

Interim Report 2020

PETRO-KING OILFIELD SERVICES LIMITED
(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178



Petro-king
百勤油服

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Mr. Lee Tommy (李銘浚)

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Mr. Leung Lin Cheong (梁年昌)

Mr. Tong Hin Wor (湯顯和)

Mr. Xin Junhe (辛俊和)

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Mr. Leung Lin Cheong (梁年昌) (*Chairman*)

Mr. Tong Hin Wor (湯顯和)

Mr. Xin Junhe (辛俊和)

REMUNERATION COMMITTEE

Mr. Xin Junhe (辛俊和) (*Chairman*)

Mr. Wang Jinlong (王金龍)

Mr. Lee Tommy (李銘浚)

Mr. Leung Lin Cheong (梁年昌)

Mr. Tong Hin Wor (湯顯和)

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Mr. Lee Tommy (李銘浚)

Mr. Leung Lin Cheong (梁年昌)

Mr. Tong Hin Wor (湯顯和)

Mr. Xin Junhe (辛俊和)

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Mr. Wang Jinlong (王金龍)

Mr. Xin Junhe (辛俊和)

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Mr. Tung Tat Chiu, Michael (佟達釗)

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2020 (“**1H2020**”), Petro-King Oilfield Services Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) recorded a turnover of approximately HK\$152.0 million (six months ended 30 June 2019 (“**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 (the “**Board**”) of directors (the “**Directors**”) of the Company 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 <i>(HK\$ million)</i>	1H2019 <i>(HK\$ million)</i>	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 (HK\$ million)	1H2019 (HK\$ million)	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 (%)
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 (HK\$ million)	1H2019 (HK\$ million)	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 (%)
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 <i>(HK\$ million)</i>	1H2019 <i>(HK\$ million)</i>	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 <i>(Note)</i>	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 Group implemented new talents selection system to expand the promotion channel for staff in order to realise a win-win situation for both the Group 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 Group 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.

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 in 1H2020 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 13(ii) of this interim report.

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.

Pursuant to Rule 13.51B(1) of the Listing Rules, where there is a change in any of the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the course of the director’s, supervisor’s or chief executive’s term of office, the issuer must ensure that the change and the updated information regarding the director, supervisor or chief executive is set out in the next published annual or interim report of the listed issuer (whichever is the earlier). Mr. Leung Lin Cheong, an independent non-executive Director, ceased to be an independent non-executive director of Guangzhou Automobile Group Co., Ltd. with effect from 29 May 2020.

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.

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

As at 30 June 2020, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

The Company

Name of Director/ chief executive	Capacity/Nature of interest	Number of shares (Note 1)	Approximate percentage of interest in the Company
Mr. Wang Jinlong	Interest in a controlled Corporation (Note 2)	488,920,138(L)	28.32%
Mr. Lee Tommy	Beneficiary of trust (Note 3)	337,269,760(L)	19.53%
	Interest in a controlled Corporation (Note 4)	488,920,138(L)	28.32%
Mr. Zhao Jindong	Beneficial owner (Note 5)	8,678,833(L)	0.50%
Mr. Huang Yu	Beneficial owner (Note 6)	17,954,200(L)	1.04%

Notes:

1. "L" denotes long position and "S" denotes short position.
2. Mr. Wang Jinlong holds approximately 45.24% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 28.32% of the total number of issued shares of the Company. Therefore, Mr. Wang Jinlong is taken to be interested in the number of shares of the Company held by King Shine pursuant to Part XV of the SFO.
3. Lee & Leung (B.V.I.) Limited is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited and Lee & Leung Family Investment Limited are taken to be interested in the number of shares of the Company in which Lee & Leung (B.V.I.) Limited is interested for the purpose of the SFO.
4. On 26 April 2018, King Shine has charged the shares of the Company held by it to Zero Finance Hong Kong Limited ("**Zero Finance**"). Zero Finance is wholly-owned by aEasy Credit Investment Limited, which is wholly-owned by Earth Axis Investment Limited, which is wholly-owned by Zero Finance Group Holdings Limited, which is wholly-owned by aEasy Finance Holdings Limited, which is 99.99% owned by Mr. Lee Tommy. Therefore, Mr. Lee Tommy, aEasy Finance Holdings Limited, Zero Finance Group Holdings Limited, Earth Axis Investment Limited and aEasy Credit Investment Limited are taken to be interested in the number of shares of the Company in which Zero Finance is interested for the purpose of the SFO.
5. 2,500,000 share options were conditionally granted to Mr. Zhao Jindong on 29 May 2015 and became unconditional on 7 September 2015 and were adjusted to 2,678,833 share options after the completion of the rights issue of the Company on 8 July 2016. 6,000,000 share options were unconditionally granted to Mr. Zhao Jindong on 26 October 2016. Therefore under Part XV of the SFO, Mr. Zhao Jindong is taken to be interested in the underlying shares of the Company that he is entitled to subscribe for subject to the exercise of the share options granted.
6. 17,000,000 share options were granted to Mr. Huang Yu on 31 May 2019. Therefore under Part XV of the SFO, Mr. Huang Yu is taken to be interested in the underlying shares of the Company that he is entitled to subscribe for subject to the exercise of the share options granted. Apart from the grant of share options, 954,200 shares were also beneficially owned by Mr. Huang Yu.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interest	Number of Shares interested <i>(Note 1)</i>	Approximate percentage of the issued share capital of the Company
King Shine	Beneficial owner	488,920,138 (L)	28.32%
Ms. Zhou Xiaojun	Interest of spouse <i>(Note 4)</i>	488,920,138 (L)	28.32%
aEasy Finance Holdings Limited	Interest in a controlled corporation <i>(Note 2)</i>	488,920,138 (L)	28.32%
Zero Finance Group Holdings Limited	Interest in a controlled corporation <i>(Note 2)</i>	488,920,138 (L)	28.32%
Earth Axis Investment Limited	Interest in a controlled corporation <i>(Note 2)</i>	488,920,138 (L)	28.32%
aEasy Credit Investment Limited	Interest in a controlled corporation <i>(Note 2)</i>	488,920,138 (L)	28.32%
Zero Finance	Person having a security interest in shares <i>(Note 2)</i>	488,920,138 (L)	28.32%
Mr. Lee Lap	Founder of a discretionary trust <i>(Note 8)</i>	337,269,760 (L)	19.53%
HSBC International Trustee Limited	Trustee <i>(Note 8)</i>	337,269,760 (L)	19.53%

Name of shareholder	Capacity/ Nature of interest	Number of Shares interested (Note 1)	Approximate percentage of the issued share capital of the Company
Lee & Leung Family Investment Limited	Interest in a controlled corporation (Note 8)	337,269,760 (L)	19.53%
Lee & Leung (B.V.I.) Limited	Beneficial owner (Note 8) Interest in a controlled corporation (Note 8)	335,737,745 (L) 1,532,015 (L)	19.44% 0.09%
TCL Corporation	Interest in a controlled corporation (Note 3)	136,303,475 (L)	7.89%
T.C.L Industries Holdings (H.K.) Limited ("TCL HK")	Interest in a controlled corporation (Note 3)	136,303,475 (L)	7.89%
Exceltop Holdings Limited	Interest in a controlled corporation (Note 3)	136,303,475 (L)	7.89%
Jade Max Holdings Limited	Interest in a controlled corporation (Note 3)	136,303,475 (L)	7.89%
Jade Win Investment Limited ("Jade Win")	Beneficial owner	136,303,475 (L)	7.89%
UBS Group AG	Person having a security interest in shares (Note 5)	91,121,270 (L)	5.28%
UBS AG	Beneficial owner (Note 6)	670,857 (L) 670,857 (S)	0.05% 0.05%
	Person having a security interest in shares (Note 6)	70,093,285 (L)	5.68%
Greenwoods Asset Management Holdings Limited	Interest in a controlled corporation (Note 7)	62,824,713 (L)	5.08%



OTHER INFORMATION

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

Notes:

1. "L" denotes long position and "S" denotes short position.
2. On 26 April 2018, King Shine has charged the shares held by it to Zero Finance. Zero Finance is wholly-owned by aEasy Credit Investment Limited, which is wholly-owned by Earth Axis Investment Limited, which is wholly-owned by Zero Finance Group Holdings Limited, which is wholly-owned by aEasy Finance Holdings Limited, which is 99.99% owned by Mr. Lee Tommy. Therefore, Mr. Lee Tommy, aEasy Finance Holdings Limited, Zero Finance Group Holdings Limited, Earth Axis Investment Limited and aEasy Credit Investment Limited are taken to be interested in the number of shares of the Company in which Zero Finance is interested for the purpose of the SFO.
3. TCL Corporation directly holds 100% of the issued share capital of TCL HK, which in turn holds 100% of the issued share capital of Exceltop Holdings Limited, which in turn holds 100% of the issued share capital of Jade Max Holdings Limited, which in turn holds 100% of the issued share capital of Jade Win. Therefore, TCL Corporation, TCL HK, Exceltop Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of shares of the Company held by Jade Win pursuant to Part XV of the SFO.
4. Ms. Zhou Xiaojun is the spouse of Mr. Wang Jinlong. Therefore, Ms. Zhou Xiaojun is deemed to be interested in the shares of the Company in which Mr. Wang Jinlong is interested for the purpose of the SFO.
5. Information is extracted from the corporate substantial shareholder notice filed by UBS Group AG on 24 November 2017.

6. Information is extracted from the corporate substantial shareholder notice filed by UBS AG on 9 February 2015.
7. Information is extracted from the corporate substantial shareholder notices filed by Greenwoods Asset Management Holdings Limited, Greenwoods Asset Management Limited and Unique Element Corp. on 5 February 2015, and the individual substantial shareholder notice filed by Mr. Jiang Jinzhi on 5 February 2015.
8. Lee & Leung (B.V.I.) Limited directly holds approximately 19.44% of the total number of issued shares of the Company. It also holds approximately 63.99% of the issued share capital in Termbay Industries International (Holdings) Limited ("**Termbay Industries**"), where Termbay Industries directly holds 1,532,015 shares of the Company. Therefore, Lee & Leung (B.V.I.) Limited is taken to be interested in the number of shares of the Company held by Termbay Industries pursuant to Part XV of the SFO. Lee & Leung (B.V.I.) Limited is wholly-owned by Lee & Leung Family Investment Limited, which is wholly owned by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy, a non-executive Director) and the offspring of such children. Therefore, Mr. Lee Lap, Mr. Lee Tommy, HSBC International Trustee Limited and Lee & Leung Family Investment Limited are taken to be interested in the number of shares of the Company in which Lee & Leung (B.V.I.) Limited is interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2020, the Directors are not aware that there is any party (not being a Director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such shares.

PRE-IPO SHARE OPTION SCHEME

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



SHARE OPTION SCHEME

On 18 February 2013, the Company's Share Option Scheme was adopted. For 1H2020, no share options have been granted under the Share Options Scheme. Set out below are details of the movements of share options during 1H2020:

Grantees	Date of grant	Exercise price (HK\$)	Closing price immediately before the date of grant	Options	Options	Options	Options	Options
				outstanding as at 1 January 2020	granted since 1 January 2020	exercised since 1 January 2020	lapsed/ cancelled since 1 January 2020	Options outstanding as at 30 June 2020
Directors, chief executives and substantial shareholders								
Zhao Jindong	29 May 2015	1.2132 <i>(adjusted)</i>	1.28	2,678,833	-	-	-	2,678,833
	26 October 2016	0.529	0.520	6,000,000	-	-	-	6,000,000
Huang Yu	31 May 2019	0.1922	0.183	17,000,000	-	-	-	17,000,000
Employees and senior management								
	29 May 2015	1.2132 <i>(adjusted)</i>	1.28	24,538,096	-	-	3,536,056	21,002,040
	26 October 2016	0.529	0.520	31,040,000	-	-	3,740,000	27,300,000
	16 August 2018	0.326	0.32	5,000,000	-	-	-	5,000,000
Others								
	29 May 2015	1.2132 <i>(adjusted)</i>	1.28	107,153	-	-	-	107,153
Total				86,364,082	-	-	7,276,056	79,088,026

Notes:

1. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 29 May 2016 to 28 May 2022, both dates inclusive.

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

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

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

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

2. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 26 October 2017 to 25 October 2023, both dates inclusive.

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

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

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

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

3. 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 31 May 2020 to 30 May 2026, both dates inclusive.

Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 31 May 2021 to 30 May 2026, both dates inclusive.

Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 31 May 2022 to 30 May 2026, both dates inclusive.

Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 31 May 2023 to 30 May 2026, both dates inclusive.

The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 31 May 2024 to 30 May 2026, both dates inclusive.



OTHER INFORMATION

- 20% of the share options have been vested on the date falling on the first anniversary of the date of grant and exercisable from 16 August 2019 to 15 August 2025, both dates inclusive.

Another 20% of the share options shall be vested on the date falling on the second anniversary of the date of grant and exercisable from 16 August 2020 to 15 August 2025, both dates inclusive.

Another 20% of the share options shall be vested on the date falling on the third anniversary of the date of grant and exercisable from 16 August 2021 to 15 August 2025, both dates inclusive.

Another 20% of the share options shall be vested on the date falling on the fourth anniversary of the date of grant and exercisable from 16 August 2022 to 15 August 2025, both dates inclusive.

The remaining of the share options shall be vested on the date falling on the fifth anniversary of the date of grant and exercisable from 16 August 2023 to 15 August 2025, both dates inclusive.

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

Hong Kong, 21 August 2020



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	8	335,654	357,679
Intangible assets	8	95,749	95,462
Right-of-use assets	9	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	10(b)	32,817	31,219
		512,567	513,472
Current assets			
Inventories		73,972	56,890
Trade receivables	10(a)	181,394	240,498
Contract assets	5.2	75,398	51,680
Other receivables, deposits and prepayments	10(b)	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
EQUITY AND LIABILITIES			
Equity			
Share capital	11	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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	13	133,016	25,478
Lease liabilities	9	17,354	10,155
Deferred tax liabilities		217	233
		150,587	35,866
Current liabilities			
Trade payables	12(a)	121,366	132,761
Other payables and accruals	12(b)	78,978	83,423
Contract liabilities		15,722	12,247
Lease liabilities	9	10,319	2,587
Bank and other borrowings	13	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

		Unaudited Six months ended 30 June	
		2020	2019
	Note	HK\$'000	HK\$'000
Revenue	7	151,950	205,489
Other income	20(c)	–	796
Operating costs			
Material costs		(29,456)	(51,714)
Depreciation of property, plant and equipment	8	(25,803)	(29,876)
Depreciation of right-of-use assets	9	(3,767)	(416)
Amortisation of intangible assets	8	(35)	(14)
Expenses related to short-term leases	9	(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	10(a)	251	(1,798)
Net impairment loss on contract assets	5.2	(782)	–
Provision for inventories losses		(3,462)	–
Write-off of inventories		(1,212)	–
Other expenses	14	(17,067)	(25,847)
Other gains/(losses), net	15	3,111	(228)
Operating profit		255	22,141
Finance income		41	54
Finance costs		(12,089)	(12,001)
Finance costs, net	17	(12,048)	(11,947)
Share of loss of an associate		(37)	–
(Loss)/profit before income tax		(11,830)	10,194
Income tax expense	18	(1,032)	(2,443)
(Loss)/profit for the period		(12,862)	7,751
Other comprehensive loss			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(12,394)	(5,426)
Other comprehensive loss for the period, net of tax		(12,394)	(5,426)
Total comprehensive (loss)/income for the period		(25,256)	2,325

INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
(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:			
	19		
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 CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company				Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
Balance at 1 January 2020	2,001,073	24,216	(1,643,881)	381,408	24,307	405,715
Total comprehensive (loss)/income for the period ended 30 June 2020	-	(12,394)	(13,829)	(26,223)	967	(25,256)
Transactions with owners in their capacity as owners						
- Redemption of 2019 Convertible Bonds (Note 13 (iii))	-	(11,744)	11,744	-	-	-
- Recognition of share-based payment	-	1,151	-	1,151	-	1,151
Total transactions with owners, recognised directly in equity	-	(10,593)	11,744	1,151	-	1,151
Balance at 30 June 2020	2,001,073	1,229	(1,645,966)	356,336	25,274	381,610



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2019	2,001,073	34,872	(1,573,284)	462,661	959	463,620
Total comprehensive (loss)/income for the period ended 30 June 2019	-	(5,426)	8,006	2,580	(255)	2,325
Transactions with owners in their capacity as owners						
- Exchange of 2018 Convertible Bonds (Note 13(iii))	-	8,029	-	8,029	-	8,029
- Recognition of share-based payment	-	2,427	-	2,427	-	2,427
- Transfer of share-based payment upon expiry of share options	-	(18,885)	18,885	-	-	-
Total transactions with owners, recognised directly in equity	-	(8,429)	18,885	10,456	-	10,456
Balance at 30 June 2019	2,001,073	21,017	(1,546,393)	475,697	704	476,401

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 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 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.

2 BASIS OF PREPARATION (Continued)

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 report, 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;

2 BASIS OF PREPARATION (Continued)

- (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; and
- (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 or after 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 16 (Amendments)	COVID-19-Related Concessions	1 June 2020
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 ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2019.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management policies since year ended 31 December 2019.

5.2 Credit risk

Credit risk arises from cash and cash equivalents and pledged bank deposits, as well as credit exposures to the customers, including outstanding receivables and committed transactions.

(i) Risk management

To manage risk arising from cash and cash equivalents and pledged bank deposits, the Group only transacts with state-owned or reputable financial institutions in the PRC and the reputable international financial institutions outside of the PRC. There has been no history of default in relation to these financial institutions.

To manage risk arising from trade receivables, the Group has policies in place to ensure that sales of its services and products are made to customers with sufficient level of creditworthiness and the Group generally grants its customers a credit term of up to three months.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

(i) Risk management (Continued)

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

The credit risk of the other receivables is managed on Group basis, taking into account the historical default experience and the future prospectus of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default in each of these counterparties, as well as the loss upon default in each case.

(ii) Impairment of financial assets

The Group has five types of financial assets that are subject to the expected credit loss model:

- trade receivables;
- contract assets;
- other receivables and deposits;
- pledged bank deposit; and
- cash and cash equivalents.

Cash and cash equivalents and pledged bank deposits are also subject to the impairment, yet the identified impairment loss is immaterial because the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets without financing components.

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

The Group divided trade receivables and contract assets into two categories by the settlement pattern of customers to measure the expected loss rates. Category 1 is for customers conducting business in the Middle East with doubtful credit risk ("**Category 1**"). Category 2 is for customers conducting business in the PRC and other regions with lower credit risk ("**Category 2**"). With different types of customers, the Group calculated the expected loss rates respectively.

For Category 1, the expected credit losses for these customers are measured at individual basis with the receivables of these 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 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% (December 2019: 1-12%) and trade receivables more than 12 months overdue are 100% provided for.

On that basis, the loss allowance as at 30 June 2020 and 31 December 2019 was determined as follows for both trade receivables and contract assets.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

Category 1: Customers conducting business in the Middle East with doubtful credit risk

Trade receivables as at 30 June 2020	Current HK\$'000	Up to 3 months past due HK\$'000	3 to 6 months past due HK\$'000	6 to 12 months past due HK\$'000	Over 12 months past due HK\$'000	Total HK\$'000
Expected loss rates	100%	100%	100%	100%	100%	
Gross carrying amount – trade receivables	-	-	-	1,782	195,418	197,200
Loss allowance	-	-	-	(1,782)	(195,418)	(197,200)
Net carrying amount – trade receivables	-	-	-	-	-	-

Category 2: Other customers conducting business in the PRC and other regions with lower credit risk

Trade receivables as at 30 June 2020	Current HK\$'000	Up to 3 months past due HK\$'000	3 to 6 months past due HK\$'000	6 to 12 months past due HK\$'000	Over 12 months past due HK\$'000	Total HK\$'000
Expected loss rates	1%	1%	4%	12%	100%	
Gross carrying amount – trade receivables	82,894	44,235	29,093	31,372	62,172	249,766
Loss allowance	(829)	(442)	(1,164)	(3,765)	(62,172)	(68,372)
Net carrying amount – trade receivables	82,065	43,793	27,929	27,607	-	181,394

Total:

Trade receivables as at 30 June 2020	Current HK\$'000	Up to 3 months past due HK\$'000	3 to 6 months past due HK\$'000	6 to 12 months past due HK\$'000	Over 12 months past due HK\$'000	Total HK\$'000
Gross carrying amount – trade receivables	82,894	44,235	29,093	33,154	257,590	446,966
Loss allowance	(829)	(442)	(1,164)	(5,547)	(257,590)	(265,572)
Net carrying amount – trade receivables	82,065	43,793	27,929	27,607	-	181,394

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

(ii) *Impairment of financial assets (Continued)*

Trade receivables and contract assets (Continued)

Category 1: Customers conducting business in the Middle East with doubtful credit risk

Trade receivables as at 31 December 2019	Current HK\$'000	Up to 3	3 to 6	6 to 12	Over 12	Total HK\$'000
		months past due HK\$'000	months past due HK\$'000	months past due HK\$'000	months past due HK\$'000	
Expected loss rates	100%	100%	100%	100%	100%	
Gross carrying amount – trade receivables	-	-	477	11,271	189,178	200,926
Loss allowance	-	-	(477)	(11,271)	(189,178)	(200,926)
Net carrying amount – trade receivables	-	-	-	-	-	-

Category 2: Other customers conducting business in the PRC and other regions with lower credit risk

Trade receivables as at 31 December 2019	Current HK\$'000	Up to 3	3 to 6	6 to 12	Over 12	Total HK\$'000
		months past due HK\$'000	months past due HK\$'000	months past due HK\$'000	months past due HK\$'000	
Expected loss rates	1%	1%	4%	12%	100%	
Gross carrying amount – trade receivables	157,043	57,136	14,883	16,106	62,534	307,702
Loss allowance	(1,571)	(571)	(595)	(1,933)	(62,534)	(67,204)
Net carrying amount – trade receivables	155,472	56,565	14,288	14,173	-	240,498

Total:

Trade receivables as at 31 December 2019	Current HK\$'000	Up to 3	3 to 6	6 to 12	Over 12	Total HK\$'000
		months past due HK\$'000	months past due HK\$'000	months past due HK\$'000	months past due HK\$'000	
Gross carrying amount – trade receivables	157,043	57,136	15,360	27,377	251,712	508,628
Loss allowance	(1,571)	(571)	(1,072)	(13,204)	(251,712)	(268,130)
Net carrying amount – trade receivables	155,472	56,565	14,288	14,173	-	240,498

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

As at 30 June 2020 and 31 December 2019, the balances of contract assets come from the customers conducted business in the PRC and other regions with lower credit risk. Thus, all contract assets are under Category 2.

Contract assets as at 30 June 2020	Current	Up to 3 months	3 to 6 months	6 to 12 months	Total
	HK\$'000	past due HK\$'000	past due HK\$'000	past due HK\$'000	
Expected loss rates	1%	1%	4%	12%	
Gross carrying amount – contract assets	39,322	29,823	3,676	3,881	76,702
Loss allowance	(393)	(298)	(147)	(466)	(1,304)
Net carrying amount – contract assets	38,929	29,525	3,529	3,415	75,398

Contract assets as at 31 December 2019	Current	Up to 3 months	3 to 6 months	6 to 12 months	Total
	HK\$'000	past due HK\$'000	past due HK\$'000	past due HK\$'000	
Expected loss rates	1%	1%	4%	12%	
Gross carrying amount – contract assets	51,043	1,159	–	–	52,202
Loss allowance	(510)	(12)	–	–	(522)
Net carrying amount – contract assets	50,533	1,147	–	–	51,680

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Group.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other receivables and deposits

Other receivables and deposits are measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, impairment is measured as lifetime expected credit losses. As at 30 June 2020, the Group's allowance for impairment of other receivables approximate to HK\$31,325,000 (31 December 2019: HK\$31,325,000).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of receiving additional cash.

5.3 Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

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.

In view of such circumstances, 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 as summarised in Note 2 of these interim condensed consolidated financial information.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.4 Fair value estimation

The carrying amounts of the Group's trade receivables, other receivables and deposits, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings and lease liabilities are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

For the financial assets at fair value through profit or loss, the table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 30 June 2020 and 31 December 2019, the financial asset at fair value through profit or loss is measured at fair value under level 3 valuation method.

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

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

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

Specific valuation techniques used to value financial instruments include:

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



6 SEASONAL NATURE OF THE BUSINESS

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

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

7 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.

7 REVENUE AND SEGMENT INFORMATION (Continued)

(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 IFRS15, 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 IFRS15, the transaction price allocated to these unsatisfied contracts are not discussed.



7 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results

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

	Oilfield project tools and services HK\$'000	Unaudited 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)
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)

7 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment results (Continued)

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.

8 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment HK\$'000	Unaudited Intangible assets – computer software HK\$'000	Intangible assets – goodwill HK\$'000
Six months ended 30 June 2020			
Net book value			
Opening amount as at 1 January 2020	357,679	6	95,456
Additions	11,868	323	–
Depreciation and amortisation <i>(Note)</i>	(25,803)	(35)	–
Disposals	(83)	–	–
Exchange differences	(8,007)	(1)	–
Closing amount as at 30 June 2020	335,654	293	95,456
Six months ended 30 June 2019			
Net book value			
Opening amount as at 1 January 2019	384,354	29	95,456
Additions	15,506	–	–
Depreciation and amortisation <i>(Note)</i>	(29,876)	(14)	–
Disposals	(1,295)	–	–
Exchange differences	(3,479)	–	–
Closing amount as at 30 June 2019	365,210	15	95,456

As at 30 June 2020, the carrying amounts of the net assets of the Group is lower than its market capitalisation of the Group. The Group has followed the guidance of IAS 36 “Impairment of Assets” to determine whether the property, plant and equipment and intangible assets are impaired. Based on the results, no impairment is required for the period ended 30 June 2020.

9 LEASE
(a) Amounts recognised in the interim condensed consolidated statement of financial position

	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
Right-of-use assets		
Land use rights	9,005	9,306
Leasehold land	5,570	5,915
Properties leases	5,107	6,593
Machineries leases	21,404	–
	41,086	21,814
Lease liabilities		
Current	10,319	2,587
Non-current	17,354	10,155
	27,673	12,742

During the period ended 30 June 2020, additions to the right-of-use assets were HK\$24,084,000 (During the period ended 30 June 2019: Nil).

(b) Amounts recognised in the interim condensed consolidated statement of comprehensive income

	<i>Note</i>	Unaudited Six months ended 30 June 2020 HK\$'000	2019 HK\$'000
Depreciation of right-of-use assets			
Land use rights		107	112
Leasehold land		108	112
Properties leases		1,362	192
Machineries leases		2,190	–
		3,767	416
Interest expense (included in finance costs)	17	482	165
Expenses related to short-term leases		1,443	2,898

During the period ended 30 June 2020, the total cash outflow for leases were HK\$10,794,000 (During the period ended 30 June 2019: HK\$3,063,000).

10 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS
(a) 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.

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

(a) Trade receivables (Continued)

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)
	<hr/>	<hr/>
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).

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

(b) Other receivables, deposits and prepayments

	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
Other receivables, deposits and prepayments	121,560	132,342
Less: provision for impairment of other receivables	(31,325)	(31,325)
Other receivables, deposits and prepayments, net	90,235	101,017
	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
Deposits and other receivables – third parties	8,230	9,304
Receivables from deemed disposal of equity interest in a subsidiary	1,567	14,610
Receivables on land bidding in the PRC	2,653	2,709
Receivables from disposal of a subsidiary	1,552	1,561
Value-added tax recoverable	52,183	53,920
Rental deposits	664	903
Cash advances to staff	4,135	3,278
Advances to the Directors and senior management (<i>Note 20</i>)	321	36
Other receivables – related party (<i>Note 20</i>)	4,811	5,250
Prepayments for materials	9,721	7,367
Prepayments for property, plant and equipment	3,413	–
Prepayments for others	985	2,079
	90,235	101,017
Less:		
Non-current value-added tax recoverables	(29,404)	(31,219)
Prepayments for property, plant and equipment	(3,413)	–
Non-current portion	(32,817)	(31,219)
Current portion	57,418	69,798

11 SHARE CAPITAL

	Unaudited Number of shares '000	Total HK\$'000
Issued and fully paid:		
At 31 December 2019, 1 January 2020 and 30 June 2020	1,726,674	2,001,073
At 1 January 2019 and 30 June 2019	1,726,674	2,001,073

12 TRADE AND OTHER PAYABLES AND ACCRUALS

(a) 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

(b) Other payables and accruals

	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
Other payables – third parties	37,299	36,240
Other payables – staff related expenses	10,658	13,746
Accrued payroll and welfare	7,096	10,373
Other payables for purchase of plant and machineries	10,620	11,901
Government grant	6,086	2,297
Other payables – related parties (Note 20)	565	786
Other tax and surcharge payables	6,654	8,080
	78,978	83,423

13 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
Total	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).

13 BANK AND OTHER BORROWINGS (Continued)
(ii) Other borrowings

	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
Non-current		
Bondholders loans (Note a)	9,000	9,000
Term loan (Note b)	89,000	–
Installment loans (Note c)	6,825	12,763
2020 Bonds (Note d)	10,924	–
	115,749	21,763
Current		
Bondholders loans (Note a)	18,000	25,000
Term loan (Note b)	42,000	140,000
Instalment loans (Note c)	11,159	11,031
2020 Bonds (Note d)	13,848	–
	85,007	176,031
Total	200,756	197,794

- (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.

13 BANK AND OTHER BORROWINGS (Continued)

(ii) Other borrowings (Continued)

- (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 close of business on 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 business day immediately prior 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.

13 BANK AND OTHER BORROWINGS (Continued)

(iii) Convertible bonds (Continued)

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 (Note 14). 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

14 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 (<i>Note</i>)	–	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.

15 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)

16 SHARE-BASED PAYMENTS

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

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

	Share options by grant date						
	29 April 2014	29 May 2015	26 October 2016	1 December 2016	28 June 2018	16 August 2018	31 May 2019
Number of ordinary shares granted:							
– Directors	800,000	2,500,000	6,000,000	–	–	–	–
– Senior management	12,100,000	26,000,000	20,000,000	17,000,000	3,000,000	5,000,000	17,000,000
– Employees	7,100,000	31,200,000	42,000,000	–	–	–	–
Exercise price	HK\$2.60	HK\$1.30	HK\$0.53	HK\$0.53	HK\$0.38	HK\$0.33	HK\$0.19
Contractual option term	Five years	Seven years	Seven years	Seven years	Seven years	Seven years	Seven years
Expiry date	28 April 2019	28 May 2022	25 October 2023	30 November 2023	27 June 2025	15 August 2025	30 May 2026

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

16 SHARE-BASED PAYMENTS (Continued)

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

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

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

	Share options by grant date						
	29 April 2014	29 May 2015	26 October 2016	1 December 2016	28 June 2018	16 August 2018	31 May 2019
Range of fair value of options granted (HK\$)	0.87 – 0.88	0.62 – 0.66	0.19 – 0.25	0.23 – 0.26	0.15 – 0.17	0.14-0.16	0.08-0.10
Weighted average share price at the grant date (HK\$)	2.44	1.28	0.52	0.53	0.35	0.32	0.18
Expected volatility (Note)	49.72%	56.49%	47.97%	47.75%	49.59%	49.45%	53.41%
Expected option life	5 years	7 years	7 years	7 years	7 years	7 years	7 years
Dividend yield	1.15%	Nil	Nil	Nil	Nil	Nil	Nil
Annual risk-free interest rate	1.42%	1.37%	0.75%	1.18%	2.19%	2.08%	1.41%

Note:

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

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

16 SHARE-BASED PAYMENTS (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 30 June 2020 are as follow:

	Number of share options			As at 30 June 2020
	As at 1 January 2020	Granted during the period	Forfeited, lapsed or expired during the period	
Grant date				
29 May 2015	27,324,082	–	(3,536,056)	23,788,026
26 October 2016	37,040,000	–	(3,740,000)	33,300,000
16 August 2018	5,000,000	–	–	5,000,000
31 May 2019	17,000,000	–	–	17,000,000
Total	86,364,082	–	(7,276,056)	79,088,026
Weighted average exercise price (HK\$)				
Grant date				
29 May 2015	1.21	–	–	1.21
26 October 2016	0.53	–	–	0.53
16 August 2018	0.33	–	–	0.33
31 May 2019	0.19	–	–	0.19



16 SHARE-BASED PAYMENTS (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable as at 30 June 2019 are as follow:

	As at 1 January 2019	Granted during the period	Number of share options Forfeited, lapsed or expired during the period	As at 30 June 2019
Grant date				
29 April 2014	5,145,665	–	(5,145,665)	–
29 May 2015	35,039,121	–	(3,080,449)	31,958,672
26 October 2016	45,860,000	–	(4,860,000)	41,000,000
1 December 2016	17,000,000	–	(10,200,000)	6,800,000
28 June 2018	3,000,000	–	(3,000,000)	–
16 August 2018	5,000,000	–	–	5,000,000
31 May 2019	–	17,000,000	–	17,000,000
Total	111,044,786	17,000,000	(26,286,114)	101,758,672

Weighted average exercise price (HK\$)

Grant date				
29 April 2014	2.38	–	–	2.38
29 May 2015	1.21	–	–	1.21
26 October 2016	0.53	–	–	0.53
1 December 2016	0.53	–	–	0.53
28 June 2018	0.38	–	–	0.38
16 August 2018	0.33	–	–	0.33
31 May 2019	–	0.19	–	0.19

No share options have been exercised by the option holders during the period ended 30 June 2020 and 2019.

During the period ended 30 June 2020, share-based payment expense of HK\$1,151,000 for the Share Option Scheme was recognised in the interim condensed consolidated statement of comprehensive income (30 June 2019: HK\$2,427,000).

17 FINANCE COSTS, NET

	Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 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)
	(12,089)	(12,001)
Finance costs	(12,089)	(12,001)
Finance income:		
– Interest income from bank deposits	41	54
	41	54
Finance income	41	54
Finance costs, net	(12,048)	(11,947)

18 INCOME TAX EXPENSE

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

For the Company's subsidiaries, income tax is provided on the basis of their profits for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purpose. The applicable enterprise income tax rate for the PRC subsidiaries of the Group was 25% for the six months ended 30 June 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).

18 INCOME TAX EXPENSE (Continued)

	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

19 (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.

20 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2020 and 2019, and balances arising from related party transactions as at 30 June 2020 and 31 December 2019.

Name	Relationships
Mr. Wang JinLong	Shareholder and Director
Mr. Zhao JinDong	Director
Mr. Zheng WeiZhong (Note (i))	Senior management
Ms. Sun JinXia (Note (ii))	Senior management
Mr. Chan KwokYuen Elvis	Senior management
Mr. Huang Yu (Note (iii))	Senior management
King Shine Group Limited	Shareholder
Shenzhen Fluid Science & Technology Corp. Ltd.	Mr. Wang JinLong is the key management personnel of the company

Note:

- (i) Resigned from the Group on 31 May 2019.
- (ii) Resigned from the Group on 7 May 2019.
- (iii) Appointed as Chief Executive Officer on 31 May 2019.

(a) Key management compensation

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

	Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Salaries and other short-term employee benefits	2,602	3,690
Share-based payments	522	941
	3,124	4,631



20 RELATED PARTY TRANSACTIONS (Continued)
(b) Amounts due from/(to) related parties

	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
Amounts due from related parties (Note 10) (Note (i))	5,132	5,286
Amounts due to related parties (Note 12) (Note (ii))	(565)	(786)

As at 30 June 2020 and 31 December 2019, the balances are interest-free, unsecured, receivable or repayable on demand and approximate to their fair values.

Note (i):

The balances mainly comprise of advances to the Directors and senior management and receivable from Shenzhen Fluid Science & Technology Corp. Ltd.

Note (ii):

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

(c) Related party transactions

The Group had entered into the following transactions with related parties during the period:

Name of related company	Relationship	Nature of transaction	Six months ended 30 June	
			2020 HK\$'000	2019 HK\$'000
Shenzhen Fluid Science & Technology Corp. Ltd.	Mr. Wang JinLong is the key management personnel of the company	Rental income from leasing the basement of the Group	-	796

The transactions were entered into at terms mutually agreed with the related parties in the ordinary course of the Group's business.