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PETRO-KING OILFIELD SERVICES LIMITED

百勤油田服務有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 2178)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

The board (the “**Board**”) of directors (the “**Directors**”) of Petro-king Oilfield Services Limited (the “**Company**”) hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”, “**we**” or “**our**”) for the six months ended 30 June 2019 (“**1H2019**”), together with comparative figures for the six months ended 30 June 2018 (“**1H2018**”).

BUSINESS REVIEW

For 1H2019, the Group recorded a revenue of approximately HK\$205.5 million (1H2018: HK\$105.2 million), representing an increase of approximately 95.4% as compared with the revenue for the six months ended 30 June 2018 (“**1H2018**”). The Group’s profit for the period attributable to owners of the Company was approximately HK\$8.0 million (1H2018: loss attributable to owners of the Company of HK\$75.5 million). Basic earnings per share for 1H2019 was approximately HK0.5 cents (1H2018: basic loss per share of HK4.4 cents). The Board has resolved not to pay any interim dividend for 1H2019 (1H2018: nil).

For 1H2019, the Group continued to engage in the provision of oilfield technology and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products. The Brent crude oil price started at approximately US\$54/barrel at the beginning of the year and rose to approximately US\$65/barrel by the end of June 2019. With the continual stabilisation in the international crude oil price, domestic and overseas oilfield and gas field companies have increased their capital expenditure for the construction of oilfield and shale gas field projects. Coupled with the national policy to secure national energy safety and to encourage shale gas consumption for environmental protection in the People's Republic of China (the “**PRC**” or “**China**”), owners of shale gas fields in the PRC (mostly major national oil companies) have accelerated their construction works for their shale gas projects since the fourth quarter of 2018. The acquisition of additional fracturing equipment by the Group in 2018 also enabled the Group to participate in large-scale shale gas production enhancement projects which enhanced the Group's revenue and profit in 1H2019. In 1H2019, the growing demands for the Group's well completion tools from the PRC market and the increase in oilfield services provided to a customer in the Middle East also contributed to the Group's increase in revenue and improvement in profitability.

GEOGRAPHICAL MARKET ANALYSIS

	1H2019 (HK\$ million)	1H2018 (HK\$ million)	Approximate percentage change (%)	Approximate percentage of total revenue in 1H2019 (%)	Approximate percentage of total revenue in 1H2018 (%)
China market	158.5	77.6	104.3%	77.1%	73.8%
Overseas markets	47.0	27.6	70.3%	22.9%	26.2%
Total	205.5	105.2	95.4%	100%	100%

The Group's revenue from the China market increased by approximately HK\$80.9 million or approximately 104.3% to approximately HK\$158.5 million in 1H2019 from approximately HK\$77.6 million in 1H2018. The increase in revenue from the China market was mainly due to the increase in the provision of fracturing services.

The Group's revenue from the overseas markets increased by approximately HK\$19.4 million or approximately 70.3% to approximately HK\$47.0 million in 1H2019 from approximately HK\$27.6 million in 1H2018. The increase in revenue in the overseas markets was mainly attributable to the increase in the provision of oilfield services to a customer in the Middle East.

REVENUE FROM THE CHINA MARKET

	1H2019	1H2018	Approximate	Approximate	Approximate
	(HK\$ million)	(HK\$ million)	percentage	percentage of	percentage of
			change	total revenue	total revenue
				from the	from the
				China market	China market
			(%)	in 1H2019	in 1H2018
				(%)	(%)
Northern China	21.4	2.1	919.0%	13.5%	2.7%
Southwestern China	69.8	17.3	303.5%	44.0%	22.3%
Northwestern China	14.4	13.2	9.1%	9.1%	17.0%
Other regions in China	52.9	45.0	17.6%	33.4%	58.0%
Total	158.5	77.6	104.3%	100%	100%

In 1H2019, the Group's revenue from Northern China amounted to approximately HK\$21.4 million, which increased by approximately HK\$19.3 million or approximately 919.0% from approximately HK\$2.1 million in 1H2018. The increase in revenue was mainly attributable to the increase in the provision of production enhancement services to a customer in Northern China.

The revenue from Southwestern China amounted to approximately HK\$69.8 million in 1H2019, which increased by approximately HK\$52.5 million or approximately 303.5% from approximately HK\$17.3 million in 1H2018. The increase in revenue was mainly attributable to the provision of fracturing services to a customer in Southwestern China.

The revenue from Northwestern China amounted to approximately HK\$14.4 million in 1H2019, which increased by approximately HK\$1.2 million or approximately 9.1% from approximately HK\$13.2 million in 1H2018. The increase in revenue was mainly attributable to the increase in drilling services provided in Northwestern China.

The revenue from other regions in China amounted to approximately HK\$52.9 million in 1H2019, which increased by approximately HK\$7.9 million or approximately 17.6% from approximately HK\$45.0 million in 1H2018. The increase in revenue was mainly due to the increase in sales of well completion tools in other regions in China.

REVENUE FROM THE OVERSEAS MARKETS

	1H2019	1H2018	Approximate	Approximate	Approximate
	(HK\$ million)	(HK\$ million)	percentage	percentage of	percentage of
			change	total revenue	total revenue
				from the	from the
				overseas	overseas
				markets	markets
				in 1H2019	in 1H2018
			(%)	(%)	(%)
Middle East	35.2	18.0	95.6%	74.9%	65.2%
Others	11.8	9.6	22.9%	25.1%	34.8%
Total	47.0	27.6	70.3%	100%	100%

The revenue from the Group's business operations in the Middle East amounted to approximately HK\$35.2 million in 1H2019, which increased by approximately HK\$17.2 million or approximately 95.6% from approximately HK\$18.0 million in 1H2018. The increase was mainly attributable to the increase in oilfield services provided to a customer in the Middle East.

The revenue from other overseas regions amounted to approximately HK\$11.8 million in 1H2019, which increased by approximately HK\$2.2 million or approximately 22.9% from approximately HK\$9.6 million in 1H2018. This increase in revenue was mainly attributable to the increase in well completion services provided in other overseas regions.

BUSINESS SEGMENT ANALYSIS

	1H2019	1H2018	Approximate	Approximate	Approximate
	(HK\$ million)	(HK\$ million)	percentage	percentage of	percentage of
			change	total revenue	total revenue
			(%)	in 1H2019	in 1H2018
				(%)	(%)
Oilfield project tools and services	188.0	90.3	108.2%	91.5%	85.8%
Consultancy services	17.5	14.9	17.4%	8.5%	14.2%
Total	205.5	105.2	95.3%	100%	100%

In 1H2019, the Group's revenue from the provision of oilfield project tools and services amounted to approximately HK\$188.0 million, which increased by approximately HK\$97.7 million or approximately 108.2% from approximately HK\$90.3 million in 1H2018. The increase was mainly attributable to (i) the increase in the provision of production enhancement services in the China market; (ii) the increased sales of well completion tools to the China market; and (iii) the increase in oilfield services provided in the Middle East.

The Group's revenue from consultancy services amounted to approximately HK\$17.5 million in 1H2019 which increased by approximately HK\$2.6 million or approximately 17.4% from approximately HK\$14.9 million in 1H2018. The revenue increased mainly because of the increase in consultancy services provided in the China market.

Oilfield Projects Tools and Services

	1H2019	1H2018	Approximate	Approximate	Approximate
	(HK\$ million)	(HK\$ million)	percentage	percentage of	percentage of
			change	total revenue	total revenue
			(%)	from oilfield	from oilfield
				project tools	project tools
				and services	and services
				in 1H2019	in 1H2018
				(%)	(%)
Drilling	15.4	11.4	35.1%	8.2%	12.6%
Well completion	61.4	36.9	66.4%	32.7%	40.9%
Production enhancement	111.2	42.0	164.8%	59.1%	46.5%
Total	188.0	90.3	108.2%	100%	100%

Drilling

The Group's revenue from drilling amounted to approximately HK\$15.4 million in 1H2019, which increased by approximately HK\$4.0 million or approximately 35.1% from approximately HK\$11.4 million in 1H2018. The increase was mainly due to the increase in drilling services provided in the China market.

Well Completion

In 1H2019, the Group's revenue from well completion amounted to approximately HK\$61.4 million, which increased by approximately HK\$24.5 million or approximately 66.4% from approximately HK\$36.9 million in 1H2018. The increase was mainly due to the increase in the sales of well completion tools in the China market and the increase in well completion services provided in other overseas region.

Production Enhancement

In 1H2019, the Group's revenue from production enhancement amounted to HK\$111.2 million, which increased by approximately HK\$69.2 million or approximately 164.8% from approximately HK\$42.0 million in 1H2018. The increase was mainly due to the provision of production enhancement services and fracturing services in the China market.

CUSTOMER ANALYSIS

Customer	1H2019 (HK\$ million)	1H2018 (HK\$ million)	Approximate percentage change (%)	Approximate percentage of total revenue in 1H2019 (%)	Approximate percentage of total revenue in 1H2018 (%)
Customer 1	81.9	14.1	480.9%	39.9%	13.4%
Customer 2	25.1	–	N/A	12.2%	0.0%
Customer 3	22.3	9.8	127.6%	10.8%	9.3%
Customer 4	18.7	17.3	8.1%	9.1%	16.4%
Customer 5	12.6	30.9	-59.2%	6.1%	29.4%
Customer 6	8.6	–	N/A	4.2%	0.0%
Customer 7	6.9	1.8	283.3%	3.4%	1.7%
Customer 8	4.1	–	N/A	2.0%	0.0%
Other customers	25.3	31.3	-19.2%	12.3%	29.8%
Total	205.5	105.2	95.3%	100%	100%

Revenue from Customer 1 amounted to approximately HK\$81.9 million, which increased by approximately HK\$67.8 million or approximately 480.9% from approximately HK\$14.1 million in 1H2018. This increase was mainly attributable to the growth of fracturing services provided in Southwestern China. Revenue from Customer 2 amounted to approximately HK\$25.1 million, which was related to the sale of well completion tools in other regions in China. Revenue from Customer 3 amounted to approximately HK\$22.3 million, which increased by approximately HK\$12.5 million or approximately 127.6% from approximately HK\$9.8 million in 1H2018. Such increase was mainly attributable to the increase in oilfield services provided to a customer in the Middle East. Revenue from Customer 4 increased by approximately HK\$1.4 million or approximately 8.1%, from approximately HK\$17.3 million in 1H2018 to approximately HK\$18.7 million in 1H2019. This increase was mainly attributable to the growth of production enhancement services provided to a customer in Northern China. Revenue from Customer 5 decreased by approximately HK\$18.3 million or approximately 59.2% from approximately HK\$30.9 million in 1H2018 to approximately HK\$12.6 million in 1H2019. Such decrease in revenue was mainly due to the drop in sales of well completion tools to this customer in the China market. Revenue from Customer 6 amounted to approximately HK\$8.6 million and such revenue was generated from the provision of drilling services in Northwestern China. Revenue from Customer 7 amounted to approximately HK\$6.9

million, which increased by approximately HK\$5.1 million or approximately 283.3% from approximately HK\$1.8 million in 1H2018. This increase was mainly attributable to the increase in provision of consultancy services in the China market. Revenue from Customer 8 amounted to approximately HK\$4.1 million and was generated from well completion services provided to a customer in other overseas markets. Revenue from other customers amounted to approximately HK\$25.3 million in 1H2019, which decreased by approximately HK\$6.0 million or approximately 19.2% from approximately HK\$31.3 million in 1H2018.

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our business. We have implemented human resources policies and procedures that detail requirements on compensation, dismissal, recruitment, promotion, working hours, equal opportunity and other benefits and welfare. We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right skillset and knowledge, we arranged for a series of training courses that cover technical update of drilling and completion technology, blast management, control at wells and environment management. We also worked with external organisations such as unions and consultants to provide training for the specific needs of the operations. Up until 30 June 2019, the Group has arranged 32 trainings consisting of more than 2,989 hours in total and 97 employees have attended these training programs. Besides, the Company also implemented a new talents selection system to expand the promotion channel for staff in order to realise a win-win situation for both the Company and the employees.

To cope with the development trend of the industry, the Group streamlined the organisation structure and the cost structure of all service lines as well as the supporting departments. The Company paid high attention to talent introduction and has recruited some international experts who are good at market development as well. The total headcount was 341 employees as at 30 June 2019, which remained nearly flat as compared to that of 340 employees as at 31 December 2018.

In order to keep the Group's human resources policies and procedures abreast with the industry development, the Group reviewed its human resources management system and made certain transformation aiming at a long-term development of the Group's engineer talents and implemented a new performance based compensation system in 2019 encouraging staff ownership and team spirit.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself on introducing innovative products and services in various oilfield service lines, such as turbine-drilling, directional drilling, multistage fracturing, downhole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 1H2019, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

- Successfully designed, tested and produced the 3 1/2" and the 4 1/2" big bore dissolvable bridge plug to meet the demand of the China and overseas markets. This kind of tools can substantially shorten the operation time and in turn save operation cost for multistage perforation fracturing operations.
- Successfully designed, tested and produced the 9 5/8" 5000 PSI electric submersible pump packer which can be used in well completion projects with extra-high pressure and high temperatures.
- Successfully designed, tested and produced the 4 1/2" slimline tubing retrievable safety valve, N2 tubing retrievable safety valve lockout tools for the 2 7/8" and the 4 1/2" slimline tubing retrievable safety valve, the 3.688" gauge hanger, the 7" 32-35# retrievable feedthrough packer and the 9 5/8" water injection packer, which can be used in the Group's well completion projects.

The Group pays great attention to the registration of patents and always encourages employees to apply for patents. As at 30 June 2019, the Group had 30 utility model patents and 14 innovation patents and was applying for 3 utility model patents and 15 innovation patents.

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

OUTLOOK

The Brent crude oil price remained quite stable at over US\$50/barrel since the beginning of 2019. With the continual stabilisation in the international crude oil price and China's national policy to secure national energy safety and to encourage shale gas consumption for environmental protection, owners of shale gas fields in the PRC (mostly major national oil companies) have accelerated the construction of their shale gas projects. We believe the increasing demand for fracturing services from the construction of shale gas fields will continue for the remaining part of 2019 and will continue to enhance the profitability of the Group's production enhancement business.

As for the overseas markets, the Group will continue to explore market opportunities in the Middle East, South Asia, Africa and Southern Europe regions and we have been invited to bid for various oilfield services contracts in these regions.

Looking ahead to the second half of 2019, we will continue to put efforts into the marketing and promotion of the Group's oilfield services, tools and technologies so as to increase our market penetration. In addition, the Group will continue to focus on the advancement of its oilfield service technologies and tools in order to further enhance our capability to provide high-end oilfield services in the China and overseas markets. We are positive about the prospect of the oilfield service industry in the second half of 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		365,210	384,354
Intangible assets		95,471	95,485
Right-of-use assets		15,856	–
Land use right		–	9,731
Financial asset at fair value through profit or loss		5,184	5,184
Other receivables, deposits and prepayments		40,886	38,824
Deferred tax assets		–	2,193
		<u>522,607</u>	<u>535,771</u>
Current assets			
Inventories		84,364	80,951
Trade receivables	5	207,718	205,957
Contract assets		50,994	7,059
Other receivables, deposits and prepayments		96,798	103,142
Pledged bank deposits		7,051	11,702
Cash and cash equivalents		15,188	39,315
		<u>462,113</u>	<u>448,126</u>
Total assets		<u>984,720</u>	<u>983,897</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

		Unaudited	Audited
		As at	As at
		30 June	31 December
<i>Note</i>		2019	2018
		HK\$'000	HK\$'000
EQUITY AND LIABILITIES			
Equity			
		2,001,073	2,001,073
Share capital			
		21,017	34,872
Other reserves			
		(1,546,393)	(1,573,284)
Accumulated losses			
		475,697	462,661
Non-controlling interests		704	959
		476,401	463,620
Total equity			
LIABILITIES			
Non-current liabilities			
		162,673	216,460
Bank and other borrowings	7		
		5,926	–
Lease liabilities			
		232	230
Deferred tax liabilities			
		168,831	216,690
Current liabilities			
		109,832	127,803
Trade payables	6		
		73,567	95,087
Other payables and accruals			
		17,161	8,449
Contract liabilities			
		438	–
Lease liabilities			
		138,490	72,248
Bank and other borrowings	7		
		339,488	303,587
Total liabilities		508,319	520,277
Total equity and liabilities		984,720	983,897

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2019	2018
		HK\$'000	HK\$'000
Revenue	4	205,489	105,179
Other income		796	606
Operating costs			
Material costs		(51,714)	(38,591)
Depreciation of property, plant and equipment		(29,876)	(37,736)
Depreciation of right-of-use assets		(416)	–
Amortisation of intangible assets and land use right		(14)	(661)
Operating lease rental		(2,898)	(3,388)
Employee benefit expenses		(48,138)	(50,553)
Distribution expenses		(3,943)	(1,389)
Technical service fees		(15,161)	(7,227)
Entertainment and marketing expenses		(3,504)	(3,348)
Net impairment loss on financial assets		(1,798)	(7,236)
Other expenses	8	(26,454)	(18,022)
Other (losses)/gains, net	9	(228)	2,792
Operating profit/(loss)		22,141	(59,574)
Finance income		54	26
Finance costs		(12,001)	(15,360)
Finance costs, net	10	(11,947)	(15,334)
Profit/(loss) before income tax		10,194	(74,908)
Income tax expense	11	(2,443)	(997)
Profit/(loss) for the period		7,751	(75,905)
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(5,426)	(8,965)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2019	2018
		HK\$'000	HK\$'000
Other comprehensive loss for the period, net of tax		<u>(5,426)</u>	<u>(8,965)</u>
Total comprehensive income/(loss) for the period		<u>2,325</u>	<u>(84,870)</u>
Profit/(loss) for the period attributable to:			
Owners of the Company		8,006	(75,518)
Non-controlling interests		<u>(255)</u>	<u>(387)</u>
		<u>7,751</u>	<u>(75,905)</u>
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		2,580	(84,483)
Non-controlling interests		<u>(255)</u>	<u>(387)</u>
		<u>2,325</u>	<u>(84,870)</u>
Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the Company:	<i>12</i>		
Basic earnings/(loss) per share (HK cents)		0.5	(4.4)
Diluted earnings/(loss) per share (HK cents)		<u>0.5</u>	<u>(4.4)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash (used in)/generated from operations	(18,618)	9,053
Interest paid	(9,630)	(1,175)
Income tax paid	(250)	—
Net cash (used in)/generated from operating activities	(28,498)	7,878
Cash flows from investing activities		
Purchases of property, plant and equipment	(7,879)	(538)
Proceeds from disposal of property, plant and equipment	128	1,690
Interest received	54	26
Decrease in pledged bank deposits	4,651	384
Net cash (used in)/generated from investing activities	(3,046)	1,562
Cash flows from financing activities		
Proceeds from bank and other borrowings	48,343	70,998
Repayments of bank and other borrowings	(40,437)	(19,855)
Proceeds from issuance of 2019 Convertible Bonds	—	29,500
Repayment of convertible bonds	(1,338)	(99,790)
Proceeds from shareholder's loan	20,000	—
Repayment of shareholder's loan	(20,000)	—
Advance from related parties	1,136	699
Net cash generated from/(used in) financing activities	7,704	(18,448)
Net decrease in cash and cash equivalents	(23,840)	(9,008)
Cash and cash equivalents at beginning of period	39,315	24,708
Exchange losses on cash and cash equivalents	(287)	(212)
Cash and cash equivalents at end of period	15,188	15,488

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited on 6 March 2013. This interim condensed consolidated financial information is presented in Hong Kong dollars (“**HK\$**”), unless otherwise stated.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with the International Accounting Standard (“**IAS**”) 34, “Interim financial reporting”.

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and any public announcements made by the Group during the interim reporting period.

Certain comparative figures have been revised to be consistent with the classification of current reporting period.

During the period ended 30 June 2019, the Group reported an operating cash outflow of approximately HK\$28,498,000. As at the same date, the Group’s total bank and other borrowings amounted to HK\$301,163,000, including current bank and other borrowings of HK\$138,490,000, while its cash and cash equivalents amounted to HK\$15,188,000 only.

The Group did not comply with one of the financial covenant requirements of a bank borrowing with carrying amount of approximately HK\$33,819,000 as at 31 December 2018. On 27 March 2019, the Group agreed with the relevant bank to early repay the entire outstanding amount by several instalments from 28 March 2019 to 30 September 2019 and the relevant bank agreed to waive the relevant financial covenant requirement. As at 30 June 2019, the outstanding bank borrowing amount with the relevant bank amounted to approximately HK\$13,072,000 (See Note 7).

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

In view of such circumstances, the directors of the Company (the “**Directors**”) have completed a series of transactions to repay the bank and other borrowings and strengthen the Group's working capital, including:

- (i) On 21 March 2019, the Group has agreed in writing with all the bondholders of the Group's convertible bonds issued in 2018 (the “**2018 Convertible Bonds**”) with a total principal amount of HK\$30,000,000 to redeem such bonds in full through new convertible bonds issued to the same bondholders by the Group on 3 April 2019 (the “**2019 Convertible Bonds**”) with the same principal. The 2019 Convertible Bonds will expire on 23 May 2021 and can be early redeemed from 15 April 2020 onwards;
- (ii) On 25 March 2019, the Group has entered into a loan agreement to borrow HK\$20,000,000 from a shareholder (the “**Shareholder's Loan**”) for a term of 18 months from the date of drawdown. Such loan is unsecured and bears interest at 10% per annum. The Group had drawn down the entire amount and subsequently repaid to the shareholder before 30 June 2019;
- (iii) On 15 January 2019, 9 May 2019 and 26 June 2019, the Group has entered into borrowing facilities agreements with a bank located in the PRC with aggregate borrowing facilities of approximately RMB69 million to fund the Group's working capital needs. As at 30 June 2019, the Group has drawn down approximately RMB29,907,000 (equivalent to approximately HK\$33,986,000) from these facilities where approximately RMB20 million will be repayable in May 2020, approximately RMB5 million will be repayable in June 2020 and approximately RMB5 million will be repayable in January 2021. These borrowings are interest-bearing and secured by the Group's trade receivables. The remaining unutilised borrowing facilities of approximately RMB14 million and RMB25 million will expire in June 2020 and January 2021, respectively, and any amounts drawn under such facilities will be repayable upon the maturity of the facilities;
- (iv) The Group continues its efforts to implement measures to strengthen its working capital position by expediting collection of outstanding trade receivables and had agreed with certain customers on the repayment plan for the outstanding trade receivables during the year;
- (v) The Group continues its efforts to implement measures to generate cash from new sales or service contracts, and to further control capital and operating expenditures to strengthen its working capital; and
- (vi) The Group is actively looking for additional sources of financing to enhance its financial position and support the plans to expand its operations.

The Directors have reviewed the Group's cash flow projections prepared by the management, which cover a period of twelve months from 30 June 2019. In the opinion of the Directors, in light of the above, taking into account the anticipated cash flows to be generated from the Group's operations as well as the above plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2019. Accordingly, the Directors consider that it is appropriate to prepare the interim condensed consolidated financial information on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the annual financial statements of the Group for the year ended 31 December 2018, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2019.

3.1 New and amended standards and interpretations adopted by the Group

New and amended standards and interpretations, which are mandatory for the first time for the financial period beginning 1 January 2019, are as follows:

Annual improvements project	Annual Improvements to IFRSs 2015 – 2017 Cycle
IAS 19 (Amendment)	Employee Benefits
IAS 28 (Amendment)	Investments in Associate and Joint Ventures
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments

Except as disclosed in Note 3.2 for the adoption of IFRS 16, the adoption of the above new and amended standards and interpretations did not have any significant impact on the preparation of these financial information.

3.2 Adoption of IFRS 16 Leases

The Group has adopted IFRS 16 on 1 January 2019 without restating comparative information for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

(a) *Adjustments recognised on adoption of IFRS 16*

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	31 December 2018		1 January 2019
	As originally presented	IFRS 16	Restated
Statement of financial position (extract)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Right-of-use-assets	–	16,335	16,335
Land use right	9,731	(9,731)	–
Non-current liabilities			
Lease liabilities	–	6,116	6,116
Contract liabilities			
Lease liabilities	–	488	488

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019.

	2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	15,964
Discounted using the lessee’s incremental borrowing rate of at the date of initial application	10,571
(Less): short-term leases recognised on a straight-line basis as expense	(3,967)
Lease liabilities recognised as at 1 January 2019	6,604
Of which are:	
Current lease liabilities	488
Non-current lease liabilities	6,116

Right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 HK\$'000	1 January 2019 HK\$'000
Properties leases	320	512
Land use right	15,536	15,823
Total right-of-use assets	15,856	16,335

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17.

(b) *The Group's leasing activities and how these are accounted for*

Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases is recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4 SEGMENT INFORMATION

The Chief Operating Decision Maker (“**CODM**”) has been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group’s internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on these reports.

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

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

(a) Revenue

Revenue recognised during the six months ended 30 June 2019 and 2018 are as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$’000	HK\$’000
Oilfield project tools and services		
– Drilling work	15,354	11,444
– Well completion work	61,435	36,934
– Production enhancement work	111,205	41,950
Total oilfield project tools and services	187,994	90,328
Consultancy services	17,495	14,851
Total revenue	205,489	105,179
Timing of revenue recognition		
At a point in time	74,720	45,847
Over time	130,769	59,332
	205,489	105,179

For the Group’s oilfield project tools and services, contracts are for periods of one year or less. For the Group’s consultancy services, the Group bills the amount based on the time incurred to provide the services, therefore, the Group uses “right to invoice” practical expedient to recognise revenue in the amount to which the Group has a right to invoice. As permitted under IFRS15, the transaction price allocated to these unsatisfied contracts are not discussed.

(b) Segment results

The segment information for the six months ended 30 June 2019 and 2018 are as follows:

	Oilfield project tools and services HK\$'000	Unaudited Consultancy services HK\$'000	Total HK\$'000
Six months ended 30 June 2019			
Total segment revenue	187,994	17,495	205,489
Inter-segment revenue	<u>–</u>	<u>–</u>	<u>–</u>
Revenue from external customers	<u>187,994</u>	<u>17,495</u>	<u>205,489</u>
Segment results	79,082	13,266	92,348
Net unallocated expenses			<u>(75,875)</u>
Profit before income tax			<u>16,473</u>
Other information:			
Amortisation of intangible assets	(14)	–	(14)
Depreciation of property, plant and equipment	(25,362)	–	(25,362)
Depreciation of right-of-use assets	(416)	–	(416)
Net impairment loss on financial assets	<u>(1,645)</u>	<u>(153)</u>	<u>(1,798)</u>
		Unaudited	
	Oilfield project tools and services HK\$'000	Consultancy services HK\$'000	Total HK\$'000
Six months ended 30 June 2018			
Total segment revenue	90,328	14,851	105,179
Inter-segment revenue	<u>–</u>	<u>–</u>	<u>–</u>
Revenue from external customers	<u>90,328</u>	<u>14,851</u>	<u>105,179</u>
Segment results	(15,179)	7,710	(7,469)
Net unallocated expenses			<u>(67,439)</u>
Loss before income tax			<u>(74,908)</u>
Other information:			
Amortisation of intangible assets	(506)	–	(506)
Depreciation of property, plant and equipment	(33,360)	–	(33,360)
Net impairment loss on financial assets	<u>(6,214)</u>	<u>(1,022)</u>	<u>(7,236)</u>

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

A reconciliation of operating segment's results to total profit/(loss) before income tax is provided as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Segment results	92,348	(7,469)
Other income	796	606
Depreciation of property, plant and equipment	(4,514)	(4,376)
Amortisation of other intangible assets	–	(155)
Operating lease rental	(2,898)	(2,227)
Employee benefit expenses	(39,962)	(38,594)
Entertainment and marketing expenses	(3,450)	(3,107)
Other expenses	(23,179)	(12,828)
Other gains, net	1,946	2,792
Finance income	54	26
Finance costs	(10,947)	(9,576)
	10,194	(74,908)
Profit/(loss) before income tax	10,194	(74,908)

The segment results included the material costs, technical service fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets, distribution expenses, operating lease rental, employee benefit expenses, entertainment and marketing expenses, net impairment loss on financial assets, other expenses, other gains, net, and finance costs allocated to each operating segment.

5 TRADE RECEIVABLES

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Trade receivables	420,493	420,559
Less: provision for impairment of trade receivables	(212,775)	(214,602)
Trade receivables – net	207,718	205,957

As at 30 June 2019 and 31 December 2018, ageing analysis of gross trade receivables by services completion and delivery date are as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 3 months	73,740	82,314
3 to 6 months	39,343	24,920
6 to 12 months	28,450	60,344
Over 12 months	278,960	252,981
Trade receivables	420,493	420,559
Less: provision for impairment of trade receivables	(212,775)	(214,602)
Trade receivables – net	207,718	205,957

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

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

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

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Opening amount	214,602	152,867
Opening loss allowance as at 1 January 2018		
– calculated under IFRS 9	–	12,503
Provision for receivables impairment	1,798	7,236
Write off of provision for receivables impairment	(1,417)	(16,997)
Exchange differences	(2,208)	(970)
Closing amount	212,775	154,639

As at 30 June 2019 and 2018, the Group applied the expected credit loss model resulted in the recognition of impairment loss on receivable of HK\$1,798,000 (30 June 2018: HK\$7,236,000).

During the period ended 30 June 2019, management has write off the receivables from customers which have been previously fully period of approximately HK\$1,417,000 (2018: HK\$16,997,000).

The Group divided trade receivables into two categories by the settlement pattern of customers to measure the expected loss rates. Category 1 is for the customers conducting business in the Middle East. Category 2 is for the customers conducting business in the PRC and other regions. With different types of customers, the Group calculated the expected loss respectively.

For category 1, the expected credit losses for these customers are measured at individual basis with the receivables of such customers assessed individually for provision for impairment allowance. Trade receivables more than 24 months overdue are 100% provided for.

For category 2, the expected credit losses rate for trade receivables is determined according to a provision matrix where balances that are less than 12 months overdue are provided for at expected losses rate of 1-14% and trade receivables more than 12 months overdue are 100% provided for.

The loss allowances for trade receivables of category 1 and category 2 customers as at 30 June 2019 are HK\$142,550,000 and HK\$70,225,000 respectively (31 December 2018: HK\$142,549,000 and HK\$72,053,000 respectively).

As at 30 June 2019, bank borrowings are secured by the trade receivables of a subsidiary of the Group of approximately HK\$33,986,000 (31 December 2018: nil).

6 TRADE PAYABLES

As at 30 June 2019 and 31 December 2018, the ageing analysis of the trade payables based on invoice date are as follows:

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Up to 3 months	32,006	37,882
3 to 6 months	8,060	7,165
6 to 12 months	14,171	18,337
Over 12 months	55,595	64,419
	<u>109,832</u>	<u>127,803</u>

7 BANK AND OTHER BORROWINGS

	Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Non-current		
Bank borrowings (<i>Note (i)</i>)	10,027	5,867
Other borrowings (<i>Note (ii)</i>)	152,646	210,593
	<u>162,673</u>	<u>216,460</u>
Current		
Bank borrowings (<i>Note (i)</i>)	30,816	2,071
Bank borrowings immediately repayable (<i>Note (i)</i>)	13,072	33,819
Convertible bonds – liability component (<i>Note (iii)</i>)	26,765	27,482
Other borrowings (<i>Note (ii)</i>)	67,837	8,876
	<u>138,490</u>	<u>72,248</u>
	<u>301,163</u>	<u>288,708</u>

(i) Bank borrowings

As at 30 June 2019, banking facilities of approximately HK\$98,000,000 (31 December 2018: HK\$42,000,000) were granted by banks to the Group, of which approximately HK\$54,000,000 have been utilised by the Group (31 December 2018: HK\$42,000,000). The Group has undrawn banking facilities of approximately HK\$44,000,000 (31 December 2018: nil). The facilities are secured by:

- (i) corporate guarantee given by the Company and its subsidiary;
- (ii) personal guarantee by certain directors of the Group;
- (iii) buildings of the Group; and
- (iv) trade receivables of the Group.

Pursuant to the requirements of the banking facilities dated 26 December 2014, the Group is obliged to comply with restrictive financial covenant and certain undertakings. Based on the consolidated financial information for the year ended 31 December 2018, the Group did not comply with one of the financial covenants of a bank borrowing with carrying value of approximately HK\$33,819,000 and such borrowing became immediately repayable on demand. In this connection, the Group had classified the entire outstanding bank borrowings under current liabilities as at 31 December 2018. On 27 March 2019, the Group agreed with the relevant bank to early repay the entire outstanding amount by several instalments from 28 March 2019 to 30 September 2019 and the relevant bank agreed to waive the relevant financial covenant requirement. As at 30 June 2019, the outstanding bank borrowings with the relevant bank approximate to HK\$13,072,000.

(ii) Other borrowings

As at 30 June 2019, other borrowings of the Group include:

- (a) bondholders loans agreed with certain bondholders of HK\$51,000,000, bearing interest at 10% per annum, over which approximately HK\$27,000,000 will mature in April 2020 and the remaining will mature in September 2020.
- (b) a two-year borrowing with a principal amount of HK\$140,000,000, bearing interest at 5.5% per annum, over which approximately HK\$30,000,000 will mature in April 2020 and the remaining will mature in July 2020.
- (c) three-year instalment loans with a carrying amount of RMB25,944,000 (equivalent to approximate HK\$29,483,000), bearing interest of 6.7% per annum. The loans were utilised for the purpose of acquiring machineries for the Group's operation and are secured by the corresponding machineries acquired.

(iii) **Convertible bonds**

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Convertible bonds	26,765	27,482

On 21 March 2019, the Group has agreed in writing with all bondholders of the 2018 Convertible Bonds to redeem such bonds in full through the issuance of the 2019 Convertible Bonds to the same bondholders on 3 April 2019 (the “**Modification Date**”) with the same principal amount of HK\$30,000,000. The 2019 Convertible Bonds bear the coupon rate of 10% per annum, payable monthly in arrears, and have a maturity date of 23 May 2021. The holder has the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK\$0.288 per conversion share at any period commencing from the date of issuance of the convertible bonds and up to the business day immediately prior to the maturity date. In addition, the holder has the right to early redeem the convertible bonds in amounts of HK\$1,000,000 or integral multiples thereof, together with all interests accrued up to the date of early redemption, commencing from 15 April 2020 and up to the maturity date. The values of the liability component and the equity conversion component were determined at the completion of the issuance of the 2019 Convertible Bonds.

The fair value of the liability component was calculated using a discounted cash flow approach. The key unobservable input of the valuation is the discount rate adopted of 20% which is based on market interest rates for a number of comparable convertible bonds and certain parameters specific to the Group’s liquidity risk. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair value of the liability component and is included in other reserves in equity. Subsequently, the liability component is carried at amortised cost.

On the Modification Date, the difference of fair values of the 2019 Convertible Bonds and 2018 Convertible Bonds of HK\$6,279,000 was charged into the interim condensed consolidated statement of comprehensive income as share-based compensation for the period ended 30 June 2019 given no vesting conditions existed (Note 8).

The 2019 Convertible Bonds is calculated as follows:

	<i>HK\$'000</i>
Net proceeds of convertible bonds issued on 3 April 2019	30,000
Equity component	<u>(3,923)</u>
Liability component at initial recognition	<u>26,077</u>

Movements in convertible bonds are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Opening amount	27,482	155,576
Issuance of 2018 Convertible Bonds	–	25,785
Settlement of convertible bonds	–	(95,000)
Modification of the 2018 Convertible Bonds	(1,750)	–
Conversion to bondholder loans	–	(62,000)
Interest expenses	2,371	6,706
Interest paid	(1,338)	(4,790)
Closing amount	26,765	26,277
Less: Non-current convertible bonds	–	(24,132)
Current portion	26,765	2,145

8 OTHER EXPENSES

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Communications	456	525
Professional service fees	6,816	5,332
Motor vehicle expenses	873	503
Travelling	6,084	4,899
Office utilities	3,817	2,722
Other tax-related expenses and custom duties	458	130
Share-based compensation – non-employee (<i>Note</i>)	6,279	–
Others	1,671	3,911
	26,454	18,022

Note:

On 3 April 2019, the Group issued the 2019 Convertible Bonds to the same bondholders of the 2018 Convertible Bonds with the same principal, bearing interest at the rate of 10% per annum and payable monthly in arrears. The difference of fair values of the 2019 Convertible Bonds and 2018 Convertible Bonds of HK\$6,279,000 at the Modification Date was charged into the interim condensed consolidated statement of comprehensive income for the period ended 30 June 2019 given no vesting conditions existed.

9 OTHER (LOSSES)/GAINS, NET

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Foreign exchange gains	279	2,258
Gain/(loss) on disposals of property, plant and equipment	914	(117)
Loss on disposal of a subsidiary	(3,089)	–
Government grant	1,112	–
Others	556	651
	(228)	2,792

10 FINANCE COSTS, NET

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest expenses:		
– Bank and other borrowings (excluding convertible bonds)	(9,465)	(3,472)
– Finance lease liabilities	–	(48)
– Lease liabilities	(165)	–
– Interest cost for convertible bonds	(2,371)	(6,706)
– Modification losses on trade and other receivables	–	(5,134)
Finance costs	(12,001)	(15,360)
Finance income:		
– Interest income from bank deposits	54	26
Finance income	54	26
Finance costs, net	(11,947)	(15,334)

11 INCOME TAX EXPENSE

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

For the Company's subsidiaries, income tax is provided on the basis of their profits for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purpose. The applicable enterprise income tax rate for the PRC subsidiaries of the Group was 25% for the six months ended 30 June 2019 (30 June 2018: 25%), based on the relevant PRC tax laws and regulations, except those subsidiaries that were approved by relevant local tax bureau authorities as the High-technological Enterprise, and were entitled to a preferential Enterprise income tax rate of 15% (30 June 2018: 15%) during the period. Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (30 June 2018: 17%) during the period. In accordance with the two-tiered profits tax regime, Hong Kong profits tax was calculated on 8.25% of the first HK\$2,000,000 and 16.5% of the remaining balance of the estimated assessable profits for the period ended 30 June 2019 (30 June 2018: 16.5%).

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current tax	250	–
Deferred tax	2,193	997
Income tax expense	2,443	997

12 EARNINGS/(LOSS) PER SHARE FOR THE PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Unaudited	
	Six months ended 30 June	
	2019	2018
Profit/(loss) attributable to owners of the Company (<i>HK\$'000</i>)	<u>8,006</u>	<u>(75,518)</u>
Weighted average number of ordinary shares in issue (<i>Number of shares in thousand</i>)	<u>1,726,674</u>	<u>1,726,674</u>
Basic and diluted earnings/(loss) per share (<i>HK cents</i>)	<u>0.5</u>	<u>(4.4)</u>

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

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

For the period ended 30 June 2019 and 2018, diluted earnings/(loss) per share was the same as basic earnings/(loss) per share since all potential ordinary shares are anti-dilutive as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic earnings/(loss) per share.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately HK\$205.5 million in 1H2019, which has increased by approximately HK\$100.3 million or approximately 95.4% as compared to that of approximately HK\$105.2 million in 1H2018. The increase in revenue was mainly due to the increase in the provision of production enhancement services and fracturing services in the China market, the growing demands for the Group's well completion tools from the PRC market and the increase in oilfield services provided to a customer in the Middle East.

Material Costs

In 1H2019, the Group's material costs were approximately HK\$51.7 million, which has increased by approximately 34.0% or approximately HK\$13.1 million as compared to that of approximately HK\$38.6 million in 1H2018. The material costs accounted for approximately 25.2% of the revenue in 1H2019, which was lower than that of approximately 36.7% in 1H2018. As the Group generated more revenue from the provision of fracturing services in 1H2019 which utilise fewer materials than other projects, coupled with the overall improvement in the profit margin of the Group's projects and products, the overall material costs as a percentage of revenue decreased in 1H2019.

Depreciation of Property, Plant and Equipment

In 1H2019, the depreciation of property, plant and equipment amounted to approximately HK\$29.9 million, which has decreased by approximately HK\$7.9 million or approximately 20.8% as compared to that of approximately HK\$37.7 million in 1H2018, which primarily resulted from the write-off of certain plant and machineries in the second half of 2018.

Employee Benefit Expenses

In 1H2019, the Group's employee benefit expenses were approximately HK\$48.1 million, which has decreased by approximately HK\$2.4 million or approximately 4.8% as compared to that of approximately HK\$50.6 million in 1H2018.

Distribution Expenses

In 1H2019, the Group's distribution expenses amounted to approximately HK\$3.9 million, which has increased by approximately HK\$2.6 million or approximately 183.9% from approximately HK\$1.4 million in 1H2018. The increase in distribution expenses mainly resulted from the increase in revenue and sales activities in 1H2019.

Technical Service Fees

In 1H2019, the Group's technical service fees amounted to approximately HK\$15.2 million, which has increased by approximately HK\$7.9 million or approximately 109.8% from approximately HK\$7.2 million in 1H2018, and such increase was in line with the increase of revenue in 1H2019.

Net Impairment Loss on Financial Assets/Provision for Impairment of Trade and Other Receivables, Net

In 1H2019, the net impairment loss on financial assets amounted to approximately HK\$1.8 million, which has decreased by approximately HK\$5.4 million from approximately HK\$7.2 million in 1H2018. The net impairment loss on financial assets in 1H2019 was mainly relating to certain customers in the China market.

Other Expenses

In 1H2019, the Group's other expenses were approximately HK\$26.5 million, which has increased by approximately HK\$8.4 million or approximately 46.8% from approximately HK\$18.0 million in 1H2018. The increase was mainly due to the recognition of non-employee share based compensation of approximately HK\$6.3 million in 1H2019 (1H2018: nil).

Operating Profit/(Loss)

In 1H2019, the Group has recorded an operating profit of approximately HK\$22.1 million, as compared with the operating loss of approximately HK\$59.6 million for 1H2018, which was mainly due to the increase in the revenue and the resulted improvement in the profit margin.

Net Finance Costs

In 1H2019, the Group's net finance costs amounted to approximately HK\$11.9 million, which has decreased by approximately HK\$3.4 million or approximately 22.1% as compared to that of approximately HK\$15.3 million in 1H2018. Such decrease was mainly attributable to the decrease in the modification losses on the trade and other receivables in 1H2019.

Income Tax Expense

In 1H2019, the Group's income tax expense amounted to approximately HK\$2.4 million, representing an increase of approximately HK\$1.4 million or approximately 145.0% as compared to approximately HK\$1.0 million in 1H2018, which was mainly due to the increase in the deferred tax expense during 1H2019.

Profit/(Loss) for the Period

As a result of the foregoing, the Group recorded a profit of approximately HK\$7.8 million in 1H2019 as compared to the loss of approximately HK\$75.9 million in 1H2018.

Profit/(Loss) Attributable to the Owners of the Company

As a result of the foregoing, the Group's profit attributable to the owners of the Company amounted to approximately HK\$8.0 million in 1H2019 as compared to the loss of approximately HK\$75.5 million in 1H2018.

Property, Plant and Equipment

Property, plant and equipment include items such as service equipment, buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 30 June 2019, the Group's property, plant and equipment amounted to approximately HK\$365.2 million, which has decreased by approximately HK\$19.1 million or approximately 5.0% from approximately HK\$384.4 million as at 31 December 2018. The decrease was primarily due to the recognition of the depreciation expense in 1H2019, which was partly offset by the additions of certain plant and machineries during 1H2019.

Intangible Assets

As at 30 June 2019, the Group's intangible assets, including goodwill, amounted to approximately HK\$95.5 million, which was almost the same as the balance as at 31 December 2018.

Right-of-use Assets/Land Use Right

Due to the adoption of IFRS 16 Leases by the Group on 1 January 2019, the total right-of-use assets has increased by approximately HK\$15.9 million as at 30 June 2019 while the land use right has decreased by approximately HK\$9.7 million as compared with that as at 31 December 2018. Further details of such accounting treatment are disclosed in note 3.2 of this announcement.

Inventories

As at 30 June 2019, the Group's inventories amounted to approximately HK\$84.4 million, representing an increase of approximately HK\$3.4 million or approximately 4.2% as compared to that of approximately HK\$81.0 million as at 31 December 2018. The average turnover days of inventories decreased from approximately 598 days in 1H2018 to approximately 289 days in 1H2019. The decrease of inventories turnover days was partly due to the write-off of certain inventories in the second half of 2018 and also resulted from the usage of less materials in the provision of more fracturing services in 1H2019 as compared with other projects or products.

Trade Receivables

As at 30 June 2019, the Group's trade receivables amounted to approximately HK\$207.7 million, representing an increase of approximately HK\$1.8 million or approximately 0.9% as compared to that of approximately HK\$206.0 million as at 31 December 2018. The average turnover days of trade receivables were approximately 182 days in 1H2019, representing a decrease of approximately 465 days as compared to approximately 647 days in 1H2018. The decrease of turnover days of trade receivables was mainly due to (i) the provision and write-off of certain trade receivables during the second half of 2018 and (ii) faster settlement of trade receivables from customers in 1H2019.

Contract Assets

The contract assets are primarily related to the Group's rights to consideration for works completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date. As at 30 June 2019, the contract assets amounted to approximately HK\$51.0 million, representing an increase of approximately HK\$43.9 million or approximately 622.4% as compared to that of approximately HK\$7.1 million as at 31 December 2018. The increase was mainly due to the increase in the performance of fracturing services to a customer during 1H2019.

Trade Payables

As at 30 June 2019, the Group's trade payables were approximately HK\$109.8 million, which has decreased by approximately HK\$18.0 million or approximately 14.1% as compared to that of approximately HK\$127.8 million as at 31 December 2018. The average turnover days of trade payables has decreased from approximately 453 days in 1H2018 to approximately 322 days in 1H2019, representing a decrease of approximately 131 days. The decrease of trade payables days was mainly due to the faster settlement of trade payables to suppliers during 1H2019.

Liquidity and Capital Resources

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

As at 30 June 2019, the Group's cash and cash equivalents amounted to approximately HK\$15.2 million, representing a decrease of approximately HK\$24.1 million as compared to approximately HK\$39.3 million as at 31 December 2018. The cash and cash equivalents were mainly held in HK\$, RMB and US\$.

As at 30 June 2019, the Group's bank and other borrowings amounted to approximately HK\$301.2 million (31 December 2018: HK\$288.7 million), of which approximately 46.0% (31 December 2018: 25.0%) was repayable within one year. As at 30 June 2019, the Group's bank borrowings were mainly denominated in HK\$, RMB and SG\$ whilst approximately 95.7% (31 December 2018: 85.5%) of such borrowings bore interests at fixed lending rates.

As at 30 June 2019, certain buildings and machineries of the Group with carrying values of approximately HK\$128.1 million and HK\$33.3 million, respectively, (31 December 2018: HK\$128.8 million and HK\$16.9 million) were pledged to secure general banking facilities and the instalment loan granted to the Group.

Gearing ratio

As at 30 June 2019, the Group's gearing ratio (calculated as the net debt divided by the total capital) was approximately 37.5% (31 December 2018: 33.9%). The net debt is calculated as the total borrowings (including "current and non-current borrowings" as shown in the interim condensed consolidated statement of financial position) and lease liabilities less the cash and cash equivalents and pledged bank deposits. The total capital is calculated as "equity" as shown in the interim condensed consolidated statement of financial position plus the net debt.

Foreign Exchange Risk

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

Off-balance Sheet Arrangements

As at 30 June 2019, the Group did not have any off-balance sheet arrangements (31 December 2018: nil).

CORPORATE GOVERNANCE

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

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

Under Code Provision A.6.7, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Xin Junhe, being an independent non-executive Director, and Mr. Lee Tommy, being a non-executive Director, could not attend the annual general meeting of the Company held on 6 June 2019 because of their respective other business commitments. Aiming for compliance with this Code Provision, the Company will continue to furnish all Directors with appropriate information on all general meetings and take all reasonable measures to arrange the schedule in such a cautious way to enable all Directors to attend the general meetings as far as possible.

DIRECTORS’ SECURITIES TRANSACTIONS

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

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

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 30 June 2019 (Six months ended 30 June 2018: nil).

REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

Hong Kong, 15 August 2019

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