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 2020

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 2020 ("**1H2020**"), together with comparative figures for the six months ended 30 June 2019 ("**1H2019**").

BUSINESS REVIEW

For 1H2020, the Group recorded a turnover of approximately HK$152.0 million (1H2019: HK$205.5 million), representing a decrease of approximately 26.0% as compared with the turnover for 1H2019. The Group's loss attributable to owners of the Company for 1H2020 was approximately HK$13.8 million (1H2019: profit attributable to owners of the Company of HK$8.0 million). Basic loss per share for 1H2020 was approximately HK0.8 cent (1H2019: basic earnings per share of HK0.5 cent). The Board has resolved not to pay any interim dividend for 1H2020 (1H2019: Nil).

For 1H2020, the Group continued to engage in the provision of oilfield technology and oilfield services covering various stages in the life of oilfields including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products. As a result of the worldwide outbreak of the Coronavirus Disease 2019 ("**COVID-19**") pandemic, global economic activities were severely impacted and the oil price war also caused a sharp decrease in the international oil price in 1H2020, posing great challenges to the global oil and gas industry.

In the domestic market, the COVID-19 pandemic has caused delay in the progress of oilfield and gas field projects in the People's Republic of China (the "**PRC**" or "**China**") after the Chinese New Year as the mobilisation of workforce for these projects was severely restricted. Certain drilling projects have been temporarily suspended and the placement of orders by the customers for well completion tools has been postponed. The Group has gradually resumed the provision of fracturing services for the shale gas fields in southwestern China in late-March 2020 and gradually resumed the provision of drilling services in May 2020.

In the overseas markets, the slump in international oil price has caused a decrease in the sales of well completion tools in 1H2020. Strict traffic control imposed by the overseas governments has also cast great difficulties in workforce mobilisation and therefore reduced the operational efficiency and revenue for the Group's integrated project management and other oilfield services provided in the Middle East market.

In 1H2020, the Group has commenced the business of manufacturing and sales of (1) parts and accessories for medical equipment and machines that can produce medical supplies; (2) metallic parts, accessories and consumables for civil aerospace equipment; and (3) metallic parts, accessories and consumables for telecommunication equipment. These new business activities have contributed a revenue of approximately HK$3.6 million in 1H2020 (1H2019: Nil).

The COVID-19 pandemic and slump in international oil price contributed to the decrease in the Group's revenue in both the domestic and overseas markets, and coupled with the pressure from customers requesting for price discounts on the Group's products and services under such difficult environment, the profitability of the Group was adversely affected and the Group recorded a loss attributable to owners of the Company in 1H2020.

GEOGRAPHICAL MARKET ANALYSIS

	1H2020 ***(HK$ million)***	1H2019 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2020** ***(%)***	Approximate percentage of total revenue in 1H2019 *(%)*
China market	**120.3**	158.5	-24.1%	**79.1%**	77.1%
Overseas markets	**31.7**	47.0	-32.6%	**20.9%**	22.9%
Total	**152.0**	205.5	-26.0%	**100%**	100%

The Group's revenue from the China market decreased by approximately HK$38.2 million or approximately 24.1% to approximately HK$120.3 million in 1H2020 from approximately HK$158.5 million in 1H2019. Revenue from the provision of drilling services, production enhancement services and sales of well completion tools in the China market has all decreased as a result of the COVID-19 pandemic and the drop in international oil price.

The Group's revenue from the overseas markets decreased by approximately HK$15.3 million or approximately 32.6% to approximately HK$31.7 million in 1H2020 from approximately HK$47.0 million in 1H2019. The decrease in revenue in the overseas markets was mainly attributable to the decrease in the provision of oilfield services to a customer in the Middle East and the drop in the sales of well completion tools to other overseas markets.

REVENUE FROM THE CHINA MARKET

	1H2020	1H2019	Approximate percentage change	**Approximate percentage of total revenue from the China market in 1H2020**	Approximate percentage of total revenue from the China market in 1H2019
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
Northern China	**33.9**	21.4	58.4%	**28.2%**	13.5%
Southwestern China	**58.1**	69.8	-16.8%	**48.3%**	44.0%
Northwestern China	**8.8**	14.4	-38.9%	**7.3%**	9.1%
Other regions in China	**19.5**	52.9	-63.1%	**16.2%**	33.4%
Total	**120.3**	158.5	-24.1%	**100%**	100%

In 1H2020, the Group's revenue from Northern China amounted to approximately HK$33.9 million, which increased by approximately HK$12.5 million or approximately 58.4% from approximately HK$21.4 million in 1H2019. The increase in revenue was mainly attributable to the increase in the sales of tools and accessories for underground gas storage facilities to a customer in Northern China and the increase in drilling services provided to a customer in Northern China.

The revenue from Southwestern China amounted to approximately HK$58.1 million in 1H2020, which decreased by approximately HK$11.7 million or approximately 16.8% from approximately HK$69.8 million in 1H2019. The decrease in revenue was mainly attributable to the decrease in fracturing services provided to a customer in Southwestern China as a result of the COVID-19 pandemic.

The revenue from Northwestern China amounted to approximately HK$8.8 million in 1H2020, which decreased by approximately HK$5.6 million or approximately 38.9% from approximately HK$14.4 million in 1H2019. The decrease in revenue was mainly attributable to the decrease in the provision of drilling services to a customer in Northwestern China.

The revenue from other regions in China amounted to approximately HK$19.5 million in 1H2020, which decreased by approximately HK$33.4 million or approximately 63.1% from approximately HK$52.9 million in 1H2019. The decrease in revenue was mainly due to the decrease in sales of well completion tools in other regions in China.

REVENUE FROM THE OVERSEAS MARKETS

	1H2020	1H2019	Approximate percentage change	**Approximate percentage of total revenue from the overseas markets in 1H2020**	Approximate percentage of total revenue from the overseas markets in 1H2019
	(HK$ million)	*(HK$ million)*	*(%)*	***(%)***	*(%)*
The Middle East	**21.1**	35.2	-40.1%	**66.6%**	74.9%
Others	**10.6**	11.8	-10.2%	**33.4%**	25.1%
Total	**31.7**	47.0	-32.6%	**100%**	100%

The revenue from the Group's business operations in the Middle East amounted to approximately HK$21.1 million in 1H2020, which decreased by approximately HK$14.1 million or approximately 40.1% from approximately HK$35.2 million in 1H2019. The decrease was mainly attributable to the decrease in oilfield services provided to a customer in the Middle East.

The revenue from other overseas regions amounted to approximately HK$10.6 million in 1H2020, which decreased by approximately HK$1.2 million or approximately 10.2% from approximately HK$11.8 million in 1H2019. This decrease in revenue was mainly attributable to the drop in the sales of well completion tools in the other overseas regions.

BUSINESS SEGMENT ANALYSIS

	1H2020 **(*HK$ million*)**	1H2019 (*HK$ million*)	Approximate percentage change (*%*)	**Approximate percentage of total revenue in 1H2020** **(*%*)**	Approximate percentage of total revenue in 1H2019 (*%*)
Oilfield project tools and services	**127.5**	188.0	-32.2%	**83.9%**	91.5%
Consultancy services	**20.9**	17.5	19.4%	**13.8%**	8.5%
Others (*Note*)	**3.6**	–	N/A	**2.3%**	–
Total	**152.0**	205.5	-26.0%	**100%**	100%

Note:

This represents the other revenue stream of the Group including manufacturing and sales of parts and accessories for medical equipment and machines producing medical supplies and metallic parts, accessories and consumables for civil aerospace equipment and telecommunication equipment.

In 1H2020, the Group's revenue from the provision of oilfield project tools and services amounted to approximately HK$127.5 million, which decreased by approximately HK$60.5 million or approximately 32.2% from approximately HK$188.0 million in 1H2019. Revenue from the provision of drilling services and production enhancement services in the China market and sales of well completion tools in the China market and overseas markets has all decreased as a result of the COVID-19 pandemic and the drop in international oil price.

The Group's revenue from consultancy services amounted to approximately HK$20.9 million in 1H2020, which increased by approximately HK$3.4 million or approximately 19.4% from approximately HK$17.5 million in 1H2019. The revenue increased mainly because of the increase in integrated project management services provided in other regions in China and other overseas markets.

Oilfield Projects Tools and Services

	1H2020 *(HK$ million)*	1H2019 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue from oilfield project tools and services in 1H2020** *(%)*	Approximate percentage of total revenue from oilfield project tools and services in 1H2019 *(%)*
Drilling	**12.0**	15.4	-22.1%	**9.4%**	8.2%
Well completion	**23.7**	61.4	-61.4%	**18.6%**	32.7%
Production enhancement	**91.8**	111.2	-17.4%	**72.0%**	59.1%
Total	**127.5**	188.0	-32.2%	**100%**	100%

Drilling

The Group's revenue from drilling amounted to approximately HK$12.0 million in 1H2020, which decreased by approximately HK$3.4 million or approximately 22.1% from approximately HK$15.4 million in 1H2019. The decrease was mainly due to the decrease in the provision of drilling services in Northwestern China.

Well Completion

In 1H2020, the Group's revenue from well completion amounted to approximately HK$23.7 million, which decreased by approximately HK$37.7 million or approximately 61.4% from approximately HK$61.4 million in 1H2019. The decrease was mainly due to the decrease in sales of well completion tools in the China market and other overseas regions.

Production Enhancement

In 1H2020, the Group's revenue from production enhancement amounted to approximately HK$91.8 million, which decreased by approximately HK$19.4 million or approximately 17.4% from approximately HK$111.2 million in 1H2019. The decrease was mainly due to the decrease in the provision of production enhancement services and fracturing services in the China market.

CUSTOMER ANALYSIS

Customer	**1H2020** *(HK$ million)*	1H2019 *(HK$ million)*	Approximate percentage change *(%)*	**Approximate percentage of total revenue in 1H2020** *(%)*	Approximate percentage of total revenue in 1H2019 *(%)*
Customer 1	**80.8**	81.9	-1.3%	**53.2%**	39.9%
Customer 2	**16.6**	18.7	-11.2%	**10.9%**	9.1%
Customer 3	**14.5**	22.3	-35.0%	**9.5%**	10.8%
Customer 4	**5.3**	3.8	39.5%	**3.5%**	1.8%
Customer 5	**4.9**	1.3	276.9%	**3.2%**	0.6%
Customer 6	**4.1**	–	N/A	**2.7%**	0.0%
Customer 7	**3.4**	–	N/A	**2.2%**	0.0%
Customer 8	**3.3**	6.9	-52.2%	**2.2%**	3.4%
Other customers	**19.1**	70.6	-73.0%	**12.6%**	34.4%
Total	**152.0**	205.5	-26.0%	**100%**	100%

Revenue from Customer 1 amounted to approximately HK$80.8 million, which decreased by approximately HK$1.1 million or approximately 1.3% from approximately HK$81.9 million in 1H2019. This decrease was mainly attributable to the decrease in fracturing services provided to this customer in Southwestern China, which was partly offset by the increase in sales of tools and accessories for underground gas storage facilities to this customer in Northern China and the increase in drilling services provided to this customer in Northern China. Revenue from Customer 2 amounted to approximately HK$16.6 million, which decreased by approximately HK$2.1 million or approximately 11.2% from approximately HK$18.7 million in 1H2019. The decrease was mainly related to the decrease in sales of well completion tools in other regions in China. Revenue from Customer 3 amounted to approximately HK$14.5 million, which decreased by approximately HK$7.8 million or approximately 35.0% from approximately HK$22.3 million in 1H2019. Such decrease was mainly attributable to the decrease in oilfield services provided to this customer in the Middle East. Revenue from Customer 4 increased by approximately HK$1.5 million or approximately 39.5%, from approximately HK$3.8 million in 1H2019 to approximately HK$5.3 million in 1H2020. This increase was mainly attributable to the increase in the sales of well completion tools to this customer in other overseas markets. Revenue from Customer 5 increased by approximately HK$3.6 million or approximately 276.9% from approximately HK$1.3 million in 1H2019 to approximately HK$4.9 million in 1H2020. Such increase in revenue was mainly due to the increase in sales of well completion tools in other regions in China. Revenue from Customer 6 amounted to approximately HK$4.1 million and such revenue was generated from the sales of production enhancement tools in Northern China. Revenue from Customer 7 amounted to approximately HK$3.4 million and such revenue was generated from sales of well completion tools in other regions in China. Revenue from Customer 8 decreased by approximately HK$3.6 million or approximately 52.2% from approximately HK$6.9 million in 1H2019 to approximately HK$3.3 million in 1H2020. This decrease was mainly attributable to the decrease in provision of consultancy services in the China market. Revenue from other customers amounted to approximately HK$19.1 million in 1H2020, which decreased by approximately HK$51.5 million or approximately 73.0% from approximately HK$70.6 million in 1H2019. Such decrease was mainly due to the decrease in sales of well completion tools and production enhancement tools in China and other overseas markets.

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, termination, 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. The Group has arranged 46 trainings consisting of more than 3,845 hours in total and 226 employees have attended these training programs in 1H2020. Besides, the Company implemented new talents selection system to expand the promotion channel for staff in order to realise a win-win situation for both the Company and employees.

To cope with the development trend of the industry, the Group streamlined the organisation structure and the cost structure of all service lines as well as the supporting departments. The Company paid high attention to talent introduction and has recruited some international experts who are good at market development as well. The total headcount was 475 employees as at 30 June 2020, representing an increase of approximately 24.0% as compared with that of 383 employees as at 31 December 2019.

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 services lines, such as turbine-drilling, directional drilling, multistage fracturing, downhole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid. In 1H2020, the Group continued to seek advancement in technology and introduced new products to the market, including the following:

- Successfully designed, tested and produced 4 ½”-15.1# big bore drillable 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 3 ½” 15K PSI surface control sub-surface safety valve which can be used in well completion projects with extra-high pressure and high temperatures.

- Successfully designed and tested 5 ½” metal to metal seal dissolvable bridge plug, 5” 185°C high temperature dissolvable bridge plug and 3 ½” second generation dissolvable bridge plug which can substantially shorten the operation time and in turn save operation cost for multistage perforation fracturing operations.

- Successfully designed dissolvable pump out plug which can be used in multistage perforation fracturing operations.

The Group pays great attention to the registration of patents and always encourages application for patents to protect its intellectual property. As at 30 June 2020, the Group had 37 utility model patents and 14 innovation patents and was in the process of applying for 3 utility model patents and 21 innovation patents.

The Group will continue to focus on developing well completion and production enhancement tools and technologies for oilfields and gas fields, including various new models of hydraulic set retrievable packer and fast drill metal bridge plug. In order to maintain its leading position in the high-end oilfield services sector, the Group will continue its efforts in developing oilfield services tools and technologies through in-house research and development and through cooperation with oilfield services technology companies.

OUTLOOK

The Brent crude oil price was very volatile in 2020 which reached approximately US$72/barrel in January 2020, bottomed at approximately US$16/barrel in April 2020 and then rebound to approximately US$46/barrel in August 2020. The low and volatile oil price environment will reduce the capital and operating expenditure of oil and gas companies and will result in a slow-down in the overall exploration and production activities, increasing the possibility of delay and cancellation of tenders and orders. While the production enhancement services provided by the Group for the shale gas fields in Southwestern China will continue to contribute relatively stable income for the Group's operations, the oilfield and gas field services industry will continue to be challenging for the rest of 2020.

Looking ahead to the second half of 2020, we will continue to put efforts into the marketing and promotion of the Group's oilfield and gas field 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 and gas field services technologies and tools in order to further enhance our capability to provide high-end oilfield and gas field services in the China and overseas markets.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited As at 30 June 2020** ***HK$'000***	Audited As at 31 December 2019 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**335,654**	357,679
Intangible assets		**95,749**	95,462
Right-of-use assets		**41,086**	21,814
Investment in an associate		**2,077**	–
Financial asset at fair value through profit or loss		**5,184**	7,298
Other receivables, deposits and prepayments		**32,817**	31,219
		512,567	513,472
Current assets			
Inventories		**73,972**	56,890
Trade receivables	*5*	**181,394**	240,498
Contract assets		**75,398**	51,680
Other receivables, deposits and prepayments		**57,418**	69,798
Pledged bank deposits		**2,562**	4,803
Cash and cash equivalents		**21,032**	29,447
		411,776	453,116
Total assets		**924,343**	966,588

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**Unaudited As at 30 June 2020** ***HK$'000***	Audited As at 31 December 2019 *HK$'000*
EQUITY AND LIABILITIES			
Equity			
Share capital		**2,001,073**	2,001,073
Other reserves		**1,229**	24,216
Accumulated losses		**(1,645,966)**	(1,643,881)
		356,336	381,408
Non-controlling interests		**25,274**	24,307
Total equity		**381,610**	405,715
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*7*	**133,016**	25,478
Lease liabilities		**17,354**	10,155
Deferred tax liabilities		**217**	233
		150,587	35,866
Current liabilities			
Trade payables	*6*	**121,366**	132,761
Other payables and accruals		**78,978**	83,423
Contract liabilities		**15,722**	12,247
Lease liabilities		**10,319**	2,587
Bank and other borrowings	*7*	**164,733**	293,989
Current income tax liabilities		**1,028**	–
		392,146	525,007
Total liabilities		**542,733**	560,873
Total equity and liabilities		**924,343**	966,588

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June **2020** ***HK$'000***	 2019 *HK$'000*
Revenue	*4*	**151,950**	205,489
Other income		**–**	796
Operating costs			
Material costs		**(29,456)**	(51,714)
Depreciation of property, plant and equipment		**(25,803)**	(29,876)
Depreciation of right-of-use assets		**(3,767)**	(416)
Amortisation of intangible assets		**(35)**	(14)
Expenses related to short-term leases		**(1,443)**	(2,898)
Employee benefit expenses		**(41,399)**	(43,510)
Distribution expenses		**(2,223)**	(3,943)
Technical service fees		**(22,494)**	(15,161)
Research and development expenses		**(4,020)**	(5,317)
Entertainment and marketing expenses		**(1,894)**	(3,422)
Net reversal of impairment/(impairment loss) on financial assets		**251**	(1,798)
Net impairment loss on contract assets		**(782)**	–
Provision for inventories losses		**(3,462)**	–
Write-off of inventories		**(1,212)**	–
Other expenses	*8*	**(17,067)**	(25,847)
Other gains/(losses), net	*9*	**3,111**	(228)
Operating profit		**255**	22,141
Finance income		**41**	54
Finance costs		**(12,089)**	(12,001)
Finance costs, net	*10*	**(12,048)**	(11,947)
Share of loss of an associate		**(37)**	–
(Loss)/profit before income tax		**(11,830)**	10,194
Income tax expense	*11*	**(1,032)**	(2,443)
(Loss)/profit for the period		**(12,862)**	7,751
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(12,394)**	(5,426)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	**Unaudited Six months ended 30 June 2020** ***HK$'000***	2019 *HK$'000*
Other comprehensive loss for the period, net of tax		**(12,394)**	(5,426)
Total comprehensive (loss)/income for the period		**(25,256)**	2,325
(Loss)/profit for the period attributable to:			
Owners of the Company		**(13,829)**	8,006
Non-controlling interests		**967**	(255)
		(12,862)	7,751
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		**(26,223)**	2,580
Non-controlling interests		**967**	(255)
		(25,256)	2,325
(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:	*12*		
Basic (loss)/earnings per share *(HK cents)*		**(0.8)**	0.5
Diluted (loss)/earnings per share *(HK cents)*		**(0.8)**	0.5

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June 2020	2019
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from/(used in) operations	**35,300**	(17,482)
Interest paid	**(10,738)**	(9,630)
Income tax paid	**(4)**	(250)
Net cash generated from/(used in) operating activities	**24,558**	(27,362)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(16,562)**	(7,879)
Proceeds from disposal of property, plant and equipment	**493**	128
Purchases of intangible assets	**(323)**	–
Proceeds from disposal on equity interest of a subsidiary without loss on control	**13,043**	–
Interest received	**41**	54
Decrease in pledged bank deposits	**2,241**	4,651
Net cash used in investing activities	**(1,067)**	(3,046)
Cash flows from financing activities		
Proceeds from bank and other borrowings, shareholder's loan	**–**	20,000
Proceeds from bank and other borrowings, others	**75,527**	48,343
Repayments of bank and other borrowings, shareholder's loan	**–**	(20,000)
Repayments of bank and other borrowings, Term Loan	**(9,000)**	–
Repayments of bank and other borrowings, bondholders loans	**(7,000)**	–
Repayments of bank and other borrowings, bonds issued in 2020 ("**2020 Bonds**")	**(3,750)**	–
Repayments of bank and other borrowings, others	**(77,652)**	(40,437)
Principal elements of lease payments	**(8,869)**	–
Repayment of coupons of convertible bonds issued in 2018 ("**2018 Convertible Bonds**")	**–**	(1,338)
Repayment of coupons of convertible bonds issued in 2019 ("**2019 Convertible Bonds**")	**(1,003)**	–
Net cash (used in)/generated from financing activities	**(31,747)**	6,568
Net decrease in cash and cash equivalents	**(8,256)**	(23,840)
Cash and cash equivalents at beginning of period	**29,447**	39,315
Exchange losses on cash and cash equivalents	**(159)**	(287)
Cash and cash equivalents at end of period	**21,032**	15,188

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 had 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 2020 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 annual financial statements. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended 31 December 2019, 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 reclassified to conform with current year presentation.

During the period ended 30 June 2020, the Group reported a net loss attributable to owners of approximately HK$13,829,000. As at the same date, the Group had total bank and other borrowings of approximately HK$164,733,000 that are due within twelve months from the date of the condensed consolidated statement of financial position, while its cash and cash equivalents amounted to approximately HK$21,032,000 only.

Furthermore, the drop in international crude oil price caused by the price cut in Saudi Arabia caused a continuous slow-down in oil exploration and production activities. It affected the progress of ongoing project orders as well as future customers' demand of the Group's services.

During the period ended 30 June 2020, the directors of the Company (the "**Directors**") have completed a series of operating and financing activities to mitigate the liquidity pressure and to improve the financial position of the Group, including:

(i) On 22 January 2020, the Group has successfully entered into a supplemental agreement with the creditor of a two-year borrowing with a principal amount of HK$140,000,000. The borrowing was interest bearing at 5.5% per annum, with HK$30,000,000 originally maturing in April 2020 and the remaining balance in July 2020. Pursuant to the supplemental agreement, the entire outstanding principal amount will be repaid by monthly repayments of HK$3,000,000 from 1 April 2020 to 1 December 2020, HK$4,000,000 from 1 January 2021 to 1 December 2021 and HK$5,000,000 from 1 January 2022 to 31 December 2022, respectively.

(ii) On 4 March 2020, the Group has agreed in writing with a bondholder with principal amount of HK$15,000,000 originally maturing on 28 April 2020 to repay by monthly repayments of HK$1,000,000 from 28 April 2020 to 28 March 2021 and HK$3,000,000 on 28 April 2021, respectively.

On 28 March 2020, the Group has entered into a deed of assignment with a bondholder (the "**Ex-bondholder**") and an independent third party (the "**New Lender**"), pursuant to which the Ex-bondholder has assigned the bondholder loan with principal amount of HK$6,000,000 to the New Lender; and the due date for payment of the bondholder loan has been extended from 28 April 2020 to 28 April 2021.

(iii) On 24 March 2020, the Group has entered into a loan agreement with a shareholder (the "**2020 Shareholder's Loan**"), pursuant to which the shareholder has granted a HK$15,000,000 revolving facility to the Group for a term of one year from the date of drawdown. Such facility is unsecured and bears interest at 10% per annum. As at the date of this announcement, the Group has not yet drawn down any loan from this facility.

(iv) On 28 March 2020, the Group has entered into subscription agreements with two bondholders of the Group's convertible bonds in 2019 (the "**2019 Convertible Bonds**") agreeing to redeem the outstanding 2019 Convertible Bonds and further issued, among others, eight bonds to each of the relevant bondholders in the principal amounts of HK$2,125,000 and HK$1,625,000 per issued bond, respectively, and bearing interest at 13.5% per annum (the "**2020 Bonds**"). Each 2020 Bond will mature on respective maturity dates from 30 June 2020 to 31 March 2022 on a quarterly basis.

(v) On 8 April 2020, the Group has entered into a loan agreement to borrow RMB20 million (equivalent to approximately HK$22 million) from a bank located in the PRC with a maturity date of 7 April 2023 and bears interest at 6.9% per annum. The loan has been drawn down on the same date.

(vi) During the period ended 30 June 2020, in view of managing the working capital needs of the Group's oilfield projects and services, the Group has further entered into various borrowing facilities agreements with a bank located in the PRC with aggregate additional borrowing facilities amounted to approximately RMB43 million (equivalent to approximately HK$47 million), secured by the trade receivables of a production enhancement project in the PRC (the "**Project**"). Up to 30 June 2020, the Group has drawn down an aggregate amount of approximately RMB57 million (equivalent to approximately HK$63 million) under these new borrowing facilities and other borrowing facilities that were previously granted during the year ended 31 December 2019. These secured borrowings are immediately repayable upon the collection of the receivables from the customer of the Project or upon maturity of the banking facilities, whichever is earlier. These borrowings are interest-bearing. The Group is also actively negotiating with the bank for additional financing for the general working capital needs of the Group.

(vii) The Group continues its efforts to generate sufficient cash from operating activities by implementing measures in improving sales, generating cash from new sales or service contracts and containing capital and operating expenditures to fund the continuous repayments of the banks and other borrowings of the Group and retain sufficient working capital for general operation.

(viii) The Group continues to monitor the impact of the price cut in Saudi Arabia by actively following up with the customers on the progress of their ongoing and future projects.

In view of the working capital needs of the Group's oilfield projects and services and the funding required for repayments of the Group's bank and other borrowings of approximately HK$164,733,000 that are due within twelve months from the date of the condensed consolidated statement of financial position, coupled with the economic uncertainties as a result of the COVID-19 pandemic, the Directors may consider alternative source of financing including but not limited to the disposals of certain assets and/or businesses as and when appropriate in order to maintain sufficient working capital for the Group's 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 2020. 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 2020. Accordingly, the Directors consider that it is appropriate to prepare the interim condensed consolidated financial information on a going concern basis.

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total earnings.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

IAS 1 and IAS 8 (Amendments)	Definition of Material
IFRS 3 (Amendments)	Definition of a Business
IFRS 9, IAS 39 and IFRS 7 (Amendments)	Interest Rate Benchmark Reform
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting

The adoption of the above new standards and amendments did not have any significant impact on the preparation of these interim condensed consolidated financial information.

3.2 The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2022
IAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
IAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to IFRS Standards 2018-2020	Annual Improvements to IFRS Standards 2018-2020	1 January 2022

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

4 REVENUE AND SEGMENT INFORMATION

The Chief Operating Decision Maker (the "**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 2020 and 2019 are as follows:

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Oilfield project tools and services		
– Drilling work	**12,010**	15,354
– Well completion work	**23,658**	61,435
– Production enhancement work	**91,800**	111,205
Total oilfield project tools and services	**127,468**	187,994
Consultancy services		
– Integrated project management services	**5,995**	–
– Supervisory services	**14,899**	17,495
Total consultancy services	**20,894**	17,495
Others *(Note)*	**3,588**	–
Total revenue	**151,950**	205,489
Timing of revenue recognition		
At a point in time	**50,878**	74,720
Over time	**101,072**	130,769
	151,950	205,489

Note:

This represents the other revenue stream of the Group including manufacturing and sales of parts and accessories for medical equipment and machines producing medical supplies and metallic parts, accessories and consumables for civil aerospace equipment and telecommunication equipment.

For the Group's oilfield project tools and services and other revenue, contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to the unsatisfied contracts are not disclosed.

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 IFRS 15, the transaction price allocated to these unsatisfied contracts are not discussed.

(b) Segment results

The segment information for the six months ended 30 June 2020 and 2019 are as follows:

	Unaudited			
	Oilfield project tools and services *HK$'000*	**Consultancy services** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Six months ended 30 June 2020				
Total segment revenue	**127,468**	**20,894**	**3,588**	**151,950**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**127,468**	**20,894**	**3,588**	**151,950**
Segment results	**25,292**	**13,787**	**2**	**39,081**
Net unallocated expenses				**(50,911)**
Loss before income tax				**(11,830)**
Other information:				
Amortisation of intangible assets	**(35)**	**–**	**–**	**(35)**
Depreciation of property, plant and equipment	**(22,501)**	**–**	**–**	**(22,501)**
Depreciation of right-of-use assets	**(1,394)**	**–**	**(1,348)**	**(2,742)**
Net reversal of impairment on financial assets	**251**	**–**	**–**	**251**
Net impairment loss on contract assets	**(782)**	**–**	**–**	**(782)**
Provision for inventories losses	**(3,462)**	**–**	**–**	**(3,462)**
Write-off of inventories	**(1,212)**	**–**	**–**	**(1,212)**
Finance costs	**(3,431)**	**–**	**(123)**	**(3,554)**

	Unaudited			
	Oilfield project tools and services *HK$'000*	Consultancy services *HK$'000*	Others *HK$'000*	Total *HK$'000*
Six months ended 30 June 2019				
Total segment revenue	187,994	17,495	–	205,489
Inter-segment revenue	–	–	–	–
Revenue from external customers	187,994	17,495	–	205,489
Segment results	79,082	13,266	–	92,348
Net unallocated expenses				(82,154)
Profit before income tax				10,194
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	(1,645)	(153)	–	(1,798)

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 (loss)/profit before income tax is provided as follows:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Segment results	**39,081**	92,348
Other income	**–**	796
Depreciation of property, plant and equipment	**(3,302)**	(4,514)
Depreciation of right-of-use assets	**(1,025)**	–
Expenses related to short-term leases	**(1,311)**	(2,898)
Employee benefit expenses	**(24,654)**	(39,962)
Entertainment and marketing expenses	**(1,300)**	(3,450)
Other expenses	**(13,899)**	(23,179)
Other gains/(losses), net	**3,111**	1,946
Finance income	**41**	54
Finance costs	**(8,535)**	(10,947)
Share of loss of an associate	**(37)**	–
(Loss)/profit before income tax	**(11,830)**	10,194

The segment results included the material costs, technical service fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, distribution expenses, expenses related to short-term leases, employee benefit expenses, research and development expenses, entertainment and marketing expenses, net impairment loss on financial assets, net impairment loss on contract assets, provision for inventories losses, other expenses, other gains/(losses), net, finance costs and share of loss of an associate allocated to each operating segment.

5 TRADE RECEIVABLES

	Unaudited As at 30 June 2020 *HK$'000*	Audited As at 31 December 2019 *HK$'000*
Trade receivables	**446,966**	508,628
Less: provision for impairment of trade receivables	**(265,572)**	(268,130)
Trade receivables – net	**181,394**	240,498

As at 30 June 2020 and 31 December 2019, ageing analysis of gross trade receivables by services completion and delivery date are as follows:

	Unaudited As at 30 June 2020 *HK$'000*	Audited As at 31 December 2019 *HK$'000*
Up to 3 months	**82,894**	157,043
3 to 6 months	**44,235**	57,136
6 to 12 months	**59,802**	31,572
Over 12 months	**260,035**	262,877
Trade receivables	**446,966**	508,628
Less: provision for impairment of trade receivables	**(265,572)**	(268,130)
Trade receivables – net	**181,394**	240,498

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

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

Management has assessed the credit quality of customers on a case-by-case basis, taking into account of the financial positions, historical record, amounts and timing 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	
	2020	2019
	HK$'000	*HK$'000*
Opening amount	**268,130**	214,602
Net (reversal of impairment)/impairment loss	**(251)**	1,798
Written off of receivables	**–**	(1,417)
Exchange differences	**(2,307)**	(2,208)
Closing amount	**265,572**	212,775

For the period ended 30 June 2020, the reversal of impairment on receivables had been included in "net (reversal of impairment)/impairment loss on financial assets" amounted to HK$251,000 (30 June 2019: net impairment loss on financial assets of approximately HK$1,798,000).

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 with doubtful credit risk. Category 2 is for the customers conducting business in the PRC and other regions with lower credit risk. 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. Balances are fully provided for due to the significant increase in credit risk.

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 1-12% (31 December 2019: 1-12%) 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 2020 are approximately HK$197,200,000 and HK$68,372,000 respectively (31 December 2019: approximately HK$200,926,000 and HK$67,204,000 respectively).

As at 30 June 2020, bank borrowings are secured by the trade receivables of a subsidiary of the Group of approximately HK$66,556,000 (31 December 2019: HK$90,035,000).

6 TRADE PAYABLES

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade payables based on invoice date are as follows:

	Unaudited As at 30 June 2020 *HK$'000*	Audited As at 31 December 2019 *HK$'000*
Up to 3 months	**37,810**	62,892
3 to 6 months	**7,646**	11,480
6 to 12 months	**22,941**	1,263
Over 12 months	**52,969**	57,126
	121,366	132,761

7 BANK AND OTHER BORROWINGS

	Unaudited As at 30 June 2020 *HK$'000*	Audited As at 31 December 2019 *HK$'000*
Non-current		
Bank borrowings *(Note (i))*	**17,267**	3,715
Other borrowings *(Note (ii))*	**115,749**	21,763
	133,016	25,478
Current		
Bank borrowings *(Note (i))*	**79,726**	90,093
Convertible bonds – liability component *(Note (iii))*	**–**	27,865
Other borrowings *(Note (ii))*	**85,007**	176,031
	164,733	293,989
	297,749	319,467

(i) Bank borrowings

As at 30 June 2020, banking facilities of approximately HK$97,000,000 (31 December 2019: HK$94,000,000) were granted by banks to the Group, of which approximately HK$97,000,000 have been utilised by the Group (31 December 2019: HK$94,000,000). The Group has no undrawn banking facilities (31 December 2019: Nil). The facilities are secured by:

(i) corporate guarantee given by a subsidiary of the Group (31 December 2019: Same);

(ii) personal guarantee by directors of subsidiary of the Group (31 December 2019: Same);

(iii) buildings of the Group of HK$74,569,000 (31 December 2019: HK$78,202,000);

(iv) trade receivables of the Group of HK$66,556,000 (31 December 2019: HK$90,035,000); and

(v) pledged bank deposits of the Group of HK$2,562,000 (31 December 2019: HK$3,359,000).

(ii) Other borrowings

As at 30 June 2020, other borrowings of the Group include:

(a) Balances represent bondholders loans agreed with certain bondholders of HK$27,000,000 (31 December 2019: HK$34,000,000), bearing interest at 10% per annum, over which approximately HK$18,000,000 will be repayable within one year.

(b) Balances as at 31 December 2019 represent a two-year term loan with a principal amount of HK$140,000,000, bearing interest at 5.5% per annum, over which approximately HK$30,000,000 matured in April 2020 and the remaining matured in July 2020.

On 22 January 2020, the Group has successfully entered into a supplemental agreement with the creditor. Pursuant to the supplemental agreement, the entire outstanding principal amount will be repaid by monthly repayments of HK$3,000,000 from 1 April 2020 to 1 December 2020, HK$4,000,000 from 1 January 2021 to 1 December 2021 and HK$5,000,000 from 1 January 2022 to 31 December 2022, respectively.

(c) Balances represent three-year instalment loans of RMB16,407,000 (equivalent to approximate HK$17,984,000), 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.

(d) On 28 March 2020, the Group has entered into subscription agreements with two bondholders of the 2019 Convertible Bonds agreeing to redeem the outstanding 2019 Convertible Bonds and further issued, among others, eight 2020 Bonds to each of the relevant bondholders in the principal amounts of HK$2,125,000 and HK$1,625,000 per issued bond, respectively, and bearing interest at 13.5% per annum. Each 2020 Bond will mature on respective maturity dates from 30 June 2020 to 31 March 2022 on a quarterly basis.

(iii) Convertible bonds

	Unaudited As at 30 June 2020 *HK$'000*	Audited As at 31 December 2019 *HK$'000*
Convertible bonds	–	27,865

On 21 March 2019, the Group has agreed in writing with all bondholders of the convertible bonds issued in 2018 (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 "**Exchange Date**") with the same principal amount of HK$30,000,000. The 2019 Convertible Bonds bear 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 the 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 close of business on the maturity date. The values of the liability component and the equity conversion component were determined at the completion of the 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 Exchange 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. Derecognition of liability component of 2018 Convertible Bonds of HK$27,827,000 and recognition of liability component of 2019 Convertible Bonds of HK$26,077,000 resulted in a net derecognition of liability of HK$1,750,000.

On 28 March 2020, the Group has entered into subscription agreements with two bondholders of the 2019 Convertible Bonds agreeing to redeem the outstanding 2019 Convertible Bonds and further issued, among others, eight 2020 Bonds to each of the relevant bondholders in the principal amounts of HK$2,125,000 and HK$1,625,000 per issued bond, respectively, and bearing interest at 13.5% per annum. Each 2020 Bond will mature on respective maturity dates from 30 June 2020 to 31 March 2022 on a quarterly basis.

Upon the redemption of the 2019 Convertible Bonds and the issuance of the 2020 Bonds, the liability component of the 2019 Convertible Bonds of HK$28,130,000 was derecognised and the same amount of the 2020 Bonds is recognised in the interim condensed consolidated statement of financial position without cash settlement. The equity component of the 2019 Convertible Bonds of HK$11,744,000 recognised as "Convertible bonds reserve" in the "Other reserves" was transferred to the accumulated losses upon the redemption of the 2019 Convertible Bonds.

Movements in convertible bonds are analysed as follows:

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Opening amount	**27,865**	27,482
Exchange of the 2018 Convertible Bonds	**–**	(1,750)
Redemption of the 2019 Convertible Bonds	**(28,130)**	–
Interest expenses	**1,268**	2,371
Interest paid	**(1,003)**	(1,338)
Closing amount – current convertible bonds	**–**	26,765

8 OTHER EXPENSES

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Communications	**341**	456
Professional service fees	**6,037**	6,816
Motor vehicle expenses	**391**	873
Travelling	**2,825**	6,084
Office utilities	**1,664**	3,817
Other tax-related expenses and custom duties	**680**	458
Share-based compensation – non-employee *(Note)*	**–**	6,279
Others	**5,386**	1,671
Less: other expenses attributable for research and development	**(257)**	(607)
	17,067	25,847

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 amount, bearing interest at the rate of 10% per annum and repayable monthly in arrears. The difference of fair values of the 2019 Convertible Bonds and 2018 Convertible Bonds of HK$6,279,000 at the Exchange 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 GAINS/(LOSSES), NET

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Foreign exchange gains	**1,165**	279
Gains on disposals of property, plant and equipment	**410**	914
Government grant	**1,892**	1,112
Loss on disposal of a subsidiary	**–**	(3,089)
Others	**(356)**	556
	3,111	(228)

10 FINANCE COSTS, NET

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Interest expenses:		
– Bank and other borrowings (excluding convertible bonds)	**(10,339)**	(9,465)
– Lease liabilities	**(482)**	(165)
– Convertible bonds	**(1,268)**	(2,371)
Finance costs	**(12,089)**	(12,001)
Finance income:		
– Interest income from bank deposits	**41**	54
Finance income	**41**	54
Finance costs, net	**(12,048)**	(11,947)

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 2020 (30 June 2019: 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 2019: 15%) during the period. Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% (30 June 2019: 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 2020 (30 June 2019: Same).

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current tax	**1,032**	250
Deferred tax	**–**	2,193
Income tax expense	**1,032**	2,443

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
(Loss)/profit attributable to owners of the Company *(HK$'000)*	**(13,829)**	8,006
Weighted average number of ordinary shares in issue *(Number of shares in thousand)*	**1,726,674**	1,726,674
Basic and diluted (loss)/earnings per share *(HK cents)*	**(0.8)**	0.5

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

Diluted (loss)/earnings 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 respective period ended 30 June 2020 and 30 June 2019, diluted (loss)/earnings per share was the same as basic (loss)/earnings per share since all potential ordinary shares are anti-dilutive as both the conversion of potential ordinary shares in relation to the share options and the conversion of convertible bonds have an anti-dilutive effect to the basic (loss)/earnings per share.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately HK$152.0 million in 1H2020, which has decreased by approximately HK$53.5 million or approximately 26.0% as compared with that of approximately HK$205.5 million in 1H2019. The decrease in revenue was due to the decrease in the provision of drilling services and production enhancement services in the China market, the decrease in the sales of oilfield project tools in the China market and overseas markets and the decrease in the provision of oilfield services in the Middle East.

Material Costs

In 1H2020, the Group's material costs were approximately HK$29.5 million, which has decreased by approximately 42.9% or approximately HK$22.2 million as compared with that of approximately HK$51.7 million in 1H2019. Material costs accounted for approximately 19.4% of the revenue in 1H2020, which was lower than that of approximately 25.2% in 1H2019. As the percentage of the Group's revenue generated from the provision of production enhancement services increased from approximately 54.1% in 1H2019 to approximately 60.4% in 1H2020 and the provision of such services utilised fewer materials than other projects, overall material costs as a percentage of revenue decreased in 1H2020.

Depreciation of Property, Plant and Equipment

In 1H2020, the depreciation of property, plant and equipment amounted to approximately HK$25.8 million, which has decreased by approximately HK$4.1 million or approximately 13.7% as compared with that of approximately HK$29.9 million in 1H2019. Depreciation expense decreased as more property, plant and equipment have been fully depreciated during 1H2020 as compared with 1H2019.

Employee Benefit Expenses

In 1H2020, the Group's employee benefit expenses were approximately HK$41.4 million, which has decreased by approximately HK$2.1 million or approximately 4.8% as compared with that of approximately HK$43.5 million in 1H2019. Such decrease resulted from the completion of a drilling consultancy and supervisory project in other overseas markets during 2019 and the decrease in share-based compensation in 1H2020.

Distribution Expenses

In 1H2020, the Group's distribution expenses amounted to approximately HK$2.2 million, which has decreased by approximately HK$1.7 million or approximately 43.6% from approximately HK$3.9 million in 1H2019. The decrease in distribution expenses mainly resulted from the decrease in revenue and sales activities in 1H2020.

Technical Service Fees

In 1H2020, the Group's technical service fees amounted to approximately HK$22.5 million, which has increased by approximately HK$7.3 million or approximately 48.0% from approximately HK$15.2 million in 1H2019. Technical services fees increased as the Group has utilised more external technical services for certain integrated project management services projects in other regions in China and other overseas markets and for a production enhancement service project in Southwestern China.

Provision for Inventories Losses/Write-off of Inventories

For 1H2020, provision for inventories losses and write-off of inventories amounted to approximately HK$4.7 million (1H2019: Nil). The provision for inventories losses and write-off of inventories in 1H2020 was mainly related to certain obsolete drilling tools and production enhancement tools with no future plan of usage.

Other Expenses

In 1H2020, the Group's other expenses were approximately HK$17.1 million, which has decreased by approximately HK$8.7 million or approximately 33.7% from approximately HK$25.8 million in 1H2019. The decrease was mainly due to the decrease in travelling expenses and the one-off non-employee share-based compensation in 1H2019.

Operating Profit

In 1H2020, the Group has recorded operating profit of approximately HK$0.3 million, which has decreased by approximately HK$21.8 million or approximately 98.6% from approximately HK$22.1 million in 1H2019. Such decrease in operating profit was mainly due to the decrease in revenue in 1H2020 and the provision for inventories losses and write-off of inventories in 1H2020.

Net Finance Costs

In 1H2020, the Group's net finance costs amounted to approximately HK$12.0 million, which has increased by approximately HK$0.1 million or approximately 0.8% as compared with that of approximately HK$11.9 million in 1H2019.

Income Tax Expense

In 1H2020, the Group's income tax expense amounted to approximately HK$1.0 million, representing a decrease of approximately HK$1.4 million or approximately 58.3% as compared with that of approximately HK$2.4 million in 1H2019, which was mainly due to decrease in deferred tax expense in 1H2020.

(Loss)/Profit for the Period

As a result of the foregoing, the Group recorded a loss of approximately HK$12.9 million in 1H2020 as compared with a profit of approximately HK$7.8 million in 1H2019.

(Loss)/Profit for the period attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company amounted to approximately HK$13.8 million in 1H2020 as compared with a profit attributable to owners of the Company of approximately HK$8.0 million in 1H2019.

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 2020, the Group's property, plant and equipment amounted to approximately HK$335.7 million, which has decreased by approximately HK$22.0 million or approximately 6.2% from approximately HK$357.7 million as at 31 December 2019. The decrease was primarily due to the recognition of depreciation expense in 1H2020, partly offset by the additions of certain machineries and equipment during 1H2020.

Intangible Assets

As at 30 June 2020, the Group's intangible assets, including goodwill, amounted to approximately HK$95.7 million, which was almost the same as the balance as at 31 December 2019.

Right-of-use Assets

As at 30 June 2020, the Group's right-of-use assets amounted to approximately HK$41.1 million, representing an increase of approximately HK$19.3 million or approximately 88.5% as compared with that of approximately HK$21.8 million as at 31 December 2019. The increase in right-of-use assets resulted from the acquisitions of certain machineries and equipment through finance lease arrangements during 1H2020.

Inventories

As at 30 June 2020, the Group's inventories amounted to approximately HK$74.0 million, representing an increase of approximately HK$17.1 million or approximately 30.1% as compared with that of approximately HK$56.9 million as at 31 December 2019. The average turnover days of inventories increased from approximately 289 days in 1H2019 to approximately 402 days in 1H2020. The increase in inventories was mainly due to delays in the consumption of materials as certain customers has requested for delays in the delivery of the Group's products and provision of services as a result of the COVID-19 pandemic.

Trade Receivables

As at 30 June 2020, the Group's trade receivables amounted to approximately HK$181.4 million, representing a decrease of approximately HK$59.1 million or approximately 24.6% as compared with that of approximately HK$240.5 million as at 31 December 2019. The average turnover days of trade receivables were approximately 251 days in 1H2020, representing an increase of approximately 69 days as compared with that of approximately 182 days in 1H2019. The increase of turnover days of trade receivables was mainly due to the delay in settlement of trade receivables by the customers in 1H2020 because of the impact of the COVID-19 pandemic.

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 2020, the Group's contract assets amounted to approximately HK$75.4 million, representing an increase of approximately HK$23.7 million or approximately 45.8% as compared with that of approximately HK$51.7 million as at 31 December 2019. The increase was mainly due to the increase in unbilled works related to the provision of fracturing services to certain customers during 1H2020.

Lease liabilities

As at 30 June 2020, the sum of current and non-current lease liabilities amounted to approximately HK$27.7 million, representing an increase of approximately HK$15.0 million or approximately 118.1% as compared with that of approximately HK$12.7 million as at 31 December 2019. The increase in lease liabilities resulted from the acquisitions of certain machineries and equipment through finance lease arrangements during 1H2020.

Trade Payables

As at 30 June 2020, the Group's trade payables were approximately HK$121.4 million, which have decreased by approximately HK$11.4 million or approximately 8.6% as compared with that of approximately HK$132.8 million as at 31 December 2019. The average turnover days of trade payables has increased from approximately 322 days in 1H2019 to approximately 443 days in 1H2020, representing an increase of approximately 121 days. The increase of turnover days was mainly due to slower settlement of trade payables to suppliers during 1H2020.

Liquidity and Capital Resources

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

As at 30 June 2020, the Group had cash and cash equivalents of approximately HK$21.0 million, representing a decrease of approximately HK$8.4 million as compared with that of approximately HK$29.4 million as at 31 December 2019. The cash and cash equivalents were mainly held in RMB and US$.

As at 30 June 2020, the Group's bank and other borrowings amounted to approximately HK$297.7 million (31 December 2019: HK$319.5 million), of which approximately 55.3% (31 December 2019: 92%) was repayable within one year. As at 30 June 2020, the Group's bank and other borrowings were mainly denominated in Hong Kong dollars and Renminbi whilst approximately 89.8% (31 December 2019: 81.1%) of such borrowings bore interest at fixed lending rate.

As at 30 June 2020, certain buildings, machineries and right-of-use assets of the Group with carrying values of approximately HK$74.6 million, HK$49.3 million and HK$21.4 million, respectively, (31 December 2019: HK$78.2 million, HK$57.3 million and Nil) were pledged to secure general banking facilities, instalment loan and lease liabilities granted to the Group.

Gearing ratio

As at 30 June 2020, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 44.2% (31 December 2019: 42.3%). Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings" and "current and non-current lease liabilities" as shown in the condensed consolidated statement of financial position) less cash and cash equivalents and pledged bank deposits. Total capital is calculated as "equity" as shown in the condensed consolidated statement of financial position plus net debt.

Foreign Exchange Risk

The Group operates in various countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$ and RMB. The foreign exchange risk mainly arises from the trade and other receivables, contract assets, cash and cash equivalents, trade and other payables, intra-group balance, bank and others borrowings and lease liabilities in foreign currencies. The Group has not used any financial instrument for hedging purpose in 1H2020 (1H2019: Nil).

Use of Proceeds

On 29 May 2020, the Company has completed the issue of eight bonds (the "**2020 Bonds**") in the aggregate principal amount of HK$30,000,000 and an aggregate of 120,000,000 unlisted warrants (the "**Warrants**") to each of Asian Equity Special Opportunities Portfolio Master Fund Limited and Ms. Ng Man Chi. The 2020 Bonds bear interest at the rate of 13.5% per annum with each issued bond and will mature on respective maturity dates from 30 June 2020 to 31 March 2022 on a quarterly basis. Further details of the 2020 Bonds and the Warrants were disclosed in the Company's announcements dated 28 March 2020 and 29 May 2020 and the Company's circular dated 12 May 2020 and were set out in note 7(ii) of this announcement.

As the subscription money payable by the subscribers of the 2020 Bonds and the Warrants in the aggregate principal amount of HK$30,000,000 has been applied towards the payment of and set-off against the redemption money payable by the Company to the bondholders of the Group's convertible bonds issued on 3 April 2019 in the aggregate principal amount of HK$30,000,000, the Company did not receive any net proceeds from the issue of the 2020 Bonds and the Warrants.

Off-balance Sheet Arrangements

As at 30 June 2020, the Group did not have any off-balance sheet arrangements (31 December 2019: nil).

CORPORATE GOVERNANCE

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

The Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code 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 of Hong Kong Limited. During 1H2020, the Company has complied with the CG Code.

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 1H2020.

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

During 1H2020, 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 1H2020 (1H2019: 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 is composed 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, 21 August 2020

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.