78, HK\$3.99, and HK\$2.03 respectively. All share options previously granted but unexercised under the New Scheme were lapsed on 15 March 2018 due to change of the control of the Company (as defined in the Codes on Takeovers and Mergers and Share Repurchase).

The total number of share options that may be further granted under all the share option schemes as at the date of this announcement is 3,784,040 Shares, representing 0.26% of the issued share capital of the Company.

As at the date of this announcement, there was no share option granted and outstanding under all the share option schemes of the Company.

Details of movement of options under the Post-IPO Scheme including the Refreshment, for the six months ended 30 June 2018 were as follows:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK\$	Number of share options					Balance as at 30.06.2018
				Balance as at 01.01.2018	Granted during the period (Note 4)	Exercised during the period (Note 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	
(i) Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	-	-	-	-	-	-
Sub-total				-	-	-	-	-	-
(ii) Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	-	-	-	-	-	-
Sub-total				-	-	-	-	-	-
(iii) Employees	15.01.2008	15.07.2008 to 14.01.2018	5.23	1,000,000	-	-	-	(1,000,000)	-
Sub-total				1,000,000	-	-	-	(1,000,000)	-
(iv) Employees	12.08.2008	12.02.2009 to 11.08.2018	2.32	1,700,000	-	-	-	(1,700,000)	-
Sub-total				1,700,000	-	-	-	(1,700,000)	-
(v) Directors:									
Mr. Zhang Menggui, Morgan	29.12.2008	29.06.2009 to 28.12.2018	0.54	-	-	-	-	-	-
Mr. Jiang Bing Hua	29.12.2008	29.06.2009 to 28.12.2018	0.54	-	-	-	-	-	-
Mr. Jiang Longsheng	29.12.2008	29.06.2009 to 28.12.2018	0.54	400,000	-	-	-	(400,000)	-
Mr. Chan Ngai Sang, Kenny	29.12.2008	29.06.2009 to 28.12.2018	0.54	-	-	-	-	-	-
Mr. Bian Junjiang	29.12.2008	29.06.2009 to 28.12.2018	0.54	350,000	-	-	-	(350,000)	-
Mr. Guan Zhichuan	29.12.2008	29.06.2009 to 28.12.2018	0.54	-	-	-	-	-	-
				750,000	-	-	-	(750,000)	-
Employees and other	29.12.2008	29.06.2009 to 28.12.2018	0.54	980,000	-	-	-	(980,000)	-
Sub-total				1,730,000	-	-	-	(1,730,000)	-
Total				4,430,000	-	-	-	(4,430,000)	-

Notes:

1. All dates are shown day, month, year.
2. The vesting period of the options is 5 years and starts from the date of grant and becomes vested at stepped semi-annual increments of 10% of the total options granted for a period of 5 years from the date of grant.
3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semiannual increments of 10% of the total options granted, for a period not later than 10 years from the date of grant.
4. The period refers to the six months ended 30 June 2018.

Details of movement of options under the New Scheme for the six months ended 30 June 2018 were as follows:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK\$	Number of share options					Balance as at 30.06.2018
				Balance as at 01.01.2018	Granted during the period (Note 4)	Exercised during the period (Note 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	
(i) Employees	18.09.2009	18.03.2010 to 17.09.2019	2.06	7,288,000	-	-	-	(7,288,000)	-
(ii) Employees	01.09.2010	01.03.2011 to 31.08.2020	1.27	2,320,000	-	-	-	(2,320,000)	-
(iii) Employees	21.02.2011	21.08.2011 to 20.02.2021	1.97	-	-	-	-	-	-
(iv) Employees	04.09.2012	04.03.2013 to 03.09.2022	1.02	7,065,000	-	-	-	(7,065,000)	-
(v) Employees	30.08.2013	28.02.2014 to 29.08.2023	2.9	4,105,000	-	-	-	(4,105,000)	-
(vi) Employees	02.09.2014	02.03.2015 to 01.09.2024	4.16	2,250,000	-	-	-	(2,250,000)	-
(vii) Employees	24.12.2014	24.06.2015 to 23.12.2024	2.11	600,000	-	-	-	(600,000)	-
Total				23,628,000	-	-	-	(23,628,000)	-

Notes:

1. All dates are shown day, month, year.
2. The vesting period of the options is 5 years and starts from the date of grant and becomes vested at stepped semi-annual increments of 10% of the total options granted for a period of 5 years from the date of grant.
3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semiannual increments of 10% of the total options granted, for a period not later than 10 years from the date of grant.
4. The period refers to the six months ended 30 June 2018.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right for the six months ended 30 June 2018.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules) has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, or has any other conflict of interests with the Group during the six months period ended 30 June 2018.

AUDIT COMMITTEE

The Company established an audit committee on 20 October 2005 with terms of reference in compliance with Rules 3.21 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group.

The audit committee comprises three members, namely Mr. Chan Ngai Sang, Kenny (being the chairman of the audit committee), Mr. Zou Zhendong and Mr. Chen Weidong. All of them are independent non-executive Directors. The audit committee of the Company has reviewed the unaudited financial results of the Group for the six months ended 30 June 2018 and are of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. There is no disagreement by the audit committee with the accounting treatment adopted by the Group.

REMUNERATION COMMITTEE

The remuneration committee was established on 20 October 2005 with written terms of reference in compliance with the code provision on the Code on Corporate Governance Practices (the “Code”). It comprises three independent non-executive Directors, namely Mr. Zou Zhendong (being the Chairman), Mr. Chan Ngai Sang, Kenny and Mr. Chen Weidong; and two executive Directors, namely, Mr. Wang Hongyuan and Mr. Jiang Bing Hua.

NOMINATION COMMITTEE

The nomination committee was established on 5 June 2009 with written terms of reference in compliance with the Code. A majority of its current members are independent non-executive Directors. Currently, the members of the committee are Mr. Wang Hongyuan (being the chairman), Mr. Zhang Menggui, Morgan, Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong.

RISK MANAGEMENT AND INTERNAL CONTROL

Based on the respective assessments made by the management and the Corporate Governance team responsible for internal audit activities, the audit committee considered that for the first six months of 2018:

- The risk management and internal controls and accounting systems of the Group remain in place and functioning effectively, and were designed to provide reasonable but not absolute assurance that material assets are protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with the management's authorization and the interim financial information were reliable for publication.
- An ongoing process is in place for identifying, evaluating and managing the significant risks faced by the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had a direct and indirect material interest, subsisted during or at the end of the six months ended 30 June 2018.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by Directors. All Directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices to ensure transparency so that the interests of our shareholders and the cooperative development among customers, employees and the Group can be safeguarded. The Company has adopted the Code on Corporate Governance Practices of the Stock Exchange.

During the period, the Company has complied with the code provisions (“CG Codes”) of the Code on Corporate Governance Practices during the six months period from 1 January 2018 to 30 June 2018 as set out in Appendix 14 to Listing Rules at that time except for the following deviations explained as below:

Code A.2.1

The roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Wang Hongyuan concurrently takes up the posts of executive chairman and chief executive officer of the Company. This deviates from provision A.2.1 of the Code which stipulated that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Wang has extensive experience in strategic planning, mergers and acquisitions, capital operations and investments in sectors such as offshore marine and shipping, port and bonded logistics. Mr. Wang has high standing within the Group together with his extensive experience in the offshore industry. Mr. Wang is well versed with the business models and development of the Group and the development of the gas and oil industry. The Board, after due and careful consideration, is of the view that Mr. Wang is to date the single most suitable person to be the executive chairman and chief executive officer of the Group. Besides, there are some other management teams with responsibilities for the daily operations and business activities of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business at the present.

Code A.6.7

Two executive Director, two independent non-executive Directors and three non-executive Directors were absent from the extraordinary general meeting of the Company held on 5 February 2018; and two independent non-executive Directors and three non-executive Directors were absent from the last annual general meeting of the Company held on 18 May 2018 as they were away from Hong Kong due to other important engagements at the time of these meetings. The Board considered that sufficient measures had been taken for the absent Directors to understand the views of shareholders.

Rule 3.10(1), Rule 3.21, Rule 3.25 and Code A.5.1

During the resignation of Mr. Guan Zhichuan and Dr. Lu Xiaoming and the appointment of Mr. Zou Zhendong from 18 May 2018 to 5 June 2018, the Company failed to meet (i) the requirement of the minimum number of three independent non-executive directors under Rule 3.10(1) of the Listing Rules; (ii) the requirement of the minimum number of three members and the composition requirement of the audit committee under Rule 3.21 of the Listing Rules; (iii) the composition requirement of the remuneration committee under Rule 3.25 of the Listing Rules; and (iv) the composition requirement of the nomination committee under Code Provision A.5.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. With effect from 5 June 2018, Mr. Chen Weidong has been appointed as an independent non-executive Director and a member of each of the audit committee, the nomination committee, the remuneration committee and the compliance committee of the Company respectively pursuant to Rules 3.11, 3.23 and 3.27 of the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities. As at 30 June 2018, the trustee held a total of 5,095,000 TSC shares under the Share Award Plan.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

An interim report for the six months ended 30 June 2018 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://www.t-s-c.com>) in due course.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express sincere thanks to all the shareholders for their continuous support and to all staff for their dedication and contribution to the Group during the reporting period.

By Order of the Board
TSC Group Holdings Limited
Wang Hongyuan
*Executive Chairman and Chief
Executive Officer*

Hong Kong, 27 August 2018

As of the date of this announcement, the Board comprises 3 executive Directors, namely Mr. Wang Hongyuan, Mr. Jiang Bing Hua and Mr. Zhang Menggui, Morgan; 3 non-executive Directors, namely Mr. Lou Dongyang, Mr. Wang Jianzhong and Ms. Li Rong; and 3 independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong.