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PETRO-KING OILFIELD SERVICES LIMITED

百勤油田服務有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 2178)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of Petro-king Oilfield Services Limited (the “**Company**”) hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”, “**we**” or “**our**”) for the six months ended 30 June 2023 (“**1H2023**”), together with comparative figures for the six months ended 30 June 2022 (“**1H2022**”).

BUSINESS REVIEW

The Group’s revenue and loss for 1H2023 were approximately HK\$103.2 million (1H2022: HK\$67.1 million) and approximately HK\$18.0 million (1H2022: approximately HK\$37.4 million), respectively. Basic loss per share attributable to owners of the Company for 1H2023 was approximately HK1.0 cent (1H2022: approximately HK2.2 cents). The Board has resolved not to pay any interim dividend for 1H2023 (1H2022: Nil).

During 1H2023, the Group was principally engaged in the provision of production enhancement services, drilling services, consultancy services for oilfields and gas fields, with auxiliary activities in the trading of oilfield and gas field related products.

In 1H2023, the Group's revenue increased by approximately 53.8% from approximately HK\$67.1 million in 1H2022 to approximately HK\$103.2 million in 1H2023. As the international oil price had remained strong in 1H2023 and the national policy of the People's Republic of China (the "PRC") to encourage shale gas consumption for environmental protection, there were strong market demands for production enhancement services offered by the Group for certain shale gas field projects in the PRC, which contributed to a substantial increase in revenue of the Group during 1H2023.

The Group's loss attributable to owners of the Company for 1H2023 decreased by approximately 54.6% to approximately HK\$17.1 million (1H2022: approximately HK\$37.7 million). The decrease in loss attributable to owners of the Company was mainly attributable to the increase in the Group's revenue in 1H2023.

GEOGRAPHICAL MARKET ANALYSIS

	1H2023 (HK\$ million)	1H2022 (HK\$ million)	Approximate percentage change (%)	Approximate percentage of total revenue in 1H2023 (%)	Approximate percentage of total revenue in 1H2022 (%)
China market	82.0	50.9	61.1	79.5	75.9
Overseas markets	21.2	16.2	30.9	20.5	24.1
Total	<u>103.2</u>	<u>67.1</u>	<u>53.8</u>	<u>100</u>	<u>100</u>

The Group's revenue from the China market increased by approximately HK\$31.1 million or approximately 61.1% to approximately HK\$82.0 million in 1H2023 from approximately HK\$50.9 million in 1H2022. The increase in revenue from the China market was mainly due to the increase in the provision of production enhancement services in Northern China and Southwestern China in 1H2023.

The Group's revenue from the overseas market increased by approximately HK\$5.0 million or approximately 30.9% to approximately HK\$21.2 million in 1H2023 from approximately HK\$16.2 million in 1H2022. The increase in revenue from the overseas market was mainly due to the increase in the provision of supervisory services in the Middle East market, which was partly offset by the decrease in the provision of integrated project management services in other overseas markets.

Revenue from the China Market

	1H2023	1H2022	Approximate percentage change	Approximate percentage of total revenue from the China market in 1H2023	Approximate percentage of total revenue from the China market in 1H2022
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
Southwestern China	38.8	22.3	74.0	47.3	43.8
Northern China	37.8	18.9	100.0	46.1	37.1
Northwestern China	4.4	8.5	-48.2	5.4	16.7
Other regions in China	1.0	1.2	-16.7	1.2	2.4
Total	82.0	50.9	61.1	100	100

The Group's revenue from Southwestern China amounted to approximately HK\$38.8 million in 1H2023, which increased by approximately HK\$16.5 million or approximately 74.0% from approximately HK\$22.3 million in 1H2022. The increase was mainly due to the increase in the provision of fracturing production enhancement services in this region.

In 1H2023, the Group's revenue from Northern China amounted to approximately HK\$37.8 million, which increased by approximately HK\$18.9 million or approximately 100.0% from approximately HK\$18.9 million in 1H2022. The increase was mainly due to the increase in the provision of plug and perforation fracturing services and coiled tubing fracturing services in this region.

The Group's revenue from Northwestern China amounted to approximately HK\$4.4 million in 1H2023, which decreased by approximately HK\$4.1 million or approximately 48.2% from approximately HK\$8.5 million in 1H2022. The decrease was mainly due to the decrease in the provision of drilling services in this region.

The Group's revenue from other regions in China amounted to approximately HK\$1.0 million in 1H2023, which decreased by approximately HK\$0.2 million or approximately 16.7% from approximately HK\$1.2 million in 1H2022. The decrease in revenue from other regions in China was mainly due to the decrease in the provision of supervisory services in these regions.

Revenue from the Overseas Markets

	1H2023	1H2022	Approximate percentage change	Approximate percentage of total revenue from the overseas markets in 1H2023	Approximate percentage of total revenue from the overseas markets in 1H2022
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
The Middle East	21.1	14.6	44.5	99.5	90.1
Others	0.1	1.6	-93.8	0.5	9.9
Total	21.2	16.2	30.9	100	100

In 1H2023, the Group's revenue from the Middle East amounted to approximately HK\$21.1 million, which increased by approximately HK\$6.5 million or approximately 44.5% from approximately HK\$14.6 million in 1H2022. The increase was mainly due to the increase in the provision of supervisory services in the Middle East market.

The Group's revenue from other overseas regions amounted to approximately HK\$0.1 million in 1H2023, which decreased by approximately HK\$1.5 million or approximately 93.8% from approximately HK\$1.6 million in 1H2022. The decrease in revenue from other overseas regions was mainly due to the decrease in the provision of integrated project management services in other overseas markets.

BUSINESS SEGMENT ANALYSIS

	1H2023 <i>(HK\$ million)</i>	1H2022 <i>(HK\$ million)</i>	Approximate percentage change <i>(%)</i>	Approximate percentage of total revenue in 1H2023 <i>(%)</i>	Approximate percentage of total revenue in 1H2022 <i>(%)</i>
Oilfield project tools and services	81.2	51.1	58.9	78.7	76.2
Consultancy services	22.0	16.0	37.5	21.3	23.8
Total	103.2	67.1	53.8	100	100

In 1H2023, the Group's revenue from oilfield project tools and services amounted to approximately HK\$81.2 million, which increased by approximately HK\$30.1 million or approximately 58.9% from approximately HK\$51.1 million in 1H2022. The increase in revenue from this segment was mainly due to the increase in the provision of production enhancement services in Northern China and Southwestern China in 1H2023.

The Group's revenue from consultancy services amounted to approximately HK\$22.0 million in 1H2023, which increased by approximately HK\$6.0 million or approximately 37.5%, from approximately HK\$16.0 million in 1H2022. The increase was mainly due to the increase in the provision of supervisory services in the Middle East market.

Oilfield Projects Tools and Services

	1H2023	1H2022	Approximate percentage change	Approximate percentage of total revenue from oilfield project tools and services in 1H2023	Approximate percentage of total revenue from oilfield project tools and services in 1H2022
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
Production enhancement	71.8	41.7	72.2	88.4	81.6
Drilling	7.4	9.4	-21.3	9.1	18.4
Well completion	2.0	–	N/A	2.5	–
Total	81.2	51.1	58.9	100	100

Production Enhancement

In 1H2023, the Group's revenue from production enhancement amounted to approximately HK\$71.8 million, which increased by approximately HK\$30.1 million or approximately 72.2% from approximately HK\$41.7 million in 1H2022. The increase was mainly due to the increase in the provision of plug and perforation fracturing services and coiled tubing fracturing services in Northern China and the provision of fracturing production enhancement services in Southwestern China.

Drilling

The Group's revenue from drilling amounted to approximately HK\$7.4 million in 1H2023, which decreased by approximately HK\$2.0 million or approximately 21.3% from approximately HK\$9.4 million in 1H2022. The decrease was mainly due to the decrease in the provision of drilling services in Northwestern China.

Well Completion

In 1H2023, the Group's revenue from well completion amounted to approximately HK\$2.0 million (1H2022: Nil). The well completion tools were sold to customers in Northern China.

CUSTOMER ANALYSIS

Customer	1H2023 (HK\$ million)	1H2022 (HK\$ million)	Approximate percentage change (%)	Approximate percentage of total revenue in 1H2023 (%)	Approximate percentage of total revenue in 1H2022 (%)
Customer 1	45.3	30.6	48.0	43.8	45.6
Customer 2	32.6	15.1	115.9	31.6	22.5
Customer 3	19.9	15.5	28.4	19.3	23.1
Customer 4	1.1	–	N/A	1.1	–
Customer 5	1.0	–	N/A	1.0	–
Other customers	3.3	5.9	-44.0	3.2	8.8
Total	<u>103.2</u>	<u>67.1</u>	<u>53.8</u>	<u>100</u>	<u>100</u>

The revenue from Customer 1 amounted to approximately HK\$45.3 million in 1H2023, which increased by approximately HK\$14.7 million or approximately 48.0% from approximately HK\$30.6 million in 1H2022. This increase was mainly due to the increase in the provision of fracturing production enhancement services to this customer in Southwestern China. The revenue from Customer 2 amounted to approximately HK\$32.6 million in 1H2023, which increased by approximately HK\$17.5 million or approximately 115.9% from approximately HK\$15.1 million in 1H2022. This increase was mainly due to the increase in the provision of plug and perforation fracturing services and coiled tubing fracturing services to this customer in Northern China. The revenue from Customer 3 amounted to approximately HK\$19.9 million in 1H2023, which increased by approximately HK\$4.4 million or approximately 28.4% from approximately HK\$15.5 million in 1H2022. This increase was mainly due to the increase in the provision of supervisory services to this customer in the Middle East. The revenue from Customer 4 amounted to approximately HK\$1.1 million in 1H2023 (1H2022: Nil), which was derived from the provision of supervisory services in Southwestern China. The revenue from Customer 5 amounted to approximately HK\$1.0 million in 1H2023 (1H2022: Nil), which was derived from the provision of drilling services in Northwestern China. The revenue from other customers amounted to approximately HK\$3.3 million in 1H2023, which dropped by approximately HK\$2.6 million or approximately 44.0% from approximately HK\$5.9 million in 1H2022. Such decrease in revenue mainly resulted from the decrease in the provision of production enhancement services to certain customers in the China market.

HUMAN RESOURCES

The Group believes that our people are the most valuable assets to our business. We have implemented human resources policies and procedures that set out the requirements on compensation, termination, recruitment, promotion, working hours, equal opportunity and other benefits and welfare. We support employees' growth and strive to secure our core expertise through training and development. To equip our frontline staff with the right skillset and knowledge, we arranged for a series of training courses that cover technical updates in drilling and production enhancement technology, blast management, control at wells and environment management. We also worked with external organisations such as unions and consultants to provide training for the specific needs of certain operations. The Group has arranged 75 trainings of more than 4,578 hours in total and 154 employees have attended these training programs in 1H2023. Besides, the Company has implemented a talents selection system to expand the promotion channel for employees in order to realise a win-win situation for both the Company and employees.

To cope with the development trend of the industry, the Group streamlined the organisation structure and the cost structure of all service lines as well as the supporting departments. The Company paid high attention to talent introduction and has recruited some international experts who are good at market development as well. The total headcount was 255 employees as at 30 June 2023, representing an increase of approximately 2.8% as compared with that of 248 employees as at 31 December 2022.

RESEARCH AND DEVELOPMENT

As a high-end integrated oilfield services provider, the Group attaches great importance to technology, and prides itself on introducing innovative products and services in various oilfield services lines, such as turbine-drilling, directional drilling, multistage fracturing, downhole completion, surface facilities for safety and flow control, drilling fluids and fracturing liquid.

The Group pays great attention to the registration of patents and always encourages application for patents to protect its intellectual property rights. As at 30 June 2023, the Group had 12 utility model patents and 6 innovation patents and was in the process of applying for 7 innovation patents.

In order to maintain its leading position in the high-end oilfield services sector, the Group will continue its efforts in developing oilfield services tools and technologies through in-house research and development and cooperation with oilfield services technology companies.

OUTLOOK

During 1H2023, Brent crude oil price has fluctuated between approximately US\$70 to approximately US\$89 per barrel. With the international oil price remaining strong and the PRC's national policy to encourage shale gas consumption for environmental protection, market demands for production enhancement services and other oilfield services offered by the Group is expected to remain robust for the rest of 2023.

Looking forward, the Group will continue to put efforts into the marketing and promotion of the Group's oilfield services and technologies so as to increase our market penetration. In addition, the Group will continue to explore other investment opportunities with earning potentials to expand its existing operations and to diversify its business, including but not limited to underground thermal energy projects. With the committed efforts of our staff and management, we are cautiously optimistic on the prospects of the Group.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Six months ended 30 June	
	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	4	103,215	67,068
Other income		72	–
Operating costs			
Material costs		(12,962)	(7,408)
Depreciation of property, plant and equipment	10	(18,835)	(17,576)
Depreciation of right-of-use assets		(881)	(963)
Expenses related to short-term leases		(1,935)	(1,641)
Employee benefit expenses		(24,565)	(25,238)
Distribution expenses		(415)	(1,967)
Technical service fees		(32,647)	(20,375)
Research and development expenses		(10,066)	(4,998)
Entertainment and marketing expenses		(3,747)	(3,959)
Net reversal of impairment/(impairment loss) on financial assets		244	(655)
Net reversal of impairment on contract assets		438	–
Write-down of inventories to net realisable value		(1,070)	(2,139)
Other expenses		(9,743)	(7,925)
Other gains/(losses), net	5	2,150	(1,357)
Operating loss		(10,747)	(29,133)
Finance income		1,949	2,678
Finance costs		(8,201)	(6,970)
Finance costs, net	6	(6,252)	(4,292)
Share of results of associates		(1,445)	(4,101)
Loss before income tax credit		(18,444)	(37,526)
Income tax credit	7	471	107
Loss for the period		(17,973)	(37,419)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(5,158)	(3,359)
Share of other comprehensive income of associates		1,957	–
Other comprehensive income for the period, net of tax		(3,201)	(3,359)
Total comprehensive income for the period		(21,174)	(40,778)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Unaudited	
		Six months ended 30 June	
	<i>Notes</i>	2023	2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period attributable to:			
Owners of the Company		(17,113)	(37,724)
Non-controlling interests		(860)	305
		<u>(17,973)</u>	<u>(37,419)</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		(20,165)	(41,013)
Non-controlling interests		(1,009)	235
		<u>(21,174)</u>	<u>(40,778)</u>
Loss per share attributable to owners of the Company during the period:			
Loss per share – basic and diluted (<i>HK cent(s)</i>)	8	<u>(1.0)</u>	<u>(2.2)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	140,483	163,713
Intangible assets		85,656	85,656
Right-of-use assets	11	2,827	3,790
Financial asset at fair value through profit or loss		6,170	6,170
Interests in associates		68,079	73,724
Other receivables and deposits	12	28,977	37,370
		332,192	370,423
Current assets			
Inventories		13,476	12,860
Trade receivables	13	195,863	220,653
Contract assets		87,443	107,673
Other receivables and deposits	12	60,377	59,773
Prepayments		13,850	12,071
Cash and cash equivalents		22,228	39,959
		393,237	452,989
Current liabilities			
Trade payables	14	204,056	243,720
Other payables and accruals		66,773	86,187
Contract liabilities		3,529	625
Lease liabilities		1,354	1,521
Bank and other borrowings		100,764	95,225
		376,476	427,278
Net current assets		16,761	25,711
Total assets less current liabilities		348,953	396,134

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

	Unaudited	Audited
	30 June	31 December
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Bank and other borrowings	105,593	132,126
Lease liabilities	1,556	2,273
	<u>107,149</u>	<u>134,399</u>
NET ASSETS	241,804	261,735
EQUITY		
Share capital	2,001,073	2,001,073
Other reserves	42,498	44,307
Accumulated losses	(1,806,447)	(1,789,334)
	<u>237,124</u>	<u>256,046</u>
Equity attributable to owners of the Company	237,124	256,046
Non-controlling interests	4,680	5,689
	<u>241,804</u>	<u>261,735</u>
TOTAL EQUITY	241,804	261,735

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with the International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting”.

The interim condensed consolidated financial information does not include all the notes of the type normally included in annual financial statements. Accordingly, this announcement should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and any public announcements made by the Group during the interim reporting period.

The Group reported a net loss of approximately HK\$17,973,000 during the six months ended 30 June 2023, and as of that date, the Group had total current bank and other borrowings of approximately HK\$100,764,000, while the Group only had cash and cash equivalents of approximately HK\$22,228,000.

These conditions may cast significant doubt on the Group's ability to continue as a going concern.

In assessing the appropriateness of the use of the going concern basis in the preparation of the interim condensed consolidated financial statements, the directors of the Company (the "**Directors**") have prepared a cash flow forecast (the "**Forecast**") covering the next fifteen months from the end of reporting period. In preparing the Forecast, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing and also have taken account of the following plans and measures:

- (a) As at 30 June 2023, the Group had unutilised facilities available for drawdown totalling RMB53,610,000 (the "**Unutilised Facilities**"), comprising RMB30,000,000 from a shareholder, and RMB19,000,000 and HK\$5,000,000 from certain independent lenders. Subsequent to 30 June 2023, the Group has not drawn down the Unutilised Facilities;
- (b) The Group is actively negotiating with a bank located in the People's Republic of China (the "**PRC**") for new loan facilities for the working capital needs of the Group for the oilfield and gas field projects in the PRC. The Group has drawn down bank loans in the aggregate amount of RMB36,010,000 from this same bank during the six months ended 30 June 2023; and
- (c) Repayment from Petro-king Energy Technology (Huizhou) Co., Ltd. ("**Petro-king Huizhou**") and its subsidiaries (together the "**Petro-king Huizhou Group**") of certain loan facilities with outstanding principal amount of approximately US\$2,070,000, RMB11,500,000 and RMB8,000,000 as at 30 June 2023, respectively.

In the opinion of the Directors, the Group will have sufficient financial resources to finance its operations and meet its financial obligations as and when they fall due. Accordingly, the Directors considered that it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

Notwithstanding the above, a material uncertainty exists relating to the above conditions that may cast significant doubt on the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through:

- (i) successfully drawing down the Unutilised Facilities as and when needed;
- (ii) successfully obtaining new loan facilities from the bank located in the PRC to fund the working capital needs of the Group for the oilfield and gas field projects in the PRC; and
- (iii) repayment from the Petro-king Huizhou Group.

Should the Group be unable to achieve the above plans and measures such that it would not be operated as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their realisable amounts, to provide for financial liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the interim condensed consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022.

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

In the current period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2023.

The adoption of the new and revised IFRSs has no material impact on the Group's interim condensed consolidated financial statements.

4 REVENUE AND SEGMENT INFORMATION

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

The Group has two operating segments as follows:

- | | |
|-------------------------------------|--|
| Oilfield project tools and services | – provision of oilfield technology services including drilling, well completion and production enhancement with auxiliary activities in trading of oilfield and gas field related products |
| Consultancy services | – provision of integrated project management services and supervisory services |

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

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

(a) **Revenue**

Revenue recognised for the six months ended 30 June 2023 and 2022 are as follows:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Revenue from contract with customers within the scope of IFRS 15:		
Oilfield project tools and services		
– Drilling work	7,405	9,417
– Well completion work	1,980	–
– Production enhancement work	71,800	41,670
	81,185	51,087
Consultancy services		
– Integrated project management services	–	1,560
– Supervisory services	22,030	14,421
	22,030	15,981
Total revenue	103,215	67,068
Timing of revenue recognition within the scope of IFRS 15:		
At a point in time	2,086	10,929
Over time	101,129	56,139
	103,215	67,068

(b) Segment results

The segment information for the six months ended 30 June 2023 and 2022 are as follows:

	Unaudited		
	Oilfield project tools and services HK\$'000	Consultancy services HK\$'000	Total HK\$'000
Six months ended 30 June 2023			
Revenue from external customers	81,185	22,030	103,215
Inter-segment revenue	–	–	–
	<hr/>	<hr/>	<hr/>
Total segment revenue	81,185	22,030	103,215
	<hr/>	<hr/>	<hr/>
Segment results	(24,440)	9,741	(14,699)
Net unallocated expenses			(3,745)
			<hr/>
Loss before income tax credit			(18,444)
			<hr/>
Other information:			
Depreciation of property, plant and equipment	(18,635)	–	(18,635)
Depreciation of right-of-use assets	(142)	–	(142)
Net reversal of impairment on financial assets	244	–	244
Net reversal of impairment on contract assets	438	–	438
Write-down of inventories to net realisable value	(1,070)	–	(1,070)
Finance costs	(6,374)	–	(6,374)
	<hr/>	<hr/>	<hr/>

	Unaudited		
	Oilfield project tools and services <i>HK\$'000</i>	Consultancy services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2022			
Revenue from external customers	51,087	15,981	67,068
Inter-segment revenue	–	–	–
	<hr/>	<hr/>	<hr/>
Total segment revenue	51,087	15,981	67,068
	<hr/>	<hr/>	<hr/>
Segment results	(32,079)	6,057	(26,022)
Net unallocated expenses			<hr/> (11,504)
Loss before income tax credit			<hr/> (37,526)
Other information:			
Depreciation of property, plant and equipment	(17,371)	–	(17,371)
Depreciation of right-of-use assets	(126)	–	(126)
Net impairment loss on financial assets	(655)	–	(655)
Write-down of inventories to net realisable value	(2,139)	–	(2,139)
Finance costs	<hr/> (3,068)	<hr/> –	<hr/> (3,068)

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

A reconciliation of operating segments' results to total loss before income tax credit is provided as follows:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment results	(14,699)	(26,022)
Depreciation of property, plant and equipment	(200)	(205)
Depreciation of right-of-use assets	(739)	(837)
Other expenses	(2,408)	(2,906)
Other gains/(losses), net	2,150	(1,357)
Finance costs	(1,827)	(3,902)
Finance income	1,949	2,678
Share of results of associates	(1,445)	(4,101)
Other unallocated corporate expenses	(1,225)	(874)
	<u>(18,444)</u>	<u>(37,526)</u>
Loss before income tax credit	(18,444)	(37,526)

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

5 OTHER GAINS/(LOSSES), NET

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Foreign exchange gains, net	1,038	2,790
Losses on disposals of property, plant and equipment	(363)	(227)
Loss on dilution of interests in associates	–	(4,048)
Government grant	1,622	–
Others	(147)	128
	<u>2,150</u>	<u>(1,357)</u>

6 FINANCE COSTS, NET

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Interest income from bank deposits	32	25
Interest income from related parties	1,647	1,922
Interest income from others	270	731
	<u>1,949</u>	<u>2,678</u>
Finance income	1,949	2,678
Interest expenses:		
– Bank and other borrowings	(8,067)	(6,520)
– Lease liabilities	(134)	(47)
– 2020 Bonds	–	(403)
	<u>(8,201)</u>	<u>(6,970)</u>
Finance costs	(8,201)	(6,970)
Finance costs, net	<u>(6,252)</u>	<u>(4,292)</u>

7 INCOME TAX CREDIT

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Current tax	<u>(471)</u>	<u>(107)</u>
Income tax credit	<u>(471)</u>	<u>(107)</u>

8 LOSS PER SHARE

Basic loss per share are calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2023	2022
Loss for the period attributable to owners of the Company (HK\$'000)	<u>(17,113)</u>	<u>(37,724)</u>
Weighted average number of ordinary shares (Number of shares in thousand)	<u>1,726,674</u>	<u>1,726,674</u>
Basic and diluted loss per share (HK cent(s))	<u>(1.0)</u>	<u>(2.2)</u>

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

Diluted loss per share for the six months ended 30 June 2023 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (30 June 2022: same) as the conversion of potential ordinary shares in relation to the share options (30 June 2022: share options) has an anti-dilutive effect to the basic loss per share.

9 DIVIDENDS

The Directors did not recommend the payment of an interim dividend for the current period (30 June 2022: Nil).

10 PROPERTY, PLANT AND EQUIPMENT

Unaudited
HK\$'000

Six months ended 30 June 2023

Net book value

Opening amount as at 1 January 2023	163,713
Additions	299
Depreciation	(18,835)
Disposals	(363)
Exchange differences	(4,331)

Closing amount as at 30 June 2023 **140,483**

Six months ended 30 June 2022

Net book value

Opening amount as at 1 January 2022	157,586
Additions	2,474
Depreciation	(17,576)
Disposals	(2,316)
Exchange differences	(5,985)

Closing amount as at 30 June 2022 **134,183**

11 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2023, the Group has no addition to right-of-use assets (30 June 2022: HK\$475,000).

12 OTHER RECEIVABLES AND DEPOSITS

As at 30 June 2023, amount of approximately HK\$37,373,000 (31 December 2022: HK\$46,030,000) loan receivables from associates has been included in other receivables and deposits with approximately HK\$28,697,000 (31 December 2022: HK\$37,070,000) included in non-current portion.

13 TRADE RECEIVABLES

	Unaudited As at 30 June 2023 <i>HK\$'000</i>	Audited As at 31 December 2022 <i>HK\$'000</i>
Trade receivables	211,561	236,554
Less: provision for impairment of trade receivables	(15,698)	(15,901)
Trade receivables, net	<u>195,863</u>	<u>220,653</u>

As at 30 June 2023 and 31 December 2022, ageing analysis of gross trade receivables by services completion and delivery date are as follows:

	Unaudited As at 30 June 2023 <i>HK\$'000</i>	Audited As at 31 December 2022 <i>HK\$'000</i>
Up to 3 months	91,952	203,191
3 to 6 months	56,711	2,098
6 to 12 months	45,272	11,745
Over 12 months	17,626	19,520
Trade receivables	211,561	236,554
Less: provision for impairment of trade receivables	(15,698)	(15,901)
Trade receivables, net	<u>195,863</u>	<u>220,653</u>

The Group generally allows a credit period of up to 1 year after invoice date to its customers.

14 TRADE PAYABLES

As at 30 June 2023 and 31 December 2022, ageing analysis of trade payables based on invoice date is as follows:

	Unaudited As at 30 June 2023 <i>HK\$'000</i>	Audited As at 31 December 2022 <i>HK\$'000</i>
Up to 3 months	26,908	120,492
3 to 6 months	17,235	24,697
6 to 12 months	88,236	30,429
Over 12 months	71,677	68,102
	<u>204,056</u>	<u>243,720</u>

15 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Save as disclose elsewhere in the interim condensed consolidated financial statements, the Group has following significant events after the reporting period.

On 18 July 2023, the Group entered into an equity transfer agreement (the “**Equity Transfer Agreement**”) with an independent third party (the “**Purchaser**”) to dispose of 0.8547% equity interest in Petro-king Huizhou for a consideration of RMB5.0 million (the “**Equity Transfer**”). Pursuant to the Equity Transfer Agreement, the Group granted a buy-back option to the Purchaser, such that the Purchaser has the right to request the Group to buy back this 0.8547% equity interest in Petro-king Huizhou in cash, based on an agreed formula and subject to the terms and conditions of the Equity Transfer Agreement. In addition, on 7 July 2023, Petro-king Huizhou, Mr. Wang Jinlong and a new investor entered into an investment agreement, pursuant to which, among others, the new investor agreed to make a capital contribution of RMB20.0 million (the “**Capital Enlargement**”) to Petro-king Huizhou in exchange for 3.3058% of the enlarged equity interest in Petro-king Huizhou. Following completion of the Equity Transfer and the Capital Enlargement on 15 August 2023, the Group’s equity interest in Petro-king Huizhou has been diluted to 30.8236%. Further details of the Equity Transfer and the Capital Enlargement were set out in the Company’s announcement dated 18 July 2023.

The directors of the Company consider that the overall financial effects of the Equity Transfer and the Capital Enlargement on the Group cannot be reasonably assessed as at the date of the interim condensed financial statements, but will be reflected in the Group’s financial statements for the year ending 31 December 2023.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately HK\$103.2 million in 1H2023, which increased by approximately HK\$36.1 million or approximately 53.8% as compared with that of approximately HK\$67.1 million in 1H2022. The revenue from the provision of production enhancement services increased by approximately 72.2% from approximately HK\$41.7 million in 1H2022 to approximately HK\$71.8 million in 1H2023 due to the increase in the provision of plug and perforation fracturing services and coiled tubing fracturing services in Northern China and the provision of fracturing production enhancement services in Southwestern China. In 1H2023, the Group also recorded revenue of approximately HK\$2.0 million (1H2022: Nil) from the sales of well completion tools to customers in Northern China. The above increases in revenue in 1H2023 were partly offset by the decrease in revenue from the provision of drilling services in Northwestern China.

Material Costs

In 1H2023, the Group's material costs were approximately HK\$13.0 million, which increased by approximately 75.7% or approximately HK\$5.6 million as compared with that of approximately HK\$7.4 million in 1H2022. Material costs accounted for approximately 12.6% of the revenue in 1H2023, which was higher than that of approximately 11.0% in 1H2022. The increase in material costs as a percentage of revenue in 1H2023 mainly resulted from the decrease in the unit price of certain production enhancement services provided by the Group in the China market in 1H2023.

Depreciation of Property, Plant and Equipment

In 1H2023, the depreciation of property, plant and equipment amounted to approximately HK\$18.8 million, which increased by approximately HK\$1.2 million or approximately 6.8% as compared with that of approximately HK\$17.6 million in 1H2022. Depreciation expense increased in 1H2023 as the Group has acquired certain new fracturing equipment in the second half of 2022.

Employee Benefit Expenses

In 1H2023, the Group's employee benefit expenses were approximately HK\$24.6 million, which decreased by approximately HK\$0.6 million or approximately 2.4% as compared with that of approximately HK\$25.2 million in 1H2022. Employee benefit expenses decreased in 1H2023 as a result of the Group's cost control measures over employee costs.

Research and Development Expenses

In 1H2023, the Group's research and development expenses amounted to approximately HK\$10.1 million, which increased by approximately HK\$5.1 million or approximately 102.0% from approximately HK\$5.0 million in 1H2022. The research and development expenses increased in 1H2023 as the Group has devoted more resources in the research and development of natural gas hydrate technology in 1H2023.

Write-down of Inventories to Net Realisable Value

For 1H2023, the write-down of inventories to net realisable value amounted to approximately HK\$1.1 million (1H2022: approximately HK\$2.1 million). The write-down in 1H2023 was mainly related to certain obsolete drilling tools and accessories with no future plan of usage.

Other Expenses

In 1H2023, the Group's other expenses were approximately HK\$9.7 million, which increased by approximately HK\$1.8 million or approximately 22.8% as compared with that of approximately HK\$7.9 million in 1H2022. Other expenses increased in 1H2023 mainly due to the increases in safety expenses and travelling expenses.

Other Gains/(Losses), net

The Group recorded other gains, net of approximately HK\$2.2 million in 1H2023 while having recorded other losses, net of approximately HK\$1.4 million in 1H2022. In 1H2023, the Group recorded foreign exchange gains of approximately HK\$1.0 million (1H2022: approximately HK\$2.8 million) and government grant of approximately HK\$1.6 million (1H2022: Nil). In 1H2023, the Group has not recorded any loss on dilution of interests in associates (1H2022: approximately HK\$4.0 million).

Operating Loss

As a result of the foregoing, the Group recorded an operating loss of approximately HK\$10.7 million in 1H2023 (1H2022: approximately HK\$29.1 million).

Net Finance Costs

In 1H2023, the Group's net finance costs amounted to approximately HK\$6.3 million, which increased by approximately HK\$2.0 million or approximately 46.5% as compared with that of approximately HK\$4.3 million in 1H2022. Such increase in net finance costs mainly resulted from the additional borrowings in relation to the acquisitions of certain fracturing equipment in the second half of 2022. In addition, the Group recorded a decrease in finance income of approximately HK\$0.7 million in 1H2023.

Share of Results of Associates

In 1H2023, the Group recorded share of loss of associates of approximately HK\$1.4 million (1H2022: approximately HK\$4.1 million). The balance represented the Group's share of loss of Petro-king Huizhou Group in 1H2023. Petro-king Huizhou has not declared any dividend in 1H2023 (1H2022: Nil).

Loss for the Period

As a result of the foregoing, the Group recorded a loss of approximately HK\$18.0 million in 1H2023 as compared with a loss of approximately HK\$37.4 million in 1H2022.

Loss for the Period Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company amounted to approximately HK\$17.1 million in 1H2023 as compared with a loss attributable to owners of the Company of approximately HK\$37.7 million in 1H2022.

Property, Plant and Equipment

Property, plant and equipment include items such as service equipment, motor vehicles, furniture, office equipment, computers, fixtures and fittings. As at 30 June 2023, the Group's property, plant and equipment amounted to approximately HK\$140.5 million, which decreased by approximately HK\$23.2 million or approximately 14.2% from approximately HK\$163.7 million as at 31 December 2022. The decrease was mainly due to the recognition of depreciation expense in 1H2023 and the depreciation of Renminbi (“**RMB**”) in 1H2023.

Interests in Associates

As at 30 June 2023, the Group's interests in associates amounted to approximately HK\$68.1 million, representing a decrease of approximately HK\$5.6 million as compared with that of approximately HK\$73.7 million as at 31 December 2022. The decrease was mainly due to the Group's share of loss in the Petro-king Huizhou Group in 1H2023 and the depreciation of RMB in 1H2023.

Inventories

As at 30 June 2023, the Group's inventories amounted to approximately HK\$13.5 million, representing an increase of approximately HK\$0.6 million or approximately 4.7% as compared with that of approximately HK\$12.9 million as at 31 December 2022. The average turnover days of inventories decreased from approximately 554 days in 1H2022 to approximately 184 days in 1H2023. In 1H2023, the Group has implemented a more stringent policy to control the level of inventories which contributed to the decrease in inventory turnover days.

Trade Receivables

As at 30 June 2023, the Group's trade receivables amounted to approximately HK\$195.9 million, representing a decrease of approximately HK\$24.8 million or approximately 11.2% as compared with that of approximately HK\$220.7 million as at 31 December 2022. The average turnover days of trade receivables were approximately 365 days in 1H2023, representing a decrease of approximately 59 days as compared with that of approximately 424 days in 1H2022. The decrease in turnover days of trade receivables was mainly due to the increase in revenue in 1H2023.

Contract Assets

The contract assets primarily relate to the Group's rights to consideration for works completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date. As at 30 June 2023, the Group's contract assets amounted to approximately HK\$87.4 million, representing a decrease of approximately HK\$20.3 million or approximately 18.8% as compared with that of approximately HK\$107.7 million as at 31 December 2022. In 1H2023, the Group has sped up the billing of production enhancement services, which contributed to the decrease in contract assets.

Trade Payables

As at 30 June 2023, the Group's trade payables were approximately HK\$204.1 million, which decreased by approximately HK\$39.6 million or approximately 16.2% as compared with that of approximately HK\$243.7 million as at 31 December 2022. The average turnover days of trade payables decreased from approximately 970 days in 1H2022 to approximately 889 days in 1H2023, representing a decrease of approximately 81 days. The decrease in trade payables turnover days was mainly due to the speeding up in the payment of trade payables by the Group in 1H2023.

Liquidity and Capital Resources

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

As at 30 June 2023, the Group had cash and cash equivalents of approximately HK\$22.2 million, representing a decrease of approximately HK\$17.8 million as compared with that of approximately HK\$40.0 million as at 31 December 2022. The cash and cash equivalents were mainly held in RMB and US dollars ("US\$").

As at 30 June 2023, the Group's bank and other borrowings amounted to approximately HK\$206.4 million (31 December 2022: approximately HK\$227.4 million), of which approximately 48.8% (31 December 2022: approximately 41.9%) was repayable within one year. As at 30 June 2023, the Group's bank and other borrowings were mainly denominated in Hong Kong dollars and RMB whilst all (31 December 2022: 100%) of such borrowings bore interest at fixed lending rate.

As at 30 June 2023, the Group has pledged certain machineries with carrying values of approximately HK\$76.9 million to secure certain instalment loans granted to the Group (31 December 2022: approximately HK\$84.7 million).

Gearing ratio

As at 30 June 2023, the Group's gearing ratio (calculated as dividing net debt by total capital) was approximately 43.6% (31 December 2022: approximately 42.2%). Net debt is calculated as total borrowings (including "current and non-current bank and other borrowings" and "current and non-current lease liabilities" as shown in the condensed consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the condensed consolidated statement of financial position plus net debt.

Foreign Exchange Risk

The Group operates in various countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US\$ and RMB. The foreign exchange risk mainly arises from the trade and other receivables, contract assets, cash and cash equivalents, trade and other payables, intra-group balance, bank and others borrowings and lease liabilities in foreign currencies. The Group has not used any financial instrument for hedging purpose in 1H2023 (1H2022: Nil).

Off-balance Sheet Arrangements

As at 30 June 2023, the Group did not have any off-balance sheet arrangements (31 December 2022: Nil).

Others

Save as disclosed in this announcement, there have been no material changes in the development or future developments of the business and financial position of the Group since the publication of the annual report of the Company for the year ended 31 December 2022.

CORPORATE GOVERNANCE

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

The Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). During 1H2023, the Company has complied with the CG Code in all applicable aspects.

DIRECTORS’ SECURITIES TRANSACTIONS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of practice for carrying out securities transactions by the Directors. After specific enquiry with all members of the Board, the Company confirms that all Directors have fully complied with the relevant standards stipulated in the Model Code during 1H2023.

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

During 1H2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for 1H2023 (1H2022: Nil).

REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

Hong Kong, 21 August 2023

As at the date of this announcement, the executive Directors are Mr. Zhao Jindong and Mr. Lin Jingyu; the non-executive Directors are Mr. Wang Jinlong and Mr. Wong Shiu Kee; and the independent non-executive Directors are Mr. Leung Lin Cheong, Mr. Xin Junhe and Mr. Zhang Dawei.