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中港石油有限公司*

CHK OIL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the "**Board**") of CHK Oil Limited (the "**Company**") announces the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	5	**736,762**	175,467
Cost of sales		**(694,483)**	(175,439)
Gross profit		**42,279**	28
Other income		**5,889**	3,992
Administrative expenses		**(24,804)**	(32,514)
Impairment loss on intangible assets	12	**–**	(25,739)
Expenditure on settlement of indebtedness		**–**	(210,572)
Finance costs	6	**(4,179)**	(10,100)
Profit (loss) before tax	7	**19,185**	(274,905)
Income tax (expense) credit	8	**(10,469)**	5,936
Profit (loss) for the year		**8,716**	(268,969)
Other comprehensive income for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
–Exchange differences arising on translation of foreign operations		**3,119**	91
Total comprehensive income (loss) for the year		**11,835**	(268,878)

* *For identification purpose only*

	Notes	**2020**	2019
		HK$'000	*HK$'000*
Profit (loss) attributable to:			
Owners of the Company		**8,716**	(268,841)
Non-controlling interests		**–**	(128)
		8,716	(268,969)
Total comprehensive income (loss) attributable to:			
Owners of the Company		**11,835**	(268,750)
Non-controlling interests		**–**	(128)
		11,835	(268,878)
Earnings (loss) per share (HK cents)			(Restated)
– Basic and diluted	*10*	**1.38**	(70.00)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment	11	**38,610**	40,340
Intangible assets	12	**230,068**	230,068
Right-of-use assets		**2,567**	3,224
Statutory deposits and other assets		**2,622**	2,622
		273,867	276,254
Current assets			
Trade receivables	13	**56,428**	3,837
Prepayments, deposits and other receivables	14	**184,375**	8,892
Bank balances and cash		**27,948**	53,889
		268,751	66,618
Current liabilities			
Trade and other payables	15	**76,722**	12,592
Contract liabilities	16	**104,960**	–
Unsecured loans	17	**–**	36,186
Lease liabilities		**1,459**	3,146
Tax payable	8	**11,007**	141
		194,148	52,065
Net current assets		**74,603**	14,553
Total assets less current liabilities		**348,470**	290,807
Non-current liabilities			
Deferred tax liabilities	18	**29,020**	29,020
Lease liabilities		**1,219**	246
Asset retirement obligations		**82**	82
		30,321	29,348
Net assets		**318,149**	261,459

	Note	2020 HK$'000	2019 HK$'000
Equity			
Share capital	*19*	**168,376**	122,455
Reserves		**148,758**	137,989
Equity attributable to owners of the Company		**317,134**	260,444
Non-controlling interests		**1,015**	1,015
Total equity		**318,149**	261,459

NOTES

For the year ended 31 December 2020

1. GENERAL INFORMATION

CHK OIL LIMITED (the "**Company**", together with its subsidiaries are collectively referred to as the "Group") is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is situated at Units 2617-18, 26th Floor, Mira Place Tower A, No. 132 Nathan Road, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

In the opinion of the directors of the Company, the Company's parent and ultimate holding company is Xin Hua Petroleum (Hong Kong) Limited ("**Xin Hua**"), a company incorporated in Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**") which is same as the functional currency of the Company and all values are rounded to the nearest thousand except where otherwise indicated.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosures provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year.

3. ADOPTION OF NEW/REVISED HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform – Phase 1
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

Amendments to HKASs 1 and 8: Definition of Material

The amendments clarify the definition of material and align the definition used across HKFRSs.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKAS 39, HKFRSs 7 and 9: Interest Rate Benchmark Reform – Phase 1

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform (the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark). In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 3: Definition of a Business

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 16: Covid-19-Related Rent Concessions

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021 with earlier application permitted. The amendments do not affect lessors.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of oil and natural gas reserves

Changes in proved oil and natural gas reserves will affect the depreciation, depletion and amortisation under the unit-of-production method recorded in the Group's consolidated financial statements for property, plant and equipment and intangible assets related to oil and gas production activities. The proved oil and natural gas reserves are also key determinants in assessing whether the carrying value of the Group's oil and gas properties and intangible assets have been impaired. Proved reserves are determined using estimates such as oil in place, future product prices and drilling and development plans.

Estimation of impairment of oil and gas assets and intangible assets

Oil and gas assets and intangible assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves the management estimates and judgements such as future price of oil and gas, the production profile and any significant changes in factors or assumptions used in estimating reserves.

5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in oil and gas sales; and trading of oil, oil-related and other products.

	2020		
	Oil and gas sales	**Trading of oil, oil-related and other products**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– United States of America ("**USA**")	–	–	–
– Sales of oil, oil-related and other products:			
recognised at a point in time			
– Hong Kong	–	30,351	30,351
– People's Republic of China ("**PRC**")	–	706,411	706,411
	–	736,762	736,762
Segment (loss) profit	(1,831)	42,559	40,728
Unallocated income			5,868
Unallocated expenses			(23,232)
Finance costs			(4,179)
Profit before tax			19,185
Income tax expenses			(10,469)
Profit for the year			8,716
Segment assets	263,707	251,609	515,316
Unallocated assets			27,302
Total assets			542,618
Segment liabilities	2,165	188,171	190,336
Deferred tax liabilities			29,020
Unallocated liabilities			5,113
Total liabilities			224,469

	2019		
	Oil and gas sales	Trading of oil-related and other products	Total
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– USA	111	–	111
– Sales of oil-related and other products:			
recognised at a point in time			
– Hong Kong	–	127,220	127,220
– PRC	–	48,136	48,136
	111	175,356	175,467
Segment (loss) profit	(24,217)	1,097	(23,120)
Unallocated income			496
Unallocated expenses			(242,181)
Finance costs			(10,100)
Loss before tax			(274,905)
Income tax credit			5,936
Loss for the year			(268,969)
Segment assets	271,361	34,928	306,289
Unallocated assets			36,583
Total assets			342,872
Segment liabilities	2,053	11,406	13,459
Deferred tax liabilities			29,020
Unallocated liabilities			38,934
Total liabilities			81,413
Depreciation and amortisation	249	–	
Impairment loss on intangible assets	25,739	–	

The Group's revenue from external customers and its non-current assets are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**30,351**	127,220	**2,918**	5,310
USA	**–**	111	**270,949**	270,944
PRC	**706,411**	48,136	**–**	–
	736,762	175,467	**273,867**	276,254

The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the non-current assets is based on physical location of the asset in the case of property, plant and equipment and the location of the operation to which they are allocated in the case of intangible assets.

6. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest expenses on unsecured loans *(note (i))*	**3,915**	9,512
Interest on lease liabilities	**264**	588
	4,179	10,100

Note:

(i) Included in interest expenses on unsecured loans were HK$3,915,000 (2019: HK$4,071,000) related to overdue unsecured loans which were fully settled during the year.

7. PROFIT (LOSS) BEFORE TAX

The Group's profit (loss) before tax is arrived at after charging:

	2020	2019
	HK$'000	*HK$'000*
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**13,300**	11,564
– Retirement scheme contributions	**178**	111
	13,478	11,675
Cost of inventories	**694,483**	175,439
Depreciation		
– property, plant and equipment	**1,588**	1,985
– right-of-use assets	**3,463**	3,337
Amortisation of intangible assets	**–**	137
Auditor's remuneration:		
– Annual audit	**820**	720
– Non-assurance services	**270**	151
Impairment loss on intangible assets	**–**	25,739
Expenditure on settlement of indebtedness	**–**	210,572
Legal and professional fees	**1,014**	7,116
Financial advisory fee	**–**	222

8. INCOME TAX EXPENSE (CREDIT)

PRC Enterprise Income tax ("EIT")

EIT has been provided on the estimated assessable profits of subsidiaries operating in the PRC at 25% (2019: 25%).

	2020	2019
	HK$'000	*HK$'000*
Current income tax on profit (loss) for the year		
Hong Kong Profits Tax	**(2)**	2
PRC EIT	**10,471**	26
Deferred tax	**–**	(5,964)
	10,469	(5,936)

As at 31 December 2020, the Group's tax payable was approximately HK$11,007,000 (2019: HK$141,000) which was mainly attributable to the PRC EIT payable arising from the operation in the PRC.

9. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

10. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share attributable to owners of the Company is based on the followings:

	2020	2019 *(Restated)*
Profit (loss) for the year attributable to owners of the Company *(HK$'000)*	**8,716**	(268,841)
Weighted average number of ordinary shares *('000)*	**630,365**	384,054
Basic and diluted earnings (loss) per share *(HK cents)*	**1.38**	(70.00)

(a) Basic earnings (loss) per share

The weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share for the years ended 31 December 2020 and 2019 has been adjusted/restated to reflect the effect of bonus element in rights issue on 10 December 2020.

(b) Diluted earnings (loss) per share

The calculation of diluted earnings (loss) per share is the same as basic earnings (loss) per share for the years ended 31 December 2020 and 2019 as there were no dilutive potential ordinary shares during both years.

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2019 (Upon adoption of HKFRS 16)	90,108	5,216	1,080	96,404
Additions	–	41	44	85
At 31 December 2019 and 1 January 2020	90,108	5,257	1,124	96,489
Additions	8	89	54	151
Disposals	–	(5,257)	(8)	(5,265)
At 31 December 2020	**90,116**	**89**	**1,170**	**91,375**
Accumulated depreciation				
At 1 January 2019 (Upon adoption of HKFRS 16)	51,745	1,739	680	54,164
Change for the year	112	1,759	114	1,985
At 31 December 2019 and 1 January 2020	51,857	3,498	794	56,149
Change for the year	–	1,473	115	1,588
Disposals	–	(4,964)	(8)	(4,972)
At 31 December 2020	**51,857**	**7**	**901**	**52,765**
Net book value				
At 31 December 2020	**38,259**	**82**	**269**	**38,610**
At 31 December 2019	38,251	1,759	330	40,340

12. INTANGIBLE ASSETS

	Oil and gas processing rights
	HK$'000
Costs	
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	2,818,920
Accumulated amortisation and impairment	
At 1 January 2019	2,562,976
Amortisation for the year	137
Impairment loss	25,739
At 31 December 2019, 1 January 2020 and 31 December 2020	2,588,852
Net carrying amounts	
At 31 December 2019 and 31 December 2020	**230,068**

The intangible assets represent oil and gas processing rights in Utah, the USA. The intangible assets are amortised upon the commercial production of oil and natural gas on a unit-of-production basis over the total proved reserves.

13. TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**56,428**	3,837

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice dates.

	2020	2019
	HK$'000	*HK$'000*
0-30 days	**1,413**	2,815
31-60 days	**55,015**	–
61-90 days	**–**	–
Over 90 days	**–**	1,022
	56,428	3,837

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2020 HK$'000	2019 HK$'000
Prepayments		**555**	905
Rental and other deposits paid		**1,730**	1,201
Trade deposits paid	*(a)*	**181,543**	6,215
Deposit paid for acquiring Russia oil fields, net	*(b)(i)*	**69,929**	69,929
Other receivables	*(b)(ii)*	**2,227**	2,251
		255,984	80,501
Less: Impairment losses	*(b)*	**(71,609)**	(71,609)
		184,375	8,892

(a) Trade deposits paid

These prepayments to suppliers are unsecured, interest free and will be used to offset against future purchases from suppliers.

(b) Impairment losses on deposits paid and other receivables

(i) On 7 June 2013, the Group, through a wholly-owned subsidiary, entered into a sales and purchases agreement (the "**S & P Agreement**") with Levant Energy Limited ("**Levant**"), an independent third party, to acquire 23.10% of the total share capital of Timan Oil & Gas plc ("**Timan**") which held two onshore oilfields in Russia and two offshore exploration blocks in the Caspian Sea of Russia. US$10,000,000 (equivalent to approximately HK$77,706,000) was paid in cash as deposit. Details please refer to the Company's announcement dated 28 June 2013.

As the conditions precedent to closing under the S & P Agreement were not satisfied (nor waived by the Group) on or before 30 September 2013, the S & P Agreement has been terminated without reaching any agreement as to extension. Levant agreed to enter into discussions with the Group concerning the repayment of the initial consideration paid under the S & P Agreement, in the amount of US$10,000,000, less an amount equal to the costs and expenses incurred by Levant referred to in the S & P Agreement. Details please refer to the Company's announcements dated 15 October 2013 and 21 December 2013.

As at 31 December 2020 and 2019, approximately US$9,000,000 (equivalent to approximately HK$69,929,000) remained outstanding which was fully impaired. The Company considers the cost and benefits in chasing for the return of the remaining balance and is not expected to recover the amount in the foreseeable future.

(ii) The provision for impairment loss on other receivables of HK$1,680,000 was made for receivables due from an individual that was in default on principal payments and the amount is not expected to be recovered in the foreseeable future.

15. TRADE AND OTHER PAYABLES

	Note	2020 HK$'000	2019 HK$'000
Trade payables to third party	*(a)*	**67,944**	–
Other payables			
Accruals		**4,090**	3,382
Accrued directors' fee and salaries		**99**	948
Interests payables		**–**	6,439
Value-added tax and other tax payables		**4,125**	–
Other payables		**464**	1,823
		8,778	12,592
		76,722	12,592

Note:

(a) The credit period of trade payables is normally within 90 (2019: Nil) days. The ageing analysis of the trade payables, based on the invoice date is as follows:

	2020 HK$'000	2019 HK$'000
0-30 days	**–**	–
31-60 days	**67,944**	–
61-90 days	**–**	–
Over 90 days	**–**	–
	67,944	–

16. CONTRACT LIABILITIES

The contract liabilities from contracts with customers within HKFRS 15 at end of the reporting period and the movements (excluding those arising from increases and decreases both occurred within the same year) of the contract liabilities during the year are as follows:

	2020 HK$'000	2019 HK$'000
At 1 January	**–**	12,402
Recognised as revenue	**–**	(12,402)
Receipt of advances	**104,960**	–
At 31 December	**104,960**	–

At 31 December 2020 and 2019, the contract liabilities are expected to be settled within next 12 months.

17. UNSECURED LOANS

	HK$'000
At 1 January 2019	102,093
Proceeds from unsecured loans	28,076
Repayment of unsecured loans	(93,983)
At 31 December 2019 and 1 January 2020	36,186
Repayment of unsecured loans	(36,186)
At 31 December 2020	–

Included in unsecured loans as at 31 December 2019 were unsecured loans in sum of RMB10,000,000 (equivalent to approximately HK$11,186,000) carrying interest at 8.2% per annum which were fully repaid in January 2020.

Included in unsecured loans as at 31 December 2019 were unsecured loan in the principal amount of HK$25,000,000 which was overdue and carried overdue interest rate of 16% per annum. In December 2020, the Group repaid the total sum of HK$30,500,000 as full and final settlement of all outstanding principal amount and the interest accrued of the unsecured loan.

18. DEFERRED TAX

The movement during the year in deferred tax liabilities(assets) is as follows:

	Fair value adjustment on intangible assets *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2019	45,275	(10,291)	34,984
Recognised in profit tor loss	(5,384)	(580)	(5,964)
At 31 December 2019, 1 January 2020 and 31 December 2020	39,891	(10,871)	29,020

The amounts recognised in the consolidated statement of financial position are as follows:

	2020 ***HK$'000***	2019 *HK$'000*
Deferred tax assets	**(10,871)**	(10,871)
Deferred tax liabilities	**39,891**	39,891
Net deferred tax liabilities	**29,020**	29,020

19. SHARE CAPITAL

		2020		2019	
	Notes	**Number of shares *'000***	***HK$'000***	Number of shares *'000*	*HK$'000*
Authorised:					
At beginning of the reporting period, ordinary shares of HK$0.1 each		**100,000,000**	**20,000,000**	200,000,000	20,000,000
Share subdivision on 3 July 2019		**–**	**–**	1,800,000,000	–
Share consolidation on 10 July 2019		**–**	**–**	(1,900,000,000)	–
At end of the reporting period, ordinary shares of HK$0.2 each		**100,000,000**	**20,000,000**	100,000,000	20,000,000
Issued and fully paid:					
At beginning of the reporting period, ordinary shares of HK$0.2 each		**612,276**	**122,455**	3,245,520	324,552
Share reduction on 3 July 2019		**–**	**–**	–	(292,097)
Share subscription on 8 July 2019		**–**	**–**	5,000,000	50,000
Capitalisation of unsecured loan		**–**	**–**	4,000,000	40,000
Share consolidation on 10 July 2019		**–**	**–**	(11,633,244)	–
Issue of new shares upon rights issue on 10 December 2020	*(a)*	**229,603**	**45,921**	–	–
At end of the reporting period, ordinary shares of HK$0.2 each		**841,879**	**168,376**	612,276	122,455

Note:

(a) On 19 October 2020, the Company announced a proposed rights issue on the basis of three rights share for every eight shares in issue at a subscription price of HK$0.2 per rights share to raise up to approximately HK$45,900,000 before expenses (the "**Rights Issue**"). On 10 December 2020, the Company allotted and issued 229,603,495 ordinary shares of HK$0.2 each by way of rights issue and the number of issued share capital of the Company was increased to 841,879,482. The net proceeds from the Rights Issue after deducting related expenses were approximately HK$44,855,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2020 (the "**Year**"), the Company and its subsidiaries (the "**Group**") recorded a consolidated revenue of approximately HK$736,762,000 (2019: approximately HK$175,467,000) mainly contributed from the trading of oil, oil-related products and electronic products business. Basic and diluted earnings per share for the Year was HK$1.38 cents (2019 Restated: Basis and diluted loss per share was HK$70.00 cents). Basic and diluted earnings per share was based on the weighted average of approximately 630 million shares (2019 Restated: approximately 384 million shares) in issue for the Year. Gross profit for the Year amounted approximately HK$42,279,000 (2019: approximately HK$28,000), which was mainly contributed by the trading of oil and oil-related product in the Mainland China. The profit attributable to the owners of the Company for the Year was approximately HK$8,716,000 because: (i) there was a significant increase in the revenue and the gross profit for the Group as a result of the improvement in the trading business of oil and oil-related products; (ii) there was a decrease in the finance cost of unsecured loans, since the unsecured loan of HK$25,000,000 with interests accrued on it was paid off during the Year; (iii) strengthening measures in administrative cost control of the Group; (iv) no impairment loss on intangible assets was recorded for the Year; and (v) the absence of an one-off expenditure on settlement of indebtedness of approximately HK$210,572,000 resulting from the difference in the fair value of the new shares issued on 8 July 2019 of HK$296,000,000 and the amount of settlement of unsecured loan due from the Company of HK$80,000,000 and the waived interest payables of HK$5,428,000 (the "**Expenditure on Settlement of Indebtedness**"). The comparable loss attributable to owners of the Company for the year ended 31 December 2019 was approximately HK$268,841,000 because (i) the Expenditure on Settlement of Indebtedness was recognised; and (ii) the impairment losses of approximately HK$25,739,000 of the Group's intangible assets was recognised.

BUSINESS REVIEW

Trading Business

Due to the spread of COVID-19 worldwide and the 2020 Russia-Saudi Arabia oil price war, the prices of oil have undergone significant fluctuations including its historical plunge of prices in early 2020 and the Brent oil price has dropped to US$21.44 on 20 April 2020.

By the end of first quarter, the virus was brought under control in China and the business activities resumed back to normal domestically. With the recovery of Chinese economy, production cut by OPEC, and the rollout of the vaccine schemes in many countries, the oil price has steadily recovered since April 2020. Meanwhile, governments in many other countries still imposed strict containment measures including limiting business activities and travel restrictions, as the number of confirmed cases continued to rise in these countries.

Under the circumstances, the Group quickly adapted the business into this new reality by continuing to expand its core trading business in China's domestic market. In January 2020, the Group has completed the capital injection to its wholly owned subsidiary in Pearl Oriental (Daqing) Oil Limited as a trading platform of oil and oil-related products. Through actively exploring new trading channels, increasing trading volumes of the products and forming new business partnership, the relevant subsidiary was able to secure the downstream orders and achieved revenue of approximately HK$706,411,000 (2019: approximately HK48,136,000). Meanwhile, the Group has also expanded business in trading of electronic products in the second half of the Year.

Utah Gas and Oil Field

Due to the spread of COVID-19 across the globe, in particular the significant effects and shocks following the wide spread of the pandemic in the United States, the Group has adjusted, in a timely fashion, the development plans for the gas and oil field previously made in the year before. Specifically, after careful cost and benefit analysis, the Group has decided to postpone the task to further exploit the reserves tentatively until 2021. This is mainly because the continuance of the COVID-19 pandemic has made it most difficult for the Group to send internal staff to oversee the operation at the gas and oil field. The same applies to the external partners contracted by the Group, such as field exploitation workers as well as other personnel from service companies, who were faced with increasing difficulty to travel and operate at the gas and oil field. Despite these difficulties, the Group continued to improve the conditions of the field within the year, the Group managed to finish the workover operations on several wells that were of low productivity or out of service so as to restore the production at the gas and oil field. In the middle of 2020, the Group has finished repairing one of the wells. At present, the Group is reviewing workover operations on other wells and setting up schedules for repairment. As COVID-19 gets gradually contained across the world, we are expecting a steady increase in the volume of production in 2021.

Principal Risks and Uncertainties Facing the Group

Price risk

The revenue and results of our operation at Utah Gas and Oil Field and trade business are sensitive to changes in natural gas and oil prices and general economic conditions. Any substantial decline in natural gas or oil prices may result in delay or cancellation of existing or future drilling, exploration or reduction and closure of production. Furthermore, it could have a negative impact on the value and amount of our reserves, net income from production and trade, our cash flow and profitability.

Since October 2018, the crude oil price has been decreasing. On April 20, 2020, the price of Brent crude oil dropped to a record low of US$21.44 per barrel. Oil price has fallen to unprecedented levels since 2002 because of the sharp drop in demand for crude oil amid the coronavirus pandemic and the price war launched between Saudi Arabia and Russia. Since October 2020, crude oil prices have ushered in a new wave of increases and reached US$62.91 per barrel on February 15, 2021. Although the price increase is gratifying, we remain cautions to the strong volatility of the market. With regards to natural gas, its price has been declining since the end of November 2018, and fell to US$1.5 per MMBtu in June 2020. Since 2021, the price of natural gas has been fluctuating slightly below US$3 per MMBtu (Source: http://markets.businessinsider.com).

Natural gas and oil prices are both expected to fluctuate in the foreseeable future due to uncertain factors related to the supply and demand of these commodities in the market. These uncertain factors are in turn resulting from the high degree of uncertainty in the growth of the global economy. Another factor that cannot be ignored is the impact of COVID-19 on price fluctuations. As such, it may be difficult to budget and project the returns on the development and exploitation projects.

Cost risks and risk associated by hiring third party service providers

The exploration for and development of our well sites of Utah Gas and Oil Field requires a significant amount of capital investment. The operation of the Gas and Oil Field also depends on services provided by third parties, including, without limitation, processing pipelines for the transportation of products, equipment procurement, and operation and construction services on the certain infrastructure, The possible costs for the construction and production equipment as well as the services can inflate costs of project development and increase future production cost. Furthermore, the failure of any third service party to comply with the terms and conditions of the applicable agreements will have a negative impact on our operations.

OPERATIONAL REVIEW AND UPDATE ON RESERVES

The Group has undertaken workovers on the existing wells, and maintenance and repairment of one of the oil wells has been completed. The Group is also exploring the possibility of drilling, the decision of which is to be made after further evaluation of related costs and benefits.

To the best of the Group’s knowledge, as of 31 December 2020, there was no material difference in the reserves of the Utah Gas and Oil Field with that in 2019.

PROSPECTS

Utah Gas and Oil Field

In February 2021, the U.S. Energy Information Administration (EIA) estimated that the natural gas price would rise to around US$3.11/MCF by the third quarter of 2021 and continue to grow to approximately US$3.2/MCF in the remainder of 2021. EIA also predicted that the global crude oil prices would increase and average at around US$41.69 per barrel for 2020 and US$53.2 per barrel in 2021. Although the outbreak of COVID-19 presents further uncertainties to the market, given the decline in the natural gas production in the States and increasing demand for natural gas power generation and other factors, there is still a good chance that the prices of natural gas will continue to increase in 2021 as predicted. There is also a great chance that oil prices will stabilize in 2021 as expected.

In order to improve profitability and financial stability, the Group has taken concrete actions at the Utah Gas and Oil Field, which includes stepping up our efforts to regularly and timely inspect and repair drilling and storage equipment to sustain continuous operations and ensure smooth operations of existing businesses. Currently, we are continuing to carry out well workover operations on the basis of what has been accomplished last year and compiling health reports for each well. These measures can improve the conditions of our gas and oil wells and help boost the volume of production. In addition, we are exploring the possibility of drilling new wells, and will make a decision after careful cost-benefit analysis and we may invite new investors or partners to share the costs of drilling.

Trading & Service Business

The outlook for the oil market in 2021 will still largely depend on how quickly the coronavirus can be contained worldwide. Given the market volatility with the outbreaks of coronavirus over the past year, it still remains difficult to assess the full economic impacts arising from the pandemic in 2021. In spite of the uncertainties and challenges ahead, the Group will continue to maintain and develop its existing business as well as explore new business opportunities in the following areas: providing oil field development and maintenance services to oil field owners including oil exploration, oil well constructions, oil field management, providing energy efficient equipment for the oil exploration; international trade on oil and oil-related products; seeking possible acquisitions on high quality assets and business closely related to existing business in order to achieve the optimization of the Group's structure. In the long run, the Group will also consider possible investments on clean energy and renewable energy to reduce emission and achieve long-term sustainability.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of new shares, borrowings and internally generated resources. On 10 December 2020, the Company completed a rights issue at a price of HK$0.2 per rights share on the basis of three (3) Rights Shares for every eight (8) existing Shares held by the qualifying shareholders on the record date (ie. 11 November 2020) (the "**Rights Issue**"). Details of the Right Issue are set out in the Company's announcements dated 19 October 2020 and 9 December 2020, and the Company's prospectus dated 18 November 2020. The net proceeds from the Rights Issue was approximately HK$44.9 million, HK$28.2 million of which was used for the repayment of unsecured loans and related interest payable by the Group.

As at 31 December 2020, the Group had nil balance of unsecured loans repayable within one year (As at 31 December 2019: approximately HK$36,186,000). The decrease of the Group's cash and bank balances as at 31 December 2020 to approximately HK$27,948,000 from approximately HK$53,889,000 as at 31 December 2019 was mainly due to the net effect of (i) increase in cash out flows for repayment of unsecured loans; (ii) increase in cash inflows from the proceeds of rights issue and; (iii) decrease in cash inflows from the subscription of shares when compared with last year; (iv) decrease in the net cash used in operating activities. As at 31 December 2020, the current ratio (calculated on the basis of the Group's current assets over current liabilities) was 1.38 (As at 31 December 2019: 1.28) and the gearing ratio (Debt-to-asset ratio) (calculated as total liabilities divided by total assets) was approximately 41.37% (As at 31 December 2019: 23.74%). During the Year, the Group conducted its business transactions principally in RMB and US dollars. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, the management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the section headed "Prospects" in this announcement, there were no future plans for material investments or capital assets.

SIGNIFICANT INVESTMENT

Save as those disclosed under the section headed "Management Discussion and Analysis", the Group did not have any significant investment during the Year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the number of employees of the Group was about 22 (2019: 31). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; and other employee benefits include meal and travelling allowances and discretionary bonuses.

CHANGE OF COMPANY NAME

The change of English name of the Company from "Pearl Oriental Oil Limited" to "CHK Oil Limited", and adoption of "中港石油有限公司" to replace "東方明珠石油有限公司" as the Chinese name of the Company (the "**Change of Company Name**") was approved by the shareholders at the special general meeting held on 12 December 2019. The Certificate of Incorporation on Change of Name of the Company was issued by the Registrar of Companies in Bermuda on 20 December 2019 and the Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 21 January 2020. The stock short names of the Company for trading in the shares of the Company on the Stock Exchange were changed from "PEARLORIENT OIL" to "CHK OIL" in English and from "東方明珠石油" to "中港石油" in Chinese on 10 February 2020. The stock code of the Company remains unchanged as "632".

The Board considers that the new name will provide the Company with a new corporate image which will benefit the future business development of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transaction by the Directors. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the required standards set out in the Model Code during the Year.

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

Save as the Rights Issue as set out in the section headed "Liquidity, Financial Resources and Capital Structure", neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Year.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the year ended 31 December 2020 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "**Board**") committed to achieving high standard of corporate governance. The Board regularly reviews and monitors our corporate governance practice to ensure that the Company is in compliant with the applicable laws, regulations and requirements of the Listing Rules. The Company's corporate governance practices are based on the principles as set out in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 of the Listing Rules.

In the opinion of the Board, the Company has complied throughout the Year with the CG Code as contained in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed the draft audited consolidated financial statements for the Year. The Audit Committee has also discussed the auditing, financial reporting matters, risk management and internal control systems of the Company.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures contained in this result announcement in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the Year have been agreed by the Group's auditor, Mazars CPA Limited ("**Mazars**") (appointed as the auditor on 26 June 2020), to the amounts set out in the Group's draft audited consolidated financial statements for the Year. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND 2020 ANNUAL REPORT

This annual results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.chkoilltd.com). The annual report of the Company for the year ended 31 December 2020 containing all information required by the Listing Rules will be despatched to the Shareholders and will also be available on websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chkoilltd.com) in due course.

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

Hong Kong, 22 March 2021

As at the date hereof, the Board comprises five executive Directors, namely Ms. Liu Gui Feng, Mr. Yu Jiyuan, Mr. Lin Qing Yu, Ms. Chen Junyan and Mr. Li Songtao, one non-executive Director, Mr. Yu Zhibo; and three independent non-executive Directors, namely Ms. Zhong Bifeng, Ms. Yang Yuyan and Mr. Pang Jun.