

JUTAL

巨濤海洋石油服務有限公司
Jutal Offshore Oil Services Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 03303

2020 INTERIM REPORT



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Financial Highlights

- Turnover was RMB1,296,344,000, a 163.13% increase from the same period in last year.
- Gross profit was RMB177,496,000, a 101.91% increase from the same period in last year.
- For the six months ended 30 June 2020, profit attributable to owners of the Company was RMB25,363,000.

For the six months ended 30 June 2019, loss attributable to owners of the Company was RMB32,716,000.

- Basic and diluted earnings per share was RMB1.552 cents for the six months ended 30 June 2020.
- The Board resolved that no interim dividend would be declared in respect of the six months ended 30 June 2020.

The board (the “Board”) of directors (the “Directors”) of Jutal Offshore Oil Services Limited (the “Company”) is pleased to present the unaudited condensed consolidated results for the six months ended 30 June 2020 of the Company and its subsidiaries (collectively referred to as the “Group”), together with the comparative figures for the corresponding period in 2019. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 has been reviewed by the audit committee of the Company (the “Audit Committee”). RSM Hong Kong, the Company’s auditor, has conducted its review on the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountant (the “HKICPA”).

Independent Review Report



TO THE BOARD OF DIRECTORS OF JUTAL OFFSHORE OIL SERVICES LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 5 to 28 which comprises the condensed consolidated statement of financial position of the Company as at 30 June 2020 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Review Report

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

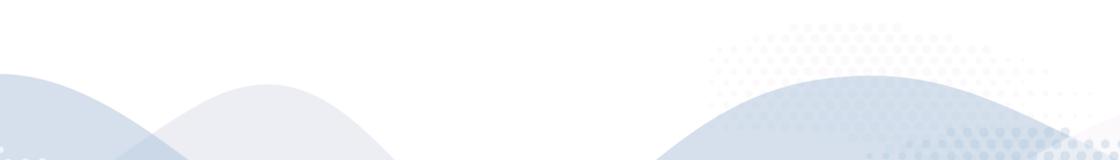
CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

RSM Hong Kong

Certified Public Accountants
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

25 August 2020



Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Turnover	5	1,296,344	492,668
Cost of sales and services		(1,118,848)	(404,758)
Gross profit		177,496	87,910
Other income	6	16,281	26,601
Administrative expenses		(96,708)	(98,795)
Impairment losses on trade and other receivables		(26,673)	(6,290)
(Impairment losses)/reversal of impairment losses on contract assets		(164)	357
Other operating expenses	7	(13,517)	(14,115)
Profit/(loss) from operations		56,715	(4,332)
Finance costs		(19,432)	(19,204)
Profit/(loss) before tax	8	37,283	(23,536)
Income tax expense	10	(11,920)	(9,180)
Profit/(loss) for the period attributable to owners of the Company	11	25,363	(32,716)
Earnings/(loss) per share	12	RMB	RMB
Basic		1.552 CENTS	(2.002) CENTS
Diluted		1.552 CENTS	N/A

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Profit/(loss) for the period	25,363	(32,716)
Other comprehensive income: <i>Item that will be reclassified to profit or loss:</i> Exchange differences on translating foreign operations	18,096	6,615
Other comprehensive income for the period, net of tax	18,096	6,615
Total comprehensive income for the period attributable to owners of the Company	43,459	(26,101)

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	Note	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current assets			
Fixed assets	13	1,177,163	1,172,874
Right-of-use assets	14	445,956	452,461
Goodwill		54,648	54,648
Intangible assets		7,074	6,509
Trade receivables, non-current	15	2,416	538
Deferred tax assets		32,195	29,323
		1,719,452	1,716,353
Current assets			
Inventories		178,237	194,251
Trade and bills receivables	15	652,280	932,012
Contract cost assets		18,005	69,654
Contract assets		296,251	161,777
Prepayments, deposits and other receivables		226,754	262,057
Derivative financial instruments		–	3,160
Due from directors		–	833
Current tax assets		116	751
Pledged bank deposits		145,517	56,813
Bank and cash balances		1,004,214	808,330
		2,521,374	2,489,638

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	Note	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Current liabilities			
Trade and bills payables	16	737,705	748,993
Contract liabilities		525,653	299,110
Accruals and other payables		77,966	108,731
Derivative financial instruments		1,190	769
Lease liabilities		12,485	12,691
Provisions		59,344	58,117
Bank and other borrowings		44,313	289,342
Deferred income		10,496	8,942
Current tax liabilities		12,696	-
		1,481,848	1,526,695
Net current assets			
		1,039,526	962,943
Total assets less current liabilities			
		2,758,978	2,679,296
Non-current liabilities			
Deferred income		31,440	34,824
Bank and other borrowings		446,950	392,700
Lease liabilities		41,002	37,474
Deferred tax liabilities		43,199	63,305
		562,591	528,303
NET ASSETS			
		2,196,387	2,150,993
Capital and reserves			
Share capital	17	14,755	14,755
Reserves		2,181,632	2,136,238
TOTAL EQUITY			
		2,196,387	2,150,993

Approved by the Board of Directors on 25 August 2020

Chairman

Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Share capital RMB'000	Share premium account RMB'000	Special reserve RMB'000	Convertible loan notes equity reserve RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2019	14,755	1,733,618	(52,040)	2,951	(43,122)	43,247	40,275	364,697	28,635	2,133,016
Total comprehensive income for the period	-	-	-	-	6,615	-	-	(32,716)	-	(26,101)
Share-based payments	-	-	-	-	-	10,603	-	-	-	10,603
Share option forfeited	-	-	-	-	-	(359)	-	359	-	-
Approval of year 2018 final dividend	-	-	-	-	-	-	-	-	(28,635)	(28,635)
Changes in equity for the period	-	-	-	-	6,615	10,244	-	(32,357)	(28,635)	(44,133)
At 30 June 2019	14,755	1,733,618	(52,040)	2,951	(36,507)	53,491	40,275	332,340	-	2,088,883
At 1 January 2020	14,755	1,733,618	(52,040)	2,951	(19,038)	60,992	40,275	369,480	-	2,150,993
Total comprehensive income for the period	-	-	-	-	18,096	-	-	25,363	-	43,459
Share-based payments	-	-	-	-	-	1,935	-	-	-	1,935
Changes in equity for the period	-	-	-	-	18,096	1,935	-	25,363	-	45,394
At 30 June 2020	14,755	1,733,618	(52,040)	2,951	(942)	62,927	40,275	394,843	-	2,196,387

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	511,025	(123,225)
Purchases of fixed assets	(58,897)	(81,899)
Proceeds from disposals of fixed assets	572	67
Government grants received	8,659	23,014
(Increase)/decrease in pledged bank deposits	(85,789)	6,897
Other investing cash flows (net)	4,525	6,336
NET CASH USED IN INVESTING ACTIVITIES	(130,930)	(45,585)
Bank loans raised	148,000	70,000
Repayment of bank loans	(338,779)	(318,408)
Principal elements of lease payments	(8,623)	(4,342)
NET CASH USED IN FINANCING ACTIVITIES	(199,402)	(252,750)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	180,693	(421,560)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	808,766	902,562
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	18,106	6,615
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY	1,007,565	487,617
Bank and cash balances	1,004,214	476,846
Pledged bank deposits (mature in three months or less)	3,351	10,771
	1,007,565	487,617

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2019.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Group’s financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Further, for the current period the fair value disclosure of lease liabilities is also not required.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Disclosures of level in fair value hierarchy at 30 June 2020:

Description	Fair value measurements as at	
	30 June 2020 using level 2 RMB'000	31 December 2019 using level 2 RMB'000
Recurring fair value measurements: Financial assets		
Derivatives		
Foreign currency forward	–	3,160
Recurring fair value measurements: Financial liabilities		
Derivatives		
Foreign currency forward	1,190	769

(b) **Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:**

The Group has engaged external valuation expert with the professional qualifications and recent experience to perform the fair value measurement of foreign currency forward contracts outstanding at 30 June 2020 and 31 December 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (Continued)

The valuation techniques used and the key inputs to the level 2 fair value measurements are set out below:

Level 2 fair value measurements			Fair value			
Description	Valuation technique	Key inputs	30 June 2020		31 December 2019	
			RMB'000		RMB'000	
			Assets	Liabilities	Assets	Liabilities
Derivatives – foreign currency forward	Discounted cash flows	Forward exchange rate; Contract forward rates; and Discount rate	-	1,190	3,160	769

4. SEGMENT INFORMATION

The Group has three reportable segments as follows:

- Fabrication of facilities and provision of integrated services for oil and gas industries (“oil and gas segment”)
- Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries (“other energy and refinery and chemical segment”)
- Provision of technical support services for shipbuilding industry (“shipbuilding service segment”)

The Group’s reportable segments are strategic business units that offer products and services to different industry sector. They are managed separately because each business unit requires different technology and marketing strategies.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. SEGMENT INFORMATION (CONTINUED)

The Group's other operating segment mainly represents provision of undersea maintenance services for industries other than oil and gas, other energy and refinery and shipbuilding. This segment does not meet any of the quantitative thresholds for determining reportable segments. The information of this other operating segments is included in the 'others' column.

	Oil and gas segment RMB'000 (Unaudited)	Other energy and refinery and chemical segment RMB'000 (Unaudited)	Shipbuilding service segment RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2020					
Revenue from external customers	1,287,834	516	7,766	228	1,296,344
Segment profit/(loss)	179,091	(216)	963	(2,342)	177,496
At 30 June 2020:					
Segment assets	2,831,831	176,266	6,051	8,508	3,022,656
Segment liabilities	1,344,869	99,916	4,563	705	1,450,053
Six months ended 30 June 2019					
Revenue from external customers	442,529	44,629	4,931	579	492,668
Segment profit/(loss)	78,319	9,043	1,367	(819)	87,910
At 31 December 2019:	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	2,938,814	270,657	7,626	9,523	3,226,620
Segment liabilities	1,122,920	129,071	4,754	2,215	1,258,960

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. SEGMENT INFORMATION (CONTINUED)

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Reconciliations of segment profit:		
Total profit of reportable segments	177,496	87,910
Unallocated amounts:		
Other income	16,281	26,601
Finance costs	(19,432)	(19,204)
Other corporate expenses	(137,062)	(118,843)
Consolidated profit/(loss) before tax for the period	37,283	(23,536)

5. TURNOVER

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. TURNOVER (CONTINUED)

In the following table, revenue is disaggregated by business segments and timing of revenue recognition.

For the six months ended 30 June (unaudited)	Oil and gas segment		Other energy and refinery and chemical segment		Shipbuilding service segment		Others		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition										
Goods and services transferred at a point in time	100,929	28,963	239	5	-	-	-	-	101,168	28,968
Goods and services transferred over time	1,186,905	413,566	277	44,624	7,766	4,931	228	579	1,195,176	463,700
Total	1,287,834	442,529	516	44,629	7,766	4,931	228	579	1,296,344	492,668

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade and bills receivables	654,696	932,550
Contract assets	296,251	161,777
Contract liabilities	525,653	299,110

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. TURNOVER (CONTINUED)

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on the Group's construction services. The contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to the advance consideration received from customers for the Group's construction services, for which revenue is recognised over time.

The amount of approximately RMB246,508,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2020.

6. OTHER INCOME

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Gain on disposals of fixed assets	–	155
Interest income	5,388	6,335
Government grants recognised	10,621	5,789
Compensation income	–	7,353
Fair value gains on derivative financial instruments	–	3,393
Sundry income	272	3,576
	16,281	26,601

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

7. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net foreign exchange losses	6,557	12,876
Fair value loss on derivative financial instruments	3,368	–
Allowance for inventories	2,226	–
Others	1,366	1,239
	13,517	14,115

8. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on bank borrowings	16,119	18,749
Others	3,313	455
	19,432	19,204

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

9. DIVIDENDS

No interim dividend was proposed for the six months ended 30 June 2020 and 30 June 2019.

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current tax – PRC Enterprise Income Tax Provision for the period	22,262	6,585
(Over)/under-provision in prior periods	(5)	8,337
	22,257	14,922
Deferred tax	(10,337)	(5,742)
	11,920	9,180

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits arising in Hong Kong for the periods ended 30 June 2020 and 2019.

The People's Republic of China (the "PRC") Enterprise Income Tax has been provided on the assessable profit of the Group's subsidiaries in the PRC in accordance with the relevant PRC Enterprise Income Tax laws and regulations.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

11. PROFIT/(LOSS) FOR THE PERIOD

The Group's profit/(loss) for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Allowance/(reversal of allowance) for inventories	2,226	(893)
Impairment losses on trade and other receivables	26,673	6,290
Gain on disposals of fixed assets	–	(155)
Impairment losses/(reversal of impairment losses) on contract assets	164	(357)
Directors' emoluments		
– As directors	180	180
– For management	3,215	4,646
– Share-based payments	570	2,111
	3,965	6,937

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Earnings/(loss)		
Profit/(loss) attributable to owners of the Company, used in the basic and diluted earnings per share calculation	25,363	(32,716)
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	1,634,016,389	1,634,016,389
Effect of dilutive potential ordinary/(loss) shares arising from share options	–	N/A
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	1,634,016,389	N/A

As the exercise of the Group's outstanding share options for the six-month period ended 30 June 2019 were anti-dilutive, no diluted loss per share was presented for the six-month period ended 30 June 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

13. FIXED ASSETS

During the six months ended 30 June 2020, the Group acquired fixed assets of approximately RMB58,897,000 (six months ended 30 June 2019: RMB62,695,000).

14. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group renewed an existing lease contract for use of certain properties and warehouse for 6.5 years. The Group makes fixed payments throughout lease periods. Upon commencement of this renew lease, the Group recognised RMB11,934,000 of right-of-use assets and lease liabilities.

15. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	756,811	1,009,021
Allowance for doubtful debts	(125,064)	(98,391)
	631,747	910,630
Bills receivables	22,949	21,920
	654,696	932,550
Classified as:		
Trade receivables, non-current	2,416	538
Trade and bills receivables, current	652,280	932,012
	654,696	932,550

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. TRADE AND BILLS RECEIVABLES (CONTINUED)

The aging analysis of trade receivables as at the balance sheet date, based on the date of invoice, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Billed:		
0 to 30 days	298,387	367,948
31 to 90 days	27,745	63,156
91 to 365 days	145,433	77,880
Over 365 days	171,535	134,464
Unbilled	643,100 113,711	643,448 365,573
	756,811	1,009,021

16. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	705,658	718,583
Bills payables	32,047	30,410
	737,705	748,993

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. TRADE AND BILLS PAYABLES (CONTINUED)

The aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of goods and services, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0 to 30 days	486,325	514,017
31 to 90 days	33,573	26,727
91 to 365 days	40,638	77,058
Over 365 days	145,122	100,781
	705,658	718,583

17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 31 December 2019 (Audited) and		
30 June 2020 (Unaudited)	4,000,000,000	40,000

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

17. SHARE CAPITAL (CONTINUED)

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares	Amount HK\$'000	Equivalent to amount RMB'000
Issued and fully paid:			
Ordinary shares of HK\$0.01 each			
At 1 January 2019 (Audited), 31 December 2019 (Audited) and 30 June 2020 (Unaudited)	1,634,016,389	16,341	14,755

18. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	Note	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue received/receivable from fellow subsidiaries	(a)	1,654	16,507
Revenue received/receivable from the ultimate holding company		73,862	28,904

- (a) These fellow subsidiaries are wholly-owned by Beijing Sanju Environmental Protection and New Materials Co., Ltd., the ultimate holding company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. SEASONALITY

The Group's revenue from the oil and gas industry and other energy and refining and chemical industries is subject to seasonal factors and the Group's financial results will be affected by the number and size of projects awarded to the Group through tendering process and the stage of completion of the respective projects. Therefore, the Group is unable to forecast the trend of seasonality and its impact to the Group's financial results.

20. CAPITAL COMMITMENTS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Fixed assets – contracted but not provided for	21,952	35,771

21. CONTINGENT LIABILITIES

The Group is a defendant in a lawsuit brought during the year ended 31 December 2018 claiming approximately RMB8.2 million together with interest relating to subcontracting services rendered by a subcontractor (the "Plaintiff"). The Group has filed a counterclaim against the Plaintiff for approximately RMB3.7 million. The lawsuit is now being proceeded and has not been completed up to the date of this report.

Because the final outcome of the proceeding is uncertain, the directors based on the legal advice obtained and determined that the ultimate liability, if any, will not have a material impact on the Group's financial position.

Save as disclosed above, as at 30 June 2020 and 31 December 2019, the Group did not have other significant contingent liabilities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

22. EVENTS AFTER THE REPORTING PERIOD

Since early 2020, the Coronavirus pandemic (the “COVID-19 outbreak”) has spread across China and other countries. A series of precautionary and control measures have been and continued to be implemented across the globe. For the six-month period ended 30 June 2020, the COVID-19 outbreak has no material impact to the Group’s financial performance and liquidity condition. The Group is paying close attention to the development of, and the disruption to business and economic activities may cause by, the COVID-19 outbreak and continuously monitor its impact may have on the financial position, cash flows and operating results of the Group.

23. APPROVAL OF FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 August 2020.

Management Discussion and Analysis

1. REVIEWS

As a leading constructor of large-scale module and offshore engineering in the PRC, the Group has been promoting business transformation in recent years, with its business focus shifting from traditional oilfield related services and equipment manufacturing to large-scale module construction of energy facilities and modular plant. Relying on its strong technical strength and professionalism, the Group has successfully participated in module construction projects of many international large-scale projects.

At the beginning of the year ended 31 December 2020 (the “Year”), facing the challenges brought by the novel coronavirus epidemic, the Group acted quickly. In accordance with national and local epidemic prevention and control requirements, the Group worked with customers and subcontracting partners to overcome the impact of unfavorable factors such as schedule delays and tight production resources due to the epidemic, and actively created construction conditions. The Group dynamically controlled the plan, resources and progress of the critical path of the project. Through close collaboration and promotion of on-site production, the Group endeavored to solve problems as soon as possible via communication, to ensure smooth and orderly construction of the project, and achieve timely, safe and high-quality delivery for the project.

Benefitting from the successful implementation of the current large projects in hand, the workload of the Penglai site significantly increased as compared with the corresponding period of last year. The Group’s revenue and profit for the first half of the Year both recorded a significant increase as compared with the corresponding period of last year.

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

The project of core module construction of the GCGV natural gas chemical plant undertaken by the Penglai site had delivered five shipments of modules. The client of the GCGV project also specially granted the Penglai site Outstanding Construction Partner Award, recognizing its strong leadership and organizational capabilities, spirits of teamwork efforts and dedication to efficiently complete the project progress, and outstanding achievements in delivering several shipments of modules on time or even in advance.

The Arctic LNG 2 module construction project secured by Penglai site provides the construction a total of 6 modules including the core compressor and generator modules, with a single module weighing more than 10,000 tons. Affected by the European epidemic, some of the drawings that should be provided by the project owner are behind the original schedule, which has caused the overall progress of the Arctic LNG 2 module construction project to be lagging behind. With the efforts of all parties, Penglai site has fully prepared for the construction in all aspects to completing the schedules in the second half of the Year.

In the first half of the Year, workload in Zhuhai site was still insufficient, but the Group's Zhuhai site also won several large-scale project orders, including the construction of fifty sets of offshore wind power equipment for an European offshore wind farm project, and the fabrication of topside modules for an offshore floating production storage and offloading facility (FPSO), with a total contract value of approximately RMB2 billion. As the construction of related projects will mainly start in the second half of the Year, it is expected to significantly improve the workload shortage at the Zhuhai site.

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Turnover

In the first half of the Year, the Group recorded turnover of approximately RMB1,296,344,000, representing an increase of RMB803,676,000 as compared with corresponding period last year, increasing by 163.13%. Among others, turnover from the fabrication of facilities and provision of integrated services for oil and gas industries amounted to RMB1,287,834,000 representing an increase of RMB845,305,000 as compared with corresponding period last year, increased by 191.02%, which was mainly due to the natural gas petrochemical modules construction project undertook by Penglai site was at the peak period and the workload was significantly increased as compared with corresponding period last year. Turnover from the fabrication of facilities and provision of integrated services for other energy and refining and chemical industries decreased by 98.84% or RMB44,113,000 as compared with corresponding period last year, which was mainly due to the fact that most of the projects undertaken in 2017 were implemented in the previous years and the Company actively cut down relevant business. Although the turnover from the provision of technical support services for shipbuilding industry increased by 57.50% or RMB2,835,000 as compared with corresponding period last year, the workload of such business of the Group remains relatively low due to the continually weakened ship-building market.

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Turnover (Continued)

The table below sets out the analysis of turnover by business segment categories for the six months ended 30 June 2018, 2019 and 2020:

Product/service	For the six months ended 30 June					
	2020		2019		2018	
	RMB'000	Percentage of total turnover %	RMB'000	Percentage of total turnover %	RMB'000	Percentage of total turnover %
1. Fabrication of facilities and provision of integrated services for oil and gas industries	1,287,834	99	442,529	90	441,517	62
2. Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	516	0	44,629	9	261,757	37
3. Provision of technical support services for shipbuilding industry	7,766	1	4,931	1	6,289	1
4. Others	228	0	579	0	1,564	0
Total	1,296,344	100	492,668	100	711,127	100

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Cost of Sales and Service

During the reporting period, cost of sales and services of the Group amounted to approximately RMB1,118,848,000, representing an increase of RMB714,090,000 or 176.42% when compared with that of the corresponding period of last year. It was mainly caused by the significant increase in workload over the corresponding period of last year. Cost of sales and services comprised direct costs and manufacturing overheads. Direct costs in the current period amounted to approximately RMB978,475,000, representing 87.45% of total cost of sales and services, and an increase of RMB639,563,000 or 188.71% from RMB338,912,000 of the corresponding period of last year. The Group calculates the cost of sales and services of projects on an order-by-order basis. Since the composition of cost differs for each project, the composition of cost of sales and services varies from project to project. Manufacturing overheads in current reporting period has increased to approximately RMB140,373,000, representing an increase of RMB74,527,000 or 113.18% when compared with RMB65,846,000 of the corresponding period of last year.

Gross Profit

During the reporting period, the total amount of gross profit of the Group amounted to approximately RMB177,496,000, representing an increase of RMB89,586,000 or 101.91% when compared with RMB87,910,000 of the corresponding period of last year. The overall gross profit margin decreased to 13.69% from 17.84% of the corresponding period of last year. Changes in business structure resulted in various changes in the gross profit margin of different business segments during the current period. The decrease in the overall gross profit margin was mainly due to the lower gross margin was recorded for some projects that were undertaken in the first half of the Year as compared with that of projects undertaken in the previous year.

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Gross Profit (Continued)

The table below sets out the analysis of gross profit by business segment for the six months ended 30 June 2018, 2019 and 2020:

Product/service	For the six months ended 30 June								
	2020			2019			2018		
	Gross profit margin	Percentage of total gross profit		Gross profit margin	Percentage of total gross profit		Gross profit margin	Percentage of total gross profit	
	RMB'000	%		RMB'000	%		RMB'000	%	
1. Fabrication of facilities and provision of integrated services for oil and gas industries	179,091	14	101	78,319	18	89	156,285	35	85
2. Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	(216)	(42)	0	9,043	20	10	28,004	11	15
3. Provision of technical support services for shipbuilding industry	963	12	0	1,367	28	2	(786)	(12)	0
4. Others	(2,342)	(1026)	(1)	(819)	(141)	(1)	705	45	0
Total	177,496		100	87,910		100	184,208		100

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Other income

Other income of the Group in the first half of 2020 amounted to approximately RMB16,281,000, mainly comprising interest income of approximately RMB5,388,000 and income from government grants of approximately RMB10,621,000.

Administrative and Other Operating Expenses

Administrative and other operating expenses of the Group in aggregate in the first half of 2020 were approximately RMB110,225,000, representing a decreased of RMB2,685,000 when compared with that of the corresponding period of last year.

Finance Costs

During the reporting period, the finance costs of the Group amounted to approximately RMB19,432,000, which was mainly comprised of interest expenses from bank and other borrowings of approximately RMB16,119,000, bank charges and other costs.

Profit for the Period Attributable to Owners of the Company

In the first half year of 2020, profit attributable to owners of the Company amounted to approximately RMB25,363,000. Basic earnings per share attributable to owners of the Company was approximately RMB1.552 cents.

Liquidity and Financial Resources

As at 30 June 2020, the balance of working funds (cash on hand and bank deposits) of the Group amounted to approximately RMB1,007,565,000 (31 December 2019: RMB808,766,000). During the said period, net cash inflows from operating activities amounted to approximately RMB511,025,000, net cash outflows from investing activities amounted to approximately RMB130,930,000, and net cash outflows from financing activities amounted to approximately RMB199,402,000.

As at 30 June 2020, the Group had available undrawn banking facilities of approximately RMB629,128,000 (31 December 2019: RMB570,323,000), which can be used for bank loans, letters of credit, bank guarantees and other purposes.

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Capital Structure

As at 30 June 2020, the share capital of the Company comprises 1,634,016,389 ordinary shares (31 December 2019: 1,634,016,389 ordinary shares).

As at 30 June 2020, net assets of the Group amounted to approximately RMB2,196,387,000 (31 December 2019: RMB2,150,993,000), which comprises non-current assets of approximately RMB1,719,452,000 (31 December 2019: RMB1,716,353,000), net current assets of approximately RMB1,039,526,000 (31 December 2019: RMB962,943,000) and non-current liabilities of approximately RMB562,591,000 (31 December 2019: RMB528,303,000).

Significant Investment

In the first half of the Year, according to the market situation and future development plan, the Company further improved the equipment and facilities of the Penglai site, and focused on increasing investment in Zhuhai site to improve the equipment and facilities conditions, these two sites have been approved to implement the investment of nearly RMB150 million to meet the needs of the undertaken projects in hand and potential projects.

Foreign Exchange Risk

The principal place of production and operation of the Group is in the PRC, and the functional currency of the principal operating subsidiaries of the Group is RMB. The Group also operates its business overseas and possesses assets which are denominated in currencies other than RMB. Fluctuation of RMB against other currencies like United States Dollars (“USD”) and Euros would bring certain foreign exchange risk to the Group. The Group would minimise the amount of assets which were denominated in other currencies like USD and Euros, perform rolling estimates on foreign exchange rates, and would consider potential foreign exchange risk when entering into business contracts.

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Assets Pledged by the Group

As at 30 June 2020, approximately RMB145,517,000 (31 December 2019: RMB56,813,000) of the bank deposits and approximately RMB9,822,000 (2019: RMB9,507,000) of other receivables of the Group were pledged as security deposits for bank and other borrowings, the issuance of performance bonds, letter of credits and bank acceptance.

At 30 June 2020, the carrying amount of fixed assets pledged as security for the Group's bank and other borrowings amounted to approximately RMB97,779,000 (31 December 2019: RMB105,686,000).

Contingent Liabilities

Save as disclosed in note 21 to the condensed consolidated financial statements in this report, as at 30 June 2020, the Group did not have other significant contingent liabilities.

Capital Management

The Group's main objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors its capital by using a gearing ratio, which is total bank and other borrowings divided by total equity of the Group. The Group's policy is to keep the gearing ratio at a reasonable level.

Management Discussion and Analysis

1. REVIEWS (CONTINUED)

Capital Management (Continued)

The gearing ratios of the Group as at 30 June 2020 and as at 31 December 2019 were as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Total bank and other borrowings	491,263	682,042
Total equity	2,196,387	2,150,993
Gearing ratio	22.37%	31.71%

The decrease in gearing ratio for the period resulted primarily from the reduction in bank and other borrowings. The Group adjusts the amount of bank loan facilities from time to time to meet the Group's working capital needs.

Employees and Remuneration Policy

As at 30 June 2020, the Group had total 3,348 employees (31 December 2019: 3,172), of which 1,460 (31 December 2019: 1,428) were management and technical staff, and 1,888 (31 December 2019: 1,641) were technicians.

The Group encourages staff to build long-term service, and strives to create a fair and open competition environment, committed to develop talents with management experience, professional skills and dedication. The Group determines the remuneration and incentives of employees with reference to the prevailing industry practice, and based on their position, duties and performance. The Group contributes to social security funds, including pension fund, medical, unemployment and industrial accident insurances, and housing provident fund for employees in the PRC, and contributes to mandatory provident fund for employees in Hong Kong according to corresponding laws and regulations.

The Group places emphasis on staff development, encourages employees to pursue continuous education, and formulates training programs for employees.

Management Discussion and Analysis

2. FUTURE OUTLOOK

Currently, the total backlog value of the Group was approximately RMB6 billion. In the second half of the Year, construction sites of the Group will usher in the peak period for the construction of several major projects in parallel. With the implementation of the large projects and the significant increase in the expected workload, and having taken into consideration the needs of long-term development for the sites, the Group has made an overall plan for construction sites and gradually promoted the site construction according to project demands to enhance its core construction capacity and steadily increase its construction output. Leveraging on strong management and technical strength, the Group will carefully plan the project implementation, closely arrange for relevant work and refine the assessment, to ensure the smooth development of projects.

The Group's Zhuhai site received several orders of large-scale projects this year, which further indicated that international wind power jacket structures and large and medium-sized fabrication of module and equipment as well as undersea structures and floating products shall be direction for its principal business.

On the basis of consolidating the strengths in the modular market, the Group will also actively explore the new energy market, and enhance the overall competitiveness through multiple measures, including comprehensively improve the project management and talent cultivation, strengthen the system construction of project control, enhance relevant detailed design capability and optimise the supply chain.

Directors Report and Corporate Governance

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2020.

USE OF THE RAISED PROCEEDS

On 15 March 2017, The Company entered into a subscription agreement with Sanju Environmental Protection (Hong Kong) Limited (“Sanju HK”) and Golden Talent (HK) Technology company Limited (“Golden Talent”), pursuant to which the Company has conditionally agreed to allot and issue an aggregate of 803,562,111 subscription shares, of which Sanju HK and Golden Talent have conditionally agreed to subscribe for 641,566,556 shares and 161,995,555 shares respectively at the subscription price of HK\$1.20 per subscription share (the net subscription price is approximately HK\$1.197 per subscription share, and the close price of the share on 15 March 2017 was HK\$2.00) (the “Subscription”). The Subscription has been approved by the shareholders of the Company at the extraordinary general meeting held on 26 May 2017 and completed on 2 June 2017.

Directors Report and Corporate Governance

USE OF THE RAISED PROCEEDS (CONTINUED)

The net proceeds from the Subscription was approximately HK\$962,000,000. As at 30 June 2020, the raised fund has been used as follows:

	Plan of use of proceeds from the Subscription as stipulated in the circular of the Company dated 11 May 2017	Use of proceeds from the Subscription to period ended 30 June 2020	Plan of use of the outstanding balance of the proceeds from the Subscription
1.	Approximately HK\$ 500 million for the working capital in engineering, procurement, installation and construction (“EPIC”) projects; and in built – transfer projects relating to the oil and gas equipment and facilities	All has been used as planned	–
2.	Approximately HK\$250 million for the capital expenditure in improving and expanding the production facilities and office facilities in the Group’s Zhuhai operation	Approximately HK\$59 million has been used for the capital expenditure in the production and office facilities of the Group’s Zhuhai fabrication yard	The remaining HK\$191 million will be kept for the Group’s future capital expenditure in the production and office facilities as necessary
3.	Approximately HK\$212 million for the general working capital of the Group	All has been used as planned	–

Directors Report and Corporate Governance

SHARE OPTION

The Company's share option schemes (the "Share Option Schemes") enables the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. Eligible participants include all full time employees, Directors (including independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group, substantial Shareholders of each member of the Group, associates of the Directors and substantial Shareholders of any member of the Group, trustee of any trust pre-approved by the Board; and any advisor (professional or otherwise), consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the Board considers, in its sole discretion, has contributed or contributes to the Group.

The Company's 2006 share option scheme (the "2006 Share Option Scheme") was adopted on 28 August 2006 by way of passing resolutions by all of the then Shareholders of the Company with a valid period of 10 years commencing on the date on which the shares of the Company commenced trading on the main board of the Stock Exchange.

The General Scheme Limit of the 2006 Share Option Scheme has been refreshed and approved by Shareholders' resolution at the Company's Annual General Meeting held on 27 May 2009. Unless approval of the shareholders has been obtained the total number of shares which may be issued upon exercise of all options to be granted under the 2006 Share Option Scheme must not, in aggregate, exceed 49,800,000 shares, representing 10% of the shares (498,000,000 shares) in issue on the date of the said Annual General Meeting.

The General Scheme Limit of the 2006 Share Option Scheme has been further refreshed and approved by Shareholders' resolution at the Company's Annual General Meeting held on 25 May 2012. Unless approval of the shareholders has been obtained the total number of shares which may be issued upon exercise of all options to be granted under the 2006 Share Option Scheme must not, in aggregate, exceed 62,279,927 shares, representing 10% of the shares (622,799,278 shares) in issue on the date of the said Annual General Meeting.

Directors Report and Corporate Governance

SHARE OPTION (CONTINUED)

The 2006 Share Option Scheme has expired on 20 September 2016, and a new share option scheme of the Company (the “2016 Share Option Scheme”) has been adopted conditionally by Shareholder’s resolution at the Company’s Annual General Meeting held on 8 June 2016 with a valid period of 10 years commencing on the date of adoption. Unless approval of the shareholders has been obtained, the total number of shares which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other Share Option Schemes must not, in aggregate, exceed 80,035,427 shares, representing 10% of the shares (800,354,278 shares) in issue on the date of the said Annual General Meeting.

The General Scheme Limit of the 2016 Share Option Scheme has been refreshed and approved by Shareholders’ resolution at the Company’s Annual General Meeting held on 08 June 2018. Unless approval of the shareholders has been obtained, the total number of shares which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme must not, in aggregate, exceed 163,401,638 shares, representing 10% of the shares in issue on the date of the said Annual General Meeting and the shares (1,634,016,389 shares) in issue on the date of this interim report.

Unless approval of the shareholders has been obtained, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of the shares in issue from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors (excluding an independent non-executive Director who is the Grantee of the Options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to Shareholders’ approval in advance in a general meeting.

Directors Report and Corporate Governance

SHARE OPTION (CONTINUED)

According to the terms of the Share Option Schemes, the consideration for the grant of the options should be HK\$1.00. The options may be exercised in accordance with the terms of the Share Option Schemes at any time during the exercise period as determined by the Board which shall in any event not be more than ten years from the date of grant.

From 1 January 2011 to 30 June 2020, the Board approved to grant and the Company has granted options to Directors and other eligible participants. Details of the options granted are as follows:

(i) Options granted on 23 May 2011

Name of grantee	Exercise period	Exercise price of the options (HK\$)	Closing price of the Shares immediately before the date of granting the options (HK\$)	Number of options as at 1 January 2020	Number of options exercised during the period	Weighted average closing price of the Shares immediately before the dates of exercise (HK\$)	Number of options cancelled during the period	Number of options or the share option scheme during the period	Number of options outstanding as at 30 June 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Director:										
Cao Yunsheng (resigned on 10 April 2020)	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	-	-	-	-	1,000,000	0.06%
Employee	23/05/2013 to 22/05/2021	1.06	1.04	550,000	-	-	-	-	550,000	0.03%
Total				1,550,000	-	-	-	-	1,550,000	0.09%

Directors Report and Corporate Governance

SHARE OPTION (CONTINUED)

(ii) Options granted on 29 July 2015

Name of grantee	Exercise period	Exercise price of the options (HK\$)	Closing price of the Shares immediately before the date of granting the options (HK\$)	Number of options as at 1 January 2020	Number of options exercised during the period	Weighted average closing price of the Shares immediately before the dates of exercise (HK\$)	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Wang Lishan	29/07/2017 to 28/07/2025	0.86	0.83	5,000,000	-	-	-	-	5,000,000	0.31%
Cao Yunsheng (resigned on 10 April 2020)	29/07/2017 to 28/07/2025	0.86	0.83	8,000,000	-	-	-	-	8,000,000	0.49%
Total				13,000,000	-	-	-	-	13,000,000	0.80%

(iii) Options granted on 14 October 2016

Name of grantee	Exercise period	Exercise price of the options (HK\$)	Closing price of the Shares immediately before the date of granting the options (HK\$)	Number of options as at 1 January 2020	Number of options exercised during the period	Weighted average closing price of the Shares immediately before the dates of exercise (HK\$)	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Wang Lishan	14/10/2016 to 13/10/2026	0.68	0.63	5,000,000	-	-	-	-	5,000,000	0.31%
Cao Yunsheng (resigned on 10 April 2020)	14/10/2016 to 13/10/2026	0.68	0.63	8,000,000	-	-	-	-	8,000,000	0.49%
Total				13,000,000	-	-	-	-	13,000,000	0.80%

Directors Report and Corporate Governance

SHARE OPTION (CONTINUED)

(iv) Options granted on 9 January 2018

Name of grantee	Exercise period	Exercise price of the options (HK\$)	Closing price of the Shares immediately before the date of granting the options (HK\$)	Number of options as at 1 January 2020	Number of options exercised during the period	Weighted average closing price of the Shares immediately before the dates of exercise (HK\$)	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Wang Lishan	09/01/2019 to 08/01/2028	2.14	2.11	2,300,000	-	-	-	-	2,300,000	0.14%
Liu Yunian	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	-	-	-	-	1,500,000	0.09%
Su Yang	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	-	-	-	-	1,500,000	0.09%
Zheng Yimin	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	-	-	-	-	1,500,000	0.09%
Qi Daqing	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	-	-	-	-	1,500,000	0.09%
Cao Yunsheng (resigned on 10 April 2020)	09/01/2019 to 08/01/2028	2.14	2.11	8,000,000	-	-	-	-	8,000,000	0.49%
Tang Hui (resigned on 10 April 2020)	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	-	-	-	-	1,500,000	0.09%
Employees	09/01/2019 to 08/01/2028	2.14	2.11	47,600,000	-	-	-	-	47,600,000	2.91%
Total				65,400,000	-	-	-	-	65,400,000	4.00%

Directors Report and Corporate Governance

SHARE OPTION (CONTINUED)

(v) Options granted on 29 May 2019

Name of grantee	Exercise period	Exercise price of the options (HK\$)	Closing price of the Shares immediately before the date of granting the options (HK\$)	Number of options as at 1 January 2020	Number of options exercised during the period	Weighted average closing price of the Shares immediately before the dates of exercise (HK\$)	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
a service supplier:										
Hong Kong Zhixin Financial News Agency Limited	29/08/2019 to 28/05/2021	1.04	0.75	15,000,000	-	-	-	-	15,000,000	0.92%
Total				15,000,000	-	-	-	-	15,000,000	0.92%

Directors Report and Corporate Governance

SHARE OPTION (CONTINUED)

(vi) Options granted on 24 April 2020[#]

Name of grantee	Exercise period	Exercise price of the options (HK\$)	Closing price of the Shares immediately before the date of granting the options (HK\$)	Number of options as at 1 January 2020	Number of options exercised during the period	Weighted average closing price of the Shares immediately before the dates of exercise (HK\$)	Number of options cancelled during the period	Number of options or the share option scheme during the period	Number of options outstanding as at 30 June 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Li lin	01/04/2021 to 23/04/2026	0.48	0.46	4,000,000	-	-	-	-	4,000,000	0.24%
Gao Zhiqiang	01/04/2021 to 23/04/2026	0.48	0.46	4,000,000	-	-	-	-	4,000,000	0.24%
Wang Ningsheng	01/04/2021 to 23/04/2026	0.48	0.46	5,000,000	-	-	-	-	5,000,000	0.31%
Liu Yunian	01/04/2021 to 23/04/2026	0.48	0.46	5,000,000	-	-	-	-	5,000,000	0.31%
Su Yang	01/04/2021 to 23/04/2026	0.48	0.46	2,000,000	-	-	-	-	2,000,000	0.12%
Zheng Yimin	01/04/2021 to 23/04/2026	0.48	0.46	2,000,000	-	-	-	-	2,000,000	0.12%
Qi Daqing	01/04/2021 to 23/04/2026	0.48	0.46	2,000,000	-	-	-	-	2,000,000	0.12%
Employees	01/04/2021 to 23/04/2026	0.48	0.46	24,000,000	-	-	-	-	24,000,000	1.47%
Total				48,000,000	-	-	-	-	48,000,000	4.00%

Directors Report and Corporate Governance

SHARE OPTION (CONTINUED)

**The estimated fair value of the options granted in 2020 on the date of grant is approximately HK\$9,023,000 (equivalent to approximately RMB8,178,000).*

This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	<i>2020</i>
<i>Number of share options granted</i>	48,000,000
<i>Grant date share price</i>	HK\$0.48
<i>Expected volatility</i>	59.59%
<i>Expected life</i>	6 years
<i>Risk free rate</i>	0.40%
<i>Expected dividend yield</i>	1.39%

Expected volatility was determined by calculating the historical volatility of the Company's share price since its Initial Public Offerings to the valuation date. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

Each option granted under the Share Option Schemes during the period gives the holder the right to subscribe for one ordinary share of the Company. The price for granting the options is HK\$1. The exercise price determined by the Board is not less than the highest of:

- (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant;
- (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of grant; and
- (iii) the nominal value of the share of the Company at the time of exercise of an option.

Directors Report and Corporate Governance

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

At 30 June 2020, the interests and short positions of each Directors and chief executive 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 (Cap.571) ("SFO"), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Name of Directors	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Wang Lishan	Interest of a controlled corporation (Note 2)	396,911,278 (L)	24.29%
	Beneficial owner	6,230,000 (L)	0.38%
	Share options	12,300,000 (L)	0.75%
Li Lin	Share options	4,000,000 (L)	0.24%
Gao Zhiqiang	Share options	4,000,000 (L)	0.24%
Wang Ningsheng	Share options	5,000,000 (L)	0.31%
Liu Yunian	Share options	6,500,000 (L)	0.40%
Qi Daqing	Beneficial owner	1,550,000 (L)	0.09%
	Share options	3,500,000 (L)	0.21%
Su Yang	Share options	3,500,000 (L)	0.21%
Zheng Yimin	Share options	3,500,000 (L)	0.21%

Directors Report and Corporate Governance

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

Notes:

1. The letter "L" denotes a long position in the Shares.
2. The 396,911,278 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan.

Save as disclosed above, at no time during the period was the Company, its subsidiaries, its fellow subsidiaries, its parent company or its other associated corporations a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any its specified undertakings or other associated corporations.

Directors Report and Corporate Governance

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

At 30 June 2020, in addition to those of the Directors and chief executives already disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of Part XV of the SFO shows that the Company had been notified of the following substantial shareholders' interests and/or short positions, being 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of Shares (Note 1)	Percentage of shareholding
Sanju Environmental Protection (Hong Kong) Limited	Beneficial owner (Note 2)	641,566,556(L)	39.26%
Beijing Sanju Environmental Protection & New Materials Co., Ltd. (北京三聚環保新材料股份有限公司)	Interest of a controlled corporation (Note 2)	641,566,556(L)	39.26%
Cheung Hing Investments Limited	Beneficial owner (Note 3)	396,911,278(L)	24.29%
Wang Lishan	Interest of a controlled corporation (Note 3) Beneficial owner	396,911,278(L) 18,530,000(L)	24.29% 1.13%
Hong Man Chu	Interest of spouse (Note 4)	161,995,555(L)	9.91%
Lo Chun Yim	Interest of a controlled corporation (Note 5)	161,995,555(L)	9.91%
Golden Talent (HK) Technology Co., Limited	Beneficial Owner (Note 5)	161,995,555(L)	9.91%

Directors Report and Corporate Governance

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Notes:

1. The letters "L" denote a long position in the shares respectively.
2. The 641,566,556 shares are held by Sanju Environmental Protection (Hong Kong) Limited, which is wholly-owned by Beijing Sanju Environmental Protection & New Materials Co., Ltd. (北京三聚環保新材料股份有限公司).
3. The 396,911,278 shares are held by Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan.
4. Ms. Hong Man Chu is the spouse of Mr. Lo Chun Yim.
5. These shares are held by Golden Talent (HK) Technology Co., Limited, which is beneficially and wholly-owned by Mr. Lo Chun Yim.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as the share options granted to the Directors under the Share Option Schemes of the Company, at no time during the period, the Directors and chief executive (including their spouse and children under 18 years of age) had any other interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company, its specified undertakings and its other associated corporations required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap.622).

Directors Report and Corporate Governance

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the reporting period.

CORPORATE GOVERNANCE

The Company had adopted the Corporate Governance Code (the "Code Provisions") introduced in Appendix 14 of the Listing Rules by the Stock Exchange to maintain a high standard of corporate governance so as to improve the corporate transparency and protect the interests of the Company's shareholders.

In the opinion of the Directors, the Company has complied with the Code Provisions during the reporting period, save and except the Company provides the two board members, namely Mr. Wang Ningsheng and Mr. Liu Yunian, with monthly internal financial statements, instead of all board members, because they are responsible for overseeing the financial affairs of the Company. The remaining Directors have access to the monthly internal financial statements as well. The reason for such deviation from the Code Provisions is to enhance the Company's management efficiency.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code regarding Directors' securities transactions in the reporting period.

Directors Report and Corporate Governance

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rule 3.21 of the Listing Rules. The Audit Committee comprises three independent non-executive Directors. The primary duties of the Audit Committee (inter alia) are to review the financial information of the Company, monitor the financial reporting process, risk management and internal control system of the Group, and to make proposals to the Board as to appointment, renewal and resignation of the Company's external auditor and the related remuneration and appointment terms. The Audit Committee has reviewed the unaudited interim financial information of the Group for the six months ended 30 June 2020 and is of the opinion that such information has complied with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

OTHER COMPLIANCE

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules and appointed three independent non-executive Directors including one with financial management expertise. Details of the Directors' biographies were set out in the Company's 2019 Annual Report and the respective announcements dated 8 January 2020 and 13 April 2020.

By Order of the Board
Jutal Offshore Oil Services Limited
Wang Lishan
Chairman

Hong Kong, 25 August 2020

Corporate Information

SHARE INFORMATION

Listing place : Main Board of The Stock Exchange
of Hong Kong Limited
Stock code : 03303
Listing date : 21 September 2006
Stock name : Jutal Oil Ser
Issued shares : 1,634,016,389 ordinary shares
Website : <http://www.jutal.com>

BOARD OF DIRECTORS

Executive directors

Mr. Wang Lishan (*Chairman*)
Mr. Liu Lei (*Deputy Chairman*)
Mr. Li Lin
Mr. Gao Zhiqiang
Mr. Wang Ningsheng (*President*)
Mr. Liu Yunian

Independent non-executive directors

Mr. Su Yang
Mr. Qi Daqing
Mr. Zheng Yimin

COMPANY REPRESENTATIVE AND COMPANY SECRETARY

Ms. Leung Fung Yee Alice

REGISTERED OFFICE

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