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中港石油有限公司*

CHK OIL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO ANNUAL REPORT FOR THE YEAR
ENDED 31 DECEMBER 2019
AND
CHANGE IN USE OF PROCEEDS**

Reference is made to the annual report of the CHK Oil Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2019 published on 31 March 2020 (the “**2019 Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2019 Annual Report.

In addition to the information disclosed in the section “Directors’ Report” on page 29 of the 2019 Annual Report, the Board would like to provide additional information pursuant to paragraphs 11(8) of Appendix 16 of the Listing Rules in relation to the use of net proceeds raised from the subscription of shares in the Company which was completed on 8 July 2019 (the “**Subscriptions**”).

USE OF PROCEEDS

As at 31 December 2019, the amount of unutilised net proceeds out of the Net Proceeds is approximately HK\$22.2 million (the “**Unutilised Net Proceeds**”). Having considered the market conditions and the development of the Group, the Board resolved to change the use of Unutilised Net Proceeds. The breakdowns of its change and usage are summarized as follows:

* *For identification purpose only*

Use of Net Proceeds	Original intended use of proceeds (HK\$ million)	Actual use of Net Proceeds disclosed in 2019 Annual Report (HK\$ million)	Reallocation of Unutilised Net Proceeds (HK\$ million)
Repayment of the loan (the “ Loan ”) owed by the Company to NPCC (Hong Kong) Limited (the “ Lender ”), comprising a principal amount of HK\$25 million plus interest	28.0	–	–
Reactivation and expansion of the Group’s oil and gas business from the Utah Oil and Gas Field and expansion of the trading business of the Group	57.0	38.7 (<i>Note 1</i>)	12.1 (<i>Note 3</i>)
General working capital of the Group	10.0	34.1 (<i>Note 2</i>)	10.1 (<i>Note 4</i>)

Notes:

1. Of HK\$38.7 million, approximately HK\$16.2 million was applied on expanding trade business of electronic products; approximately HK\$21.6 million was injected into the subsidiary of the Group for trading oil related products; and approximately HK\$0.9 million was used for the expenditure of the Group’s oil and gas field.
2. Of HK\$34.1 million, approximately HK\$2.1 million was applied to settle the outstanding legal and professional fees relating to the litigation proceedings against the Company; approximately HK\$2.9 million was applied on payment of office rental, management fee and other miscellaneous overhead expenses; approximately HK\$11.8 million was applied on payment of remuneration and MPF to employees and directors of the Group; and approximately HK\$17.3 million was applied to settle the outstanding indebtedness.
3. Of HK\$12.1 million, approximately HK\$10.2 million will be used for trading electronic products, HK\$1.2 million will be applied on the development and maintenance of the Group’s oil and gas field before the end of the year of 2020. Approximately HK\$0.7 million was injected into an wholly-owned subsidiary of the Company which is principally engaged in trading of oil related products in the first half of 2020.
4. It is expected that the remaining of Unutilised Net Proceeds of approximately HK\$10.1 million would be fully utilized on or before 31 December 2020 on general working capital on payment of remuneration to the employees and directors of the Group and the payment of office rental.

REASONS FOR THE CHANGE IN USE OF PROCEEDS

It was initially the intention of the Company to apply HK\$28 million to arrange for repayment of the Loan owed to the Lender. The Company has been in discussion with the Lender and it has been given to understand from the Lender that the Lender's parent company is undergoing certain internal restructuring procedures and therefore would not be able to confirm the repayment details of the Lender.

As such, the Board decided to reallocate certain portion of the net proceeds in an amount of approximately HK\$17.33 million, which was initially intended for repayment of the Loan, to settle the imminent outstanding indebtedness of the Group which also became due during the year ended 31 December 2019, failing repayment of which the Company would have been exposed to default interest and potential litigation risks. In respect of the repayment of the Loan, the Company is considering other debt or equity fund-raising opportunities and also expects that the revenue generated from the trading business segment of the Group for the year ended 31 December 2020 would be positive and therefore the Company would be able to repay the Loan with the proceeds from further fund-raising and the internal resources.

As of the date of this announcement, the Company has not yet received the demand from the Lender for immediate repayment of the Loan and the Company has been still discussing with the Lender relating to the repayment arrangement in light of the Lender's ongoing internal restructuring.

In respect of the initial intention to apply HK\$57 million for reactivation and expansion of the Group's oil and gas business and expansion of the trading business of the Group, as disclosed in the 2019 Annual Report, the Group utilized approximately HK\$38.7 million. During the year ended 31 December 2019, of approximately HK\$38.7 million, approximately HK\$21.6 million was applied on capital injection in an wholly-owned subsidiary of the Company incorporated in the PRC in 2019, 東方明珠(大慶)石油有限公司 (Pearl Oriental (Daqing) Oil Limited*) (the "**Relevant Subsidiary**"), which is principally engaged in trading of oil and oil-related products. In the first half of the year ended 31 December 2020, further HK\$0.7 million was injected to the Relevant Subsidiary to finance its upstream purchase of the oil related products. The Relevant Subsidiary has secured the downstream orders and the performance of the Relevant Subsidiary has been improving and started generating positive returns to the Group in 2020.

The outbreak of COVID-19 in 2020 has added further uncertainties and challenges to our operations, the Board therefore decided to make further changes in our usage of funds necessary and crucial to accommodate the challenges ahead. COVID-19 has affected the global economy and led to decline in the demand of energy resources. Accordingly, the prices of natural gas and oil have undergone significant fluctuations including its historical plunge of prices in early 2020. Specifically, according to the US Henry Hub, natural gas price decreased from USD3.48 in January 2019 to USD1.73 in March 2020. Although the natural gas price has increased to USD2.19 in early August 2020, the price has still remained at historically low levels. On the other hand, although the oil prices (WTI) did grow in early 2019, it dropped again to USD41 at the end of the 2019 and the price rose back to USD42 in mid-August 2020. As the number of the daily new infection cases continuously remains

high in the US and worldwide, the demand of oil is still weak and the oversupply has led to stockpile of the oil inventories globally. Furthermore, due to the lockdown and quarantine measures in place, it is getting increasingly difficult to source labour for oil and gas field maintenance and development work, which has significantly raised the costs of drilling. These are the main reasons why the Group has decided to re-orient in our plans with regards to our oil and gas field operations in the US.

By far, the Group has hired evaluators and conducted the first round of comprehensive evaluations, and decided that instead of investing in drilling new wells, we should focus on the repair and regular maintenance of our current oil & gas wells for now. We finished repairing one of the oil wells in March 2020 and we already saw some continuing production afterwards. The well broke down again in June, but the second round of repairing is almost done. We will direct the above-mentioned HK\$1.2 million to the repair and maintenance of the other wells, as well as the daily operation of our subsidiary in the US.

Although the business operations gradually resumed around May and June 2020, it remains extremely challenging for the Company for the rest of the year as there are grave uncertainties relating international oil and gas industry and the business trading segment in light of potentially further waves of outbreak of COVID-19. The Group has been cautious to assess the impact on the development plans of the gas & oil field and decided to temporarily take a more conservative approach in making further investment in this area.

Based on the above, the Company decided to reallocate the Unutilised Net Proceeds to general working capital of the Group so as to meet its operational needs and provide more buffer to cope with the economic uncertainties in the future.

The Board believes that the above reallocation of the use of Net Proceeds is in the interest of the Company and its shareholders as a whole as that will enable the Group to have more flexibility in cash flow management while reserving certain portion of the Unutilised Net Proceeds on its original business expansion plans as and when the suitable opportunities arise when the market resumes normal.

The Board will continuously monitor the situation and may make further revisions to the use of the Unutilised Net Proceeds where necessary to respond to the changing market conditions in light of the unprecedented challenges as a result of the pandemic.

The above supplemental information does not affect other information contained in the 2019 Annual Report and all other information in the 2019 Annual Report remains unchanged.

Save as disclosed above, there is no material delay or change in the use of proceeds. Should there be any material delay or further change in the use of proceeds, further announcement(s) will be made by the Company as and when appropriate.

By Order of the Board
CHK Oil Limited
Liu Gui Feng
Chairlady and Executive Director

Hong Kong, 20 August 2020

As at the date of this announcement, the Board comprises six executive Directors, namely Ms. Liu Gui Feng, Mr. Chen Bin, Mr. Yu Zhibo, Mr. Lin Qing Yu, Ms. Chen Junyan and Mr. Yu Jiyuan; and three independent non-executive Directors, namely Mr. Cao Wei, Ms. Zhong Bifeng and Mr. Li Songtao.

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