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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)

2019 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover was RMB492,668,000, a 30.72% decrease from the same period in last year.
- Gross profit was RMB87,910,000, a 52.28% decrease from the same period in last year.
- For the six months ended 30 June 2019, loss attributable to owners of the Company was RMB32,716,000.
For the six months ended 30 June 2018, profit attributable to owners of the Company was RMB18,663,000.
- Basic loss per share was RMB2.002 cents for the six months ended 30 June 2019.
- The Board resolved that no interim dividend would be declared in respect of the six months ended 30 June 2019.

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 2019 of the Company and its subsidiaries (collectively referred to as the “Group”), together with the comparative figures for the corresponding period in 2018. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 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 2019 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”).

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

		Six months ended 30 June	
	Note	2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	4	492,668	711,127
Cost of sales and services		<u>(404,758)</u>	<u>(526,919)</u>
Gross profit		87,910	184,208
Other income	5	26,601	25,795
Administrative expenses		(98,795)	(123,066)
Impairment losses on trade and other receivables		(6,290)	(1,980)
Reversal of/(impairment losses) on contract assets		357	(578)
Other operating expenses		<u>(14,115)</u>	<u>(23,171)</u>
(Loss)/profit from operations		(4,332)	61,208
Finance costs	6	<u>(19,204)</u>	<u>(25,777)</u>
(Loss)/profit before tax		(23,536)	35,431
Income tax expense	7	<u>(9,180)</u>	<u>(16,768)</u>
(Loss)/profit for the period attributable to owners of the Company	8	<u>(32,716)</u>	<u>18,663</u>
(Loss)/earnings per share	9	RMB	RMB
Basic		<u>(2.002) CENTS</u>	<u>1.143 CENTS</u>
Diluted		<u>N/A</u>	<u>1.130 CENTS</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	<u>(32,716)</u>	<u>18,663</u>
Other comprehensive income:		
<i>Item that will be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>6,615</u>	<u>15,528</u>
Other comprehensive income for the period, net of tax	<u>6,615</u>	<u>15,528</u>
Total comprehensive income for the period attributable to owners of the Company	<u><u>(26,101)</u></u>	<u><u>34,191</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019**

	Note	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current assets			
Fixed assets	10	1,545,252	1,548,655
Prepaid land lease payments		255	287
Right-of-use assets		32,043	-
Goodwill		54,648	54,648
Intangible assets		5,506	5,758
Trade receivables, non-current	11	42,292	46,129
Other receivables, non-current		9,142	8,846
Deferred tax assets		256	4,014
		<u>1,689,394</u>	<u>1,668,337</u>
Current assets			
Inventories		204,102	80,669
Trade and bills receivables	11	641,928	543,712
Contract cost assets		53,672	56,316
Contract assets		286,551	406,382
Prepayments, deposits and other receivables		289,918	234,618
Derivative financial instruments		3,742	670
Due from directors		697	733
Current tax assets		1,958	2,285
Pledged bank deposits		71,064	69,040
Bank and cash balances		476,846	900,712
		<u>2,030,478</u>	<u>2,295,137</u>
Current liabilities			
Trade and bills payables	12	562,549	659,695
Contract liabilities		200,184	53,702
Accruals and other payables		106,528	112,763
Derivative financial instruments		69	390
Lease liabilities		7,188	-
Provisions		55,795	82,664
Bank and other borrowings		155,459	470,331
Current tax liabilities		5,518	12,525
		<u>1,093,290</u>	<u>1,392,070</u>
Net current assets		<u>937,188</u>	<u>903,067</u>
Total assets less current liabilities		<u>2,626,582</u>	<u>2,571,404</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019**

	Note	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current liabilities			
Deferred revenue		54,296	37,071
Bank and other borrowings		402,132	335,668
Lease liabilities		25,122	-
Deferred tax liabilities		56,149	65,649
		<u>537,699</u>	<u>438,388</u>
NET ASSETS		<u>2,088,883</u>	<u>2,133,016</u>
Capital and reserves			
Share capital	13	14,755	14,755
Reserves		2,074,128	2,118,261
TOTAL EQUITY		<u>2,088,883</u>	<u>2,133,016</u>

NOTES:

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These condensed consolidated financial statements should be read in conjunction with the 2018 annual financial statements. 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 2018 except as stated below.

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 2019. 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 Group has initially adopted HKFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group’s consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

HKFRS 16 Leases (cont'd)

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Group leases many assets, including properties, office equipment and motor vehicles.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

	Balance as at	
	30 June 2019	1 January 2019
	RMB'000	RMB'000
Properties	31,796	37,493
Motor vehicles	247	308
Total right-of-use assets	32,043	37,801

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

HKFRS 16 Leases (cont'd)

(b) As a lessee (cont'd)

Significant accounting policies

The Group recognises a right-of-use assets and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Group classified property leases as operating leases under HKAS 17. These include offices, staff quarters and warehouses. The leases typically run for a period of 1 to 3 years. Some leases include an option to renew the lease after the end of the non-cancellable period.

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

2. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)**

HKFRS 16 Leases (cont'd)

(c) Impacts of financial statements

Impact on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The change in accounting policy affected the following items on the condensed consolidated statement of financial position (increase/(decrease)) as at 1 January 2019 is summarised below.

	1 January 2019 RMB'000
Assets	
Right-of-use assets	37,801
Total assets	<u>37,801</u>
Liabilities	
Lease liabilities	<u>37,801</u>
Total liabilities	<u>37,801</u>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4.88%.

	1 January 2019 RMB'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	8,380
Discounted using the incremental borrowing rate at 1 January 2019	7,829
Less: Recognition exemption for leases with less than 12 months of leases term at transition	(814)
Add: Recognition of leases entered into and commenced on 1 January 2019	<u>30,786</u>
Lease liability recognised as at 1 January 2019	<u>37,801</u>
Of which are:	
Current lease liabilities	7,854
Non-current lease liabilities	<u>29,947</u>
	<u>37,801</u>

Impacts for the period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RMB5,060,000 of right-of-use assets and RMB5,019,000 of lease liabilities as at 30 June 2019.

Also in relation to those leases under HKFRS 16, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised RMB1,955,000 of depreciation charges and RMB106,000 of finance costs from these leases.

3. 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.

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 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 30 June 2019:					
Segment assets	2,684,435	362,015	6,573	11,291	3,064,314
Segment liabilities	874,412	72,342	3,847	838	951,439
Six months ended 30 June 2018					
Revenue from external customers	441,517	261,757	6,289	1,564	711,127
Segment profit/ (loss)	156,285	28,004	(786)	705	184,208
At 31 December 2018:					
Segment assets	2,475,898	375,913	22,934	12,277	2,887,022
Segment liabilities	720,290	157,393	18,033	2,438	898,154

Six months ended 30 June	
2019	2018
RMB’000	RMB’000
(Unaudited)	(Unaudited)

Reconciliations of segment profit:

Total profit of reportable segments	87,910	184,208
Unallocated amounts:		
Other income	26,601	25,795
Finance costs	(19,204)	(25,777)
Other corporate expenses	(118,843)	(148,795)
Consolidated (loss)/profit before tax for the period	(23,536)	35,431

4. 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.

In the following table, revenue is disaggregated by business segment 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	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Timing of revenue recognition										
Goods and services transferred at a point in time	28,963	92,084	5	222,811	-	-	-	-	28,968	314,895
Goods and services transferred over time	413,566	349,433	44,624	38,946	4,931	6,289	579	1,564	463,700	396,232
Total	442,529	441,517	44,629	261,757	4,931	6,289	579	1,564	492,668	711,127

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade and bills receivables	684,220	589,841
Contract assets	286,551	406,382
Contract liabilities	200,184	53,702

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 RMB23,955,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2019.

5. **OTHER INCOME**

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposals of property, plant and equipment	155	115
Interest income	6,335	8,789
Net foreign exchange losses	(432)	(1,048)
Government grant recognised	5,789	3,327
Compensation income	7,353	14,439
Fair value gains on derivative financial instruments	3,393	-
Sundry income	4,008	173
	<u>26,601</u>	<u>25,795</u>

6. **FINANCE COSTS**

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	18,749	23,015
Others	455	2,762
	<u>19,204</u>	<u>25,777</u>

7. **INCOME TAX EXPENSE**

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax - PRC Enterprise Income Tax		
Provision for the period	6,585	30,915
Under provision in prior periods	8,337	128
	<u>14,922</u>	<u>31,043</u>
Deferred tax	(5,742)	(14,275)
	<u>9,180</u>	<u>16,768</u>

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 2019 and 2018.

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.

8. **(LOSS)/PROFIT FOR THE PERIOD**

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Reversal of)/ allowance for inventories	(893)	3,001
Impairment losses on trade and other receivables	6,290	1,980
Gain on disposals of property, plant and equipment	(155)	(115)
(Reversal of)/ impairment losses on contract assets	(357)	578
Directors' emoluments		
- As directors	180	187
- For management	4,646	2,268
- Share-based payments	2,111	3,741
	6,937	6,196

9. **(LOSS)/EARNINGS PER SHARE**

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	(32,716)	18,663
Number of shares		
Weighted average number of ordinary shares used in basic (loss)/earnings per share calculation	1,634,016,389	1,633,276,058
Effect of dilutive potential ordinary shares arising from share options	N/A	17,946,108
Weighted average number of ordinary shares used in diluted (loss)/earnings per share calculation	N/A	1,651,222,166

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

10. **FIXED ASSETS**

During the six months ended 30 June 2019, the Group acquired fixed assets of approximately RMB62,695,000 (six months ended 30 June 2018: RMB19,028,000).

11. **TRADE AND BILLS RECEIVABLES**

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	654,637	521,135
Allowance for doubtful debts	(33,768)	(27,479)
	620,869	493,656
Bills receivables	63,351	96,185
	684,220	589,841
Classified as:		
Trade receivables, non-current	42,292	46,129
Trade and bills receivables, current	641,928	543,712
	684,220	589,841

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Billed:		
0 to 30 days	142,402	50,318
31 to 90 days	34,281	76,619
91 to 365 days	139,782	78,036
Over 365 days	64,811	36,162
	381,276	241,135
Unbilled	273,361	280,000
	654,637	521,135

12. **TRADE AND BILLS PAYABLES**

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables	525,729	606,042
Bills payables	<u>36,820</u>	<u>53,653</u>
	<u>562,549</u>	<u>659,695</u>

The ageing analysis of trade payables, based on the date of receipt of goods and services, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
0 to 30 days	309,211	348,720
31 to 90 days	18,280	20,257
91 to 365 days	74,898	84,819
Over 365 days	<u>123,340</u>	<u>152,246</u>
	<u>525,729</u>	<u>606,042</u>

13. **SHARE CAPITAL**

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 31 December 2018 (Audited) and 30 June 2019 (Unaudited)	<u>4,000,000,000</u>	<u>40,000</u>

13. SHARE CAPITAL (CON'T)

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

	Note	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 2018 (Audited)		1,632,016,389	16,321	14,739
Exercise of share options	(a)	<u>2,000,000</u>	<u>20</u>	<u>16</u>
At 31 December 2018 (Audited) and 30 June 2019 (Unaudited)		<u><u>1,634,016,389</u></u>	<u><u>16,341</u></u>	<u><u>14,755</u></u>

Notes:

- (a) Share options were exercised by option holders during the year ended 31 December 2018 to subscribe for a total of 2,000,000 ordinary shares in the Company at total consideration of approximately HK\$3,240,000 equivalent to approximately RMB2,593,000 of which approximately RMB16,000 was credited to share capital and the balance of approximately RMB2,577,000 was credited to the share premium account. Approximately RMB695,000 has been transferred from the share-based payment reserve to the share premium account.

14. 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 announcement.

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, would not have a material impact on the Group's financial position.

Save as disclosed above, as at 30 June 2019 and 31 December 2018, the Group did not have other significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

1. REVIEWS

The Group is an integrated service provider offering engineering facilities manufacturing services mainly in the energy industry such as oil and gas, which include offshore engineering, construction of modular petroleum and natural gas chemical plant, FPSO (Floating Production Storage and Offloading) topside module construction and oil and gas processing equipment. The services involve the engineering and construction of upstream oil and gas field development facilities as well as the midstream and downstream LNG facilities and refining and chemical facilities. The Group mainly undertakes projects from the international market and has an international leading comprehensive strength in large-scale modular equipment construction. Besides, the reliability and quality of the projects implemented by the Group are highly recognised by the world's top energy companies.

During the first half of year 2019, the Penglai site of the Group had completed and delivered 6 projects and had 18 projects in progress. The development of the core modules of the natural gas chemical factory under the US GCGV Project[#], a project secured last year with total contract value amounting to over RMB2 billion, also has gradually stepped into the site construction stage in the first half of this year. However, since projects on hand were still at the early stage of construction, low workload has led to slow progress for work completed. Our projects teams have maintained continuous and effective communication with our customers during the process of carrying out their work and worked jointly to facilitate the implementation of the projects.

By leasing a new site covering an area of 200,000 square meters and adjacent to our existing factories and by upgrading our existing factories, the project delivery capacity of our Penglai site is expected to nearly double in the coming future. Such growth will enable us to undertake more new projects in the future and to achieve the concurrent development of major projects.

The Group's Zhuhai fabrication yard mainly engages in fabrication of module and equipment in comparably smaller size. Its capacity was not in full operation during the first half of the year.

Benefiting from the increase of the capital expenditure in the domestic offshore oil and gas market, the Group's business volume of traditional offshore oil and gas services business was relatively saturated, representing a growth as compared with the corresponding period of last year.

The Group closely monitored the market information and proactively strived for several major and small-and-medium projects by engaging targeted tender strategies. In July 2019, the Group was awarded a major construction contract from TECHNIP France S.A., a subsidiary wholly owned by Technip FMC, a well-known international engineering general contracting company in Europe. Pursuant to the contract, the Group will construct the largest module of core compressor and generator that were currently found in the industry to the first two trains of the Arctic LNG 2 project (a liquidized natural gas project located in the arctic region) at our Penglai site. The total sum of the contract exceeded RMB3.0 billion.

Turnover

For the first half year of 2019, the Group recorded turnover of approximately RMB492,668,000, representing an decrease of RMB218,459,000 or 30.72% as compared with the corresponding period of last year. Among others, the fabrication of facilities and provision of integrated services for oil and gas industries recorded turnover of RMB442,529,000, representing an increase of RMB1,012,000 or 0.23% as compared with the corresponding period of last year. Turnover from the fabrication of facilities and provision of integrated services for other energy and refining and chemical industries decreased by 82.95% or RMB217,128,000 as compared with the corresponding period of last year, which was mainly due to the fact that most of the projects secured in 2017 were intensively implemented in 2018 and the Company actively cut down relevant business. Turnover from the provision of technical support services for shipbuilding industry decreased by 21.59% or RMB1,358,000 as compared with the corresponding period of last year, which was mainly due to the further decrease in the workload of such business of the Group caused by the continually weakened ship-building market.

[#] GCGV Project is a new petrochemical complex with an annual production capacity of 1.8 million tons ethylene in Texas, U.S., which is jointly developed by ExxonMobil and SABIC. For more information of the GCGV Project, please visit GCGV's website at <http://www.gulfcoastgv.com>.

The table below sets out the analysis of turnover by business segment categories for the six months ended 30 June 2017, 2018 and 2019:

Product/service	For the six months ended 30 June					
	2019		2018		2017	
	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	442,529	90	441,517	62	171,679	93
2. Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	44,629	9	261,757	37	-	-
3. Provision of technical support services for shipbuilding industry	4,931	1	6,289	1	8,786	5
4. Others	579	0	1,564	0	3,759	2
Total	492,668	100	711,127	100	184,224	100

Cost of Sales and Service

During the reporting period, cost of sales and services of the Group amounted to approximately RMB404,758,000, representing an decrease of RMB122,161,000 or 23.18% when compared with that of the corresponding period of last year. It was mainly caused by the significant decrease in turnover 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 RMB338,912,000, representing 83.73% of total cost of sales and services, and an decrease of RMB117,074,000 or 25.68% from RMB455,986,000 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 service varies from project to project. Manufacturing overheads has decreased by RMB5,087,000 or 7.17% from RMB70,933,000 of the corresponding period of last year to approximately RMB65,846,000 in current reporting period.

Gross Profit

During the reporting period, the total amount of gross profit of the Group amounted to approximately RMB87,910,000, representing an decrease of RMB96,298,000 or 52.28% when compared with RMB184,208,000 of the corresponding period of last year. The overall gross profit margin decreased to 17.84% from 25.90% 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 price quotation strategy in tender of major projects that were undertaken in the first half year which resulted in lower gross margin as compared with that of projects undertaken in the previous year.

The table below sets out the analysis of gross profit by business segment for the six months ended 30 June 2017, 2018 and 2019:

Product/service	For the six months ended 30 June								
	2019			2018			2017		
	RMB '000	Gross profit margin %	Percentage of total gross profit	RMB '000	Gross profit margin %	Percentage of total gross profit	RMB '000	Gross profit margin %	Percentage of total gross profit
1. Fabrication of facilities and provision of integrated services for oil and gas industries	78,319	18	89	156,285	35	85	15,923	9	100
2. Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	9,043	20	10	28,004	11	15	-	-	-
3. Provision of technical support services for shipbuilding industry	1,367	28	2	(786)	(12)	0	(175)	(2)	(1)
4. Others	(819)	(141)	(1)	705	45	0	87	2	1
Total	87,910		100	184,208		100	15,835		100

Other income

Other income of the Group in the first half of 2019 amounted to approximately RMB26,601,000, mainly comprising interest income, insurance compensation income and income from government grants.

Administrative and Other Operating Expenses

Administrative and other operating expenses of the Group in aggregate in the first half of 2019 were approximately RMB112,910,000, representing a decrease of RMB33,327,000 when compared with that of the corresponding period of last year, which was mainly due to the decrease in share option expenses of the Group and decrease in professional service fees during the current period.

Finance Costs

During the reporting period, the finance costs of the Group amounted to approximately RMB19,204,000, which was mainly comprised of interest expenses from bank and other borrowings and bank charges.

Loss for the Period Attributable to Owners of the Company

In the first half year of 2019, loss attributable to owners of the Company amounted to approximately RMB32,716,000. Basic loss per share attributable to owners of the Company was approximately RMB2.002 cents.

Liquidity and Financial Resources

As at 30 June 2019, the balance of working funds (cash on hand and bank deposits) of the Group amounted to approximately RMB487,617,000 (31 December 2018: RMB902,562,000). During the said period, net cash outflows from operating activities amounted to approximately RMB123,225,000, net cash outflows from investing activities amounted to approximately RMB45,585,000, and net cash outflows from financing activities amounted to approximately RMB252,750,000.

As at 30 June 2019, the Group had available undrawn banking facilities of approximately RMB1,094,026,000 (31 December 2018: RMB630,523,000), which includes bank loans, letters of credit, bank guarantees, etc.

Capital Structure

As at 30 June 2019, the share capital of the Company comprises 1,634,016,389 ordinary shares (31 December 2018: 1,634,016,389 ordinary shares).

As at 30 June 2019, net assets of the Group amounted to approximately RMB2,088,883,000 (31 December 2018: RMB2,133,016,000), which comprises non-current assets of approximately RMB1,689,394,000 (31 December 2018: RMB1,668,337,000), net current assets of approximately RMB937,188,000 (31 December 2018: RMB903,067,000) and non-current liabilities of approximately RMB537,699,000 (31 December 2018: RMB438,388,000).

Significant Investment

In the first half of the year, the construction works of the site and related auxiliary facilities of the west factory area of Penglai site were in peak, with total investment of approximately RMB57,000,000, which was expected to be completed in the second half of 2019.

The construction of our office building in Zhuhai was in the final stage of construction, with total investment of approximately RMB40,000,000, which was expected to be completed in the second half of 2019.

Apart from the above, the Group had no other significant investment for the six months ended 30 June 2019.

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.

Assets Pledged by the Group

As at 30 June 2019, approximately RMB71,064,000 of the bank deposits were pledged as security deposits for the issuance of performance bonds, letter of credits and bank acceptance.

At 30 June 2019, the carrying amount of property, plant and equipment pledged as security for the Group’s bank and other borrowings amounted to approximately RMB119,425,000 (31 December 2018: RMB124,423,000).

Contingent Liabilities

Save as disclosed in note 14 to the condensed consolidated financial statements in this announcement, as at 30 June 2019, 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.

The gearing ratios of the Group as at 30 June 2019 and as at 31 December 2018 were as follows:

	30 June 2019	31 December 2018
	RMB'000	RMB'000
Total bank and other borrowings	557,591	805,999
Total equity	2,088,883	2,133,016
Gearing ratio	26.69%	37.79%

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 2019, the Group had total 2,991 employees (31 December 2018: 2,747), of which 1,158 (31 December 2018:1,201) were management and technical staff, and 1,833 (31 December 2018:1,546) 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.

2. FUTURE OUTLOOK

For certain work orders previously obtained by the Group, relevant construction will commence in the second half of this year. For some projects in progress including the natural gas petrochemical modules construction of the GCGV Project granted last year, the construction will also gradually enter into the peak period, which will require significant demands for manpower and other work resources. The Group will closely monitor the project implementation and strengthen the cost and process control to improve the execution efficiency. Meanwhile, the Group will continue to acquire some production equipment, improve site facilities and strengthen personnel recruitment as planned to meet the requirements in the project development.

In addition, the Group will continue to reinforce the technology integration, information sharing and resource complementation among sites, accelerate the progress in staffing and organizational structure improvement and strengthen the construction of core professionals and various management personnel, so that sites and business segments can complement each other for concerted progress.

In recent years, China has become the preferred site for international large-scale module construction projects and China's construction has been fully recognised by international customers. Overall, there are a number of visible market opportunities for large-scale module construction, especially for modular plant construction business, in the coming years. The Group will actively track projects and businesses with market representation and continuity, pay close attention to external complex and volatile situations, overcome risks and maintain its competitive advantages.

DIRECTORS REPORT AND CORPORATE GOVERNANCE

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as the share options granted to the Directors under the share option scheme 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 Securities and Futures Ordinance (cap.571) and the Hong Kong Companies Ordinance (Cap.622).

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 six months ended 30 June 2019.

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 three board members, namely Mr. Liu Lei, Mr. Wang Lishan and Mr. Cao Yunsheng, 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 for Securities Transactions by Directors of Listed Issuers (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.

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 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 period ended 30 June 2019 and is of the opinion that such information comply 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 2018 Annual Report.

By Order of the Board
Jutal Offshore Oil Services Limited
Liu Lei
Chairman

Hong Kong, 19 August 2019

As at the date of this announcement, the executive Directors are Mr. Liu Lei (Chairman), Mr. Wang Lishan, Mr. Lin Ke, Mr. Cao Yunsheng, Mr. Liu Yunian and Mr. Tang Hui; and the independent non-executive Directors are Mr. Su Yang, Mr. Zheng Yimin and Mr. Qi Daqing.