CHK Oil Limited
中港石油有限公司*

(formerly known as Pearl Oriental Oil Limited)
(Incorporated in Bermuda with limited liability)
Stock Code: 632

ANNUAL REPORT 2019

* For identification purpose only

Contents

Corporate Information

DIRECTORS

Executive Directors:

Liu Gui Feng *(Chairlady)*
Fan Amy Lizhen *(retired on 28/06/2019)*
Xiao Li *(resigned on 17/06/2019)*
Cheung Kam Shing, Terry *(resigned on 01/10/2019)*
Tang Yau Sing *(resigned on 01/10/2019)*
Chen Bin *(Chief Executive Officer) (appointed on 19/07/2019)*
Lin Qing Yu
Chen Junyan *(appointed on 15/07/2019)*
Yu Jiyuan *(appointed on 15/07/2019)*
Yun Guangrui *(appointed on 15/07/2019)*

Independent Non-Executive Directors:

Xing Yong *(retired on 28/06/2019)*
Shi Wen Jiang *(retired on 28/06/2019)*
Chen Zhong Min *(retired on 28/06/2019)*
Jiang Cai Yi *(retired on 28/06/2019)*
Zhang Yue Yang *(retired on 28/06/2019)*
He Jun *(retired on 28/06/2019)*
Chen Xue Hui *(retired on 28/06/2019)*
Hu Jing *(retired on 28/06/2019)*
Lyu Jia Lian *(retired on 28/06/2019)*
Cao Wei *(appointed on 14/08/2019)*
Xu Guoqiang *(appointed on 14/08/2019)*
Zhong Bifeng *(appointed on 14/08/2019)*
Li Songtao *(appointed on 24/09/2019)*

SOLICITORS

YC Solicitors

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.

COMPANY SECRETARY

Tang Yau Sing *(resigned on 16/01/2019)*
Law Chun Choi *(appointed on 16/01/2019 and resigned on 28/06/2019)*
Luk Chi Shing *(appointed on 15/07/2019 and resigned on 01/10/2019)*
Liu Xiaoting *(appointed on 01/10/2019)*

AUDITOR

Cheng & Cheng Limited

AUTHORISED REPRESENTATIVES

Yu Jiyuan
Liu Xiaoting

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Suites 1905-07, 19th Floor
Tower 6, The Gateway, Harbour City
Kowloon, Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

Conyers Corporate Services (Bermuda) Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

https://www.chkoilltd.com/

STOCK CODE

632

Financial Highlights

	Notes	2019 HK$'000	2018 HK$'000
For the year ended 31 December			
Revenue		**175,467**	74,036
Loss for the year		**268,969**	(58,702)
Loss attributable to owners		**268,841**	(58,415)
Loss per share			
Basic (cents)			(Restated)
— For loss for the year		**70.66**	36.00
Diluted (cents)			(Restated)
— For loss for the year		**70.66**	36.00
Average shareholders' equity		**198,789**	166,342
Average capital employed		**234,010**	206,807
At 31 December			
Total indebtedness	1	**39,578**	102,585
Shareholders' equity		**260,444**	137,134
Capital employed	2	**290,807**	177,212
Ratio			
Return on average capital employed (%)	3	**(114.9%)**	(28.4%)
Return on average equity (%)	4	**(135.2%)**	(35.1%)
Total debt to total capital (%)	5	**13.2%**	42.6%

Notes:

1. Total indebtedness = total interest bearing borrowings
2. Capital employed = shareholders' funds + non-controlling interests + non-current liabilities
3. Return on average capital employed = profit/(loss) for the year/average capital employed
4. Return on average equity = net profit/(loss) attributable to owners/average shareholders' equity
5. Total debt to total capital = debt/(shareholders' funds + non-controlling interests + debt)

Chairlady's Statement

Dear Shareholders,

On behalf of the board of directors, I am pleased to present the annual report of CHK Oil Limited and its subsidiaries for the year ending 31 December 2019.

First of all, we are deeply saddened by the outbreak of the COVID-19 during the past few months. It has been a hard time for everyone. We hope everyone can stay strong and healthy. Together, we will get through the hard times.

The Company completed the share subscriptions on 8 July 2019, introducing Xin Hua Petroleum (Hong Kong) Limited ("Xin Hua") as its controlling shareholders. Further, the Company officially changed its English name to CHK Oil Limited on 5 February 2020.

As expected, business was affected by the coronavirus too. For instance, we had to postpone some of our trading business until the virus situation could be effectively contained. Recently, many enterprises have gradually resumed operations. We will be monitoring the situation closely and trying to resume previously planned trading business at our earliest convenience.

In general, the operating environment remained challenging in 2019. According to the US Henry Hub, natural gas price took a plunge from USD3.48 in January 2019 to USD1.73 in March 2020. The decline in the past few months in particular was related to the COVID-19 outbreak. Oil prices (WTI) did grow in early 2019 as we predicted in 2018--it climbed from USD45 to USD60 and remained relatively stable for most of the year until it dropped again to USD41 at the end of the year, largely affected by the disturbances caused by the coronavirus outbreak.

Despite the present uncertainties and challenges in the market, we expect the market to rejuvenate once the coronavirus can be effectively controlled on a global scale, and the oil & gas prices would bounce back to a higher level. At present, we have already seen some promising signs. China's economy, for instance, is predicted to achieve a near complete restart by the mid of the second quarter of 2020.

In response to these challenges, we will keep a close eye on the situation, and as opportunities arise, will consider seeking new investors to expand our gas and oil business and/or to explore new business developments. In the meantime, we have been carrying regular inspections of our oil & gas fields in Utah, USA, to ensure smooth operation of existing businesses. We have also started the workover on our oil wells to boost production and are actively evaluating the conditions of the remaining ones to decide on proper maintenance and repair. Furthermore, the Company's strategy of strictly controlling the operation cost has proved beneficial in the year 2019. We will continue with our budget control strategy in 2020 to ensure the financial sustainability of the Company.

Lastly, on behalf of the board of directors of the Company, I would like to take this opportunity to express my appreciation to our customers, suppliers, business associates and shareholders for their support. I would also like to offer special thanks to our staff for their invaluable service and contributions throughout the year.

Liu Gui Feng
Chairlady

Hong Kong, 31 March 2020

PROFILE OF DIRECTORS

Executive Directors

MS. LIU GUI FENG

Ms. Liu, aged 69, was appointed as an Executive Director and the Chairlady of the Board on 28 November 2018. She graduated from the CEO Course organized by Tsinghua University. She has served as the chairlady of Changchun Xinda Petroleum Group Co., Ltd. (長春新大石油集團有限公司) since 1996.

MR. CHEN BIN

Mr. Chen, aged 64, was appointed as an Executive Director and the Chief Executive Officer on 19 July 2019. He graduated from the Heilongjiang Institute of Economic Administrators* (黑龍江經濟管理幹部學院) for studying economics and management. Mr. Chen joined the PetroChina Harbin Petrochemical Company (中石油哈爾濱石化有限公司) in 1980, and was holding the position of Director of Transport and Sales (運輸銷售處處長) from 1996 to 2003. From 2003 to 2011, Mr. Chen was appointed by PetroChina Dalian Marketing Company* (中石油大連銷售公司) as Director of Investment and Management Department (投資處、加管處處長), as well as the Secretary of Party Committee (黨委書記) of PetroChina Dalian Sales and Delivery Company* (中石油大連銷售配送公司). From 2013 to 2016, Mr. Chen was appointed as General Manager of CEFC Anhui International Holding Co., Ltd. (previously known as An Hui Huaxing Chemical Industry Co. Ltd. (安徽華星化工股份有限公司)), shares of which are listed on the Shenzhen Stock Exchange with stock code 002018.SZ. Mr. Chen has profound experience in oil industry, international trading and business management and operations.

MR. LIN QING YU

Mr. Lin, aged 45, was appointed as an Executive Director on 3 October 2018. He served as General Manager of Hong Yu Economic Trade Co., Ltd. (鴻宇經貿有限公司) from 2006 to 2008, General Manager of Jilin Xinda Petrol-Chemical Industry Co., Ltd. (吉林新大石油化工有限公司) from 2008 to 2011, and has been the Chairman and legal representative of Jilin Shengde Industrial Group Co., Ltd. (吉林聖德實業集團有限公司) since December 2011 till now. He was the representative of Nong'an County People's Congress from 2008 to 2013. He has been the vice president of Jilin Enterprise Directors Association (吉林省企業家協會) since 2012 till now, and graduated from Economics and Management in the Open College of the Central Communist Party School (中共中央黨校函授學院) in 1996.

MS. CHEN JUNYAN

Ms. Chen (formerly known as Ms. Chen Jingjing), aged 31, was appointed as an Executive Director of the Company on 15 July 2019. She was a business manager and promoted to business director (業務總監) and the general manager assistant at Shanghai Dahua Nationalization Business Management Co. Ltd.* (上海大華國化企業管理有限公司), a company which is principally engaged in trading of fuel oil, asphalt and petroleum related products, from September 2011 to September 2018 and Ms. Chen was responsible for the sales and marketing of the fuel oil business. From March 2007 to January 2009, Ms. Chen finished her studies in Preschool Education (學前教育) and obtained Adult Higher Education (成人高等教育) Certificate of Graduation from Ningxia Radio & TV University* (寧夏回族自治區廣播電視大學) .

Profile of Directors

MR. YU JIYUAN

Mr. Yu, aged 27, was appointed as an Executive Director on 15 July 2019. He is the son of Mr. Yu Zhibo who is a substantial shareholder of the Company. He obtained Bachelor of Science (Applied Mathematics & Statistics, Economics) from State University of New York (Stony Brook) in December 2012 and a Master in Public Administration in International Development from Harvard University in May 2017. From October 2013 to August 2015, Mr. Yu was a consultant to the International Department (國際部) of Heilongjiang Longyou Group Company Limited* (黑龍江龍油集團有限公司) ("Heilongjiang Longyou") where he assisted the development of the international sales and marketing strategies and liaison with overseas business partners. From June 2017 to October 2018, Mr. Yu became the head of International Department (國際部部長) of Heilongjiang Longyou and he was responsible for the entire branch of overseas business development. Since November 2018, Mr. Yu has been working as the general manager of Heilongjiang Longyou. Since November 2018, Mr. Yu has been working as the chairman of Tianjin Binglixuleng Technology Co., Ltd.* (天津冰利蓄冷科技有限公司). Since January 2018, Mr. Yu Jiyuan has been the chairman of Tianjin Yingde Coldchain Technology Co., Ltd* (天津瀛德冷鏈技術有限公司).

MR. YUN GUANGRUI

Mr. Yun, aged 61, was appointed as an Executive Director on 15 July 2019. He obtained his bachelor degree in Industrial Engineering (工業管理工程) from China University of Mining and Technology (中國礦業大學) (formally known as China Institute of Mining and Technology (中國礦業學院) prior to 1988) in November 1987. Mr. Yun obtained his Master of Economics, major in Business Management (企業管理), from Liaoning University (遼寧大學) in July 1998. From January 2003 to March 2012, Mr. Yun was the chief accountant (總會計師) and assistant general manager of the Dalian sales branch office of PetroChina Company Limited* (中國石油天然氣股份有限公司) ("PetroChina"). From March 2012 to February 2019, Mr. Yun was the Secretary of Party Committee (Deputy Department Level) (黨委書記(副局級)), assistant general manager, Secretary of the Discipline Committee (紀委書記) and the Chairman of the Union (工會主席) of Dalian Shipping Logistics Co., Ltd* (大連海運分公司) of PetroChina. Mr. Yun obtained the qualification as a senior accountant from the Review Committee (評審委員會) of China National Petroleum Corporation* (中國石油天然氣集團公司) in April 2004.

Independent Non-executive Directors ("INEDs")

MR. CAO WEI

Mr. Cao, aged 64, was appointed as an INED on 14 August 2019. He completed his study in petrochemical production scheduling at Staff College of Fushun Petrochemical Company* (撫順石化公司職工大學) in Fushun City, Liaoning Province, China in 1991. Mr. Cao worked at certain branches under Liaoyang Petrochemical Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司遼陽石化分公司) and had served as the section chief, deputy plant manager, deputy manager and other positions during the years from 1985 to 2015. Mr. Cao also provides consulting services to certain domestic companies involved in the production and sale of petrochemical products. Mr. Cao has accumulated over 30 years of extensive experience in administration, and production and sale of petroleum and chemical products.

MR. XU GUOQIANG

Mr. Xu, aged 56, was appointed as an INED on 14 August 2019. He completed his study in business management at Wuhan University in Hubei Province, China in 1998. Mr. Xu has been accredited the titles of mechanical engineer and senior operating manager. Mr. Xu had served as deputy plant manager, manager of sales department, manager of marketing department and secretary of the Party committee, in Sinopec Jingmen Petrochemicals Head Factory and Trading Corporation* (中國石化集團荊門石化總廠工貿總公司) (now known as Jingmen Lisheng Petrochemical Industry and Trading Co., Ltd.* (荊門利盛石化工貿有限公司) after its corporate restructuring in 2004) and its certain branches during the period from October 1986 to March 2019; and has been the legal representative and managing director of Liaoning Furu International Trade Co., Ltd.* (遼寧复孺國際貿易有限公司) since July 2016. Mr. Xu has accumulated over 30 years of extensive experience in administration, production and sale of petroleum and chemical products, as well as import and export trading business.

MS. ZHONG BIFENG

Ms. Zhong, aged 35, was appointed as an INED on 14 August 2019. She holds a bachelor's degree in law from Shijiazhuang Army Command College* (石家莊陸軍指揮學院) in Hebei Province, China. Ms. Zhong worked in Meizhou Tourism Bureau of Guangdong Province* (廣東省梅州市旅遊局) during the years from 2008 to 2012; she was a shareholder and served as manager of sales department of Jilin Province Li'an Petrochemical Co., Limited*(吉林省利安石油化工有限公司) during the years from 2013 to 2014; she served as supervisor of trade department and deputy director of operation department in Liaoning Dingyuan New Energy Trading Co., Ltd* (遼寧鼎元新能源貿易有限公司) during the years from 2014 to 2018. Ms. Zhong has accumulated over 10 years of experience in administration, business operations and sales and marketing of petroleum and chemical products.

MR. LI SONGTAO

Mr. Li, aged 49, was appointed as an INED on 14 August 2019. He completed his study in Industrial Accounting at Qingdao Institute of Architectural Engineering* (青島建築工程學院) (now known as Qingdao University of Technology), Shandong Province, the People's Republic of China, in 1991. He is currently a Chinese Certified Public Accountant and a Chinese Certified Registered Tax Agent. Mr. Li has served as financial controller of Daqing Jinsanyuan Co., Ltd* (大慶金三元有限公司) since September 2012; he has also worked in Daqing Branch of Heilongjiang Anlian Accounting Firm Co., Ltd since December 2007, and is currently taking the position of vice director of the Branch; he had served as financial controller of Heilongjiang Dezhi Real Estate Development Co., Ltd* (黑龍江德智房地產開發有限責任公司) for period from June 2011 to August 2012; he had served as financial controller of Daqing Shengli Group* (大慶勝利集團) for period from June 2005 to June 2011; he had served as finance supervisor of Anda Yili Dairy Co., Ltd* (安達伊利乳業有限責任公司) for period from July 2004 to May 2005; and he had served as supervisor of accounting department in Heilongjiang Dairy Machinery Factory* (黑龍江省乳品機械總廠) for period from August 1991 to June 2004. Mr. Li has accumulated extensive experience in financial accounting, auditing, taxation, import and export trading business and enterprise internal control.

* *English translation for identification purpose only*

Management Discussion and Analysis

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2019 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of approximately HK$175,467,000 (2018: approximately HK$74,036,000) mainly contributed from the trading of oil, oil-related products and electronic products business. Basic loss per share for the Year was HK$70.66 cents (2018 Restated: HK$36 cents). Loss per share was based on the weighted average of 380 million shares approximately (2018 Restated: approximately 162 million shares) in issue for the Year. Gross profit for the Year amounted approximately HK$28,000 (2018: Gross loss HK$1,745,000), which was mainly due to the overall decrease in the crude oil and decrease in gas prices over the past years. The loss attributable to the owners of the Company for the Year was approximately HK$268,969,000 because (i) approximately HK$210,572,000 loss was recognized and this is the difference between the fair values of the new shares issued at HK$0.02 per subscription share on 8 July 2019 for the settlement of unsecured loans due from the Company to Xin Hua Petroleum (Hong Kong) Limited of HK$80,000,000 ("HK$80M Loan") and the HK$80M Loan (ii) the impairment losses of approximately HK$25,739,000 of the Group's intangible assets due to the significant decline in the price of the natural gas worldwide. The comparable loss attributable to owners of the Company for the year ended 31 December 2018 was approximately HK$58,702,000 because the Company had a gross loss but with huge finance costs and legal and professional fees of approximately HK$19,645,000 and HK$7,755,000 respectively.

BUSINESS REVIEW

Trading Business

In order to maximize the shareholders' return, and after careful consideration, the Group extended its operations into the down-stream of the oil-products production chain in the year 2017 by starting the trade of oil-related products.

This Year, the Group continued to expand its trading business. By the end of the Year, the volume of products has increased, and new trade channels and partnerships have been explored. Specifically, to facilitate the Group's trading business throughout East and Southeast Asia, the Company has been developing a strategic trading platform by establishing subsidiaries in Hong Kong, Mainland China, Singapore, and Malaysia. Meanwhile, the Group also carefully considers the option of renting or purchasing floating vessels or tankers, in order to further promote the trading business. The Group also seeks to take full advantage of the major shareholders' ample experiences and extensive connections in the oil and gas business, which can lend more momentum for our trading business. In 2020, the Group expects to significantly increase its trade volume.

Oil and Gas Business

During the Year, the Utah Gas and Oil Field recorded gas sale of around 1,638 (2018: 3,371) thousand cubic feet to Anadarko's midstream operations and other purchasers. Oil sale was around 441 (2018: 873) barrels, with Plains All American Pipeline, L.P., USA being the main purchaser.

After careful cost and benefit analysis along with multiple field trips to the Gas and Oil Field, the Group has decided to further exploit the reserves and conduct workover operations on wells that are of low productivity or out of service. At the end of 2019, the Group started the workover on one of the oil wells. Currently, the Group is reviewing workover on several other wells and setting up schedules for repair. In short, we expect to see steady growth in production in the coming year of 2020.

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 could have resulted in delay or cancellation of existing or future drilling, exploration or production cut back and close down. Furthermore, it could have a negative impact on the value and amount of our reserves, our net production and trade revenue, cash flows and profitability.

The crude oil price has been decreased generally since October 2018. On 30 March 2020, the price of Brent crude oil dropped to US$21.65 per barrel at one point. The price of oil has sunk to levels which was unprecedented since 2002 as demand for crude oil collapses amid the coronavirus pandemic and a price war launched between Saudi Arabia and Russia. The price of the natural gas has been decreased since the end of November 2018 and remained below US$2 dollars since around 21st January 2020 (source: http://markets.businessinsider.com).

Natural gas and oil prices are expected to remain volatile for the foreseeable future because of market uncertainties over the supply and demand of these commodities due to high uncertain weighing on the global growth. As a result, it could be difficult to budget for and project the return on the development and exploitation projects.

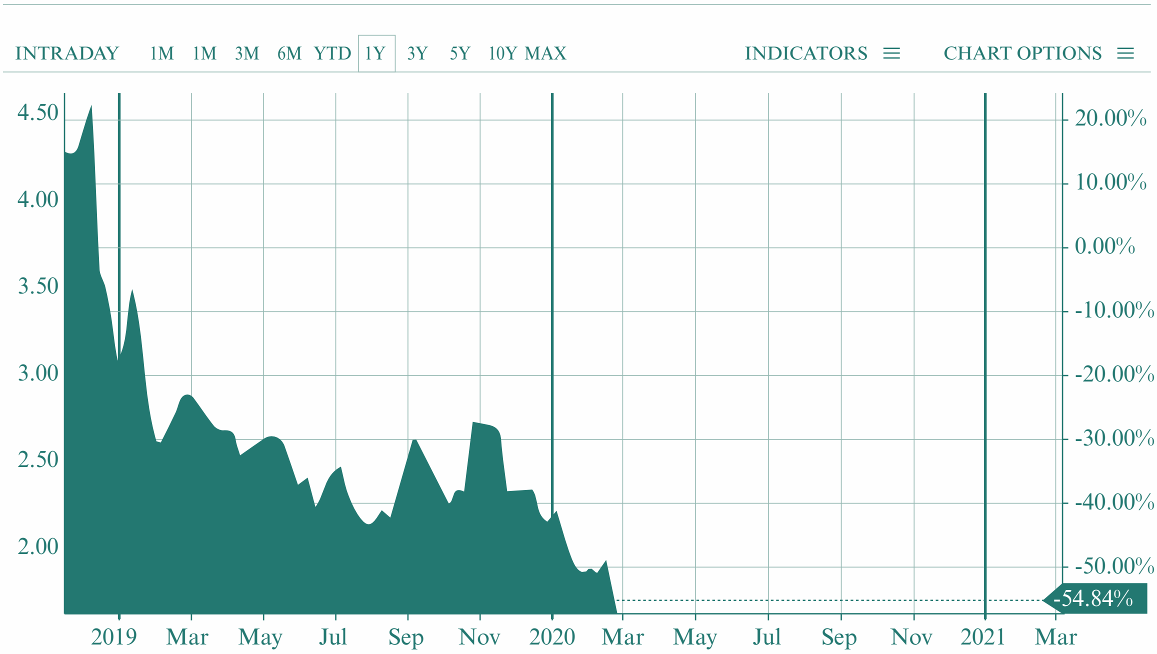
Cost risks and risk associated by hiring third party service providers

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 our operations.

OPERATIONAL REVIEW AND UPDATE ON RESERVES

The production of Utah Gas and Oil Field has remained relatively stable during the Year. As mentioned in the above section, the Group has also taken up new exploration activities in December 2019. Specifically, the workovers on the existing wells. 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 2019, there was no material difference between the reserves of the Utah Gas and Oil Field in 2015 and that in 2019. The difference in the total net proved and probable reserves between the two years is mainly due to the decreasing gas prices over the past years, especially the plunge in the last three to four months.



Source: http://markets.businessinsider.com/commodities/natural-gas-price

The chart below shows what the Group's total net proved and probable reserve would be under the hypothesis that the gas price rebounds to USD3/MCF.

SENSITIVITY TABLE TO GAS PRICE FOR WASATCH MESAVERDE LOCATIONS

	Reserves at this Price		Total NPV10, MM$	
Wellhead Price, $/MCF	**Gas, BCF**	**Condensate, Mbbl**	**144 Wells**	**Total of Positive Only**
$1.98	–	–	(42.13)	$0.00
$2.73	82.3	397.0	($13.72)	$1.02
$3.25	85.2	410.0	$6.46	$14.77
$3.51	86.4	415.0	$16.42	$21.55
$4.05	130.0	1,282.0	$37.23	$37.23

Note: Mbbl = Thousand Barrels
BCF = Billion cubic feet

PROSPECTS

Utah Gas and Oil Field

In February 2020, the U.S. Energy Information Administration (EIA) estimated that the natural gas price would rise to around \$2.36/MMBtu by the third quarter of 2020 and continue to grow to an average of \$2.53/MMBtu for the year 2021. EIA also predicted that the worldwide crude oil prices would increase and average around \$61 a barrel for 2020 and \$68 for 2021. Although the COVID-19 outbreak presents further uncertainties to the market, there is still a good chance that the prices of natural gas and oil will increase in 2020 as predicted given such factors as the decline in the U.S. natural gas production and the increased demand for power generation through gas.

In terms of concrete actions to improve our profitability and financial stability, at the Utah Gas and Oil Field, the Company has intensified such efforts as regular check-up and timely repair of drilling and storage equipment to sustain on-going operation and ensure smooth operation of existing businesses. Currently, well workover operations are being conducted while health reports are being carried out for two other wells. These measures can better the conditions of the wells and help boost the volume of production. Additionally, we are exploring the possibility of drilling new wells, the decision of which is to be made after careful cost-benefit analysis. If such cost-benefit analysis predicts large returns, we will be considering the possibility of new investors or partners to share the costs of drilling so as to maintain the Company's financial health.

Trading Business

The Group and its subsidiaries intend to commence trading of crude oil, diluted bitumen, fuel oil, gasoline and diesel, condensate, raw oil, and oil-related products.

1. Crude oil and diluted bitumen businesses:
   The Group intends to purchase or rent floating warehouses in Singapore/Malaysia to commence crude oil blending and bitumen diluting businesses. The products will be primarily sold to markets around Singapore, refineries in China, PetroChina and more companies.

2. Fuel oil business:
   Floating warehouses will be used to store and blend fuel oil, and the products will then be sold to Singapore and markets in Southeast Asia, and Zhoushan, Nansha and other Chinese markets.

3. Gasoline, diesel and condensate businesses:
   They will be sourced primarily from Russia. Gasoline and diesel will be sold to Singapore and Southeast Asia, while the condensate will be sold primarily to mainland China.

4. Raw oil:
   It will be sourced primarily from China and sold to Sinopec and other domestic local refineries in China.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of new shares, borrowings and internally generated resources.

On 8 July 2019, the Company completed the allotment and issuance of 9,000,000,000 new shares to Xin Hua Petroleum (Hong Kong) Limited ("Xin Hua") and Noble Pioneer Limited ("Noble"). Following completion of the subscriptions of the new shares by Xin Hua and Noble, the net proceeds was approximately HK\$95 million. For details, please refer to the completion announcement of the Company dated on 8 July 2019 published on The Stock Exchange of Hong Kong Limited. As at 31 December 2019, the Group had approximately HK\$36 million unsecured loans repayable within one year (2018: approximately HK\$102 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 1.28 as at 31 December 2019 (2018: 0.14).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

CHARGES ON GROUP ASSETS

As at 31 December 2019, the Group did not have any charges on assets (31 December 2018: Nil).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group had no material acquisition and disposal of subsidiaries and associated companies during the Year.

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.

FOREIGN EXCHANGE EXPOSURE

The operating revenue of the Group is mainly denominated in US Dollars, RMB and Hong Kong dollars. However, the results of operations and the financial position of the Group may be affected by any changes in the exchange rates. On the other hand, the conversion of Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. During the Year, the Group conducted its business transactions principally in US dollars and Hong Kong dollars, or in the local currencies of the operating subsidiaries. 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.

GEARING RATIO

As at 31 December 2019, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 23.74% (31 December 2018: 56.66%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the number of employees of the Group was about 31 (2018: 21). 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.

Environmental, Social and Governance Report

ABOUT THE GROUP

CHK Oil Limited, formerly known as Pearl Oriental Oil Limited, is an investment holding company. It is engaged in the exploration, exploitation, development, production and sale of oil and natural gas. The company holds exploitation interest in the Utah Gas and Oil Field Project located in Utah and is involved with trading of oil-related products.

REPORTING SCOPE AND STANDARD

This is the Environmental, Social and Governance ("ESG") Report prepared by the Group pursuant to the ESG Reporting Guide provided in Appendix 27 to the Listing Rules on the Stock Exchange of Hong Kong Limited. This report covers our operations in (i) exploring, exploiting and sales of oil and natural gas ("Oil and gas sales"), and (ii) trading of oil-related products; for the financial year end 31 December 2019 and discloses information on the Group's ESG management approach, strategy, priorities, objectives, compliance with the relevant laws and regulations and our performance.

The Board has overall responsibility for the Group's ESG strategy and reporting and has determined to integrate the ideas of environmental and social responsibility into the Group's operation and management activities. The Board has reviewed and approved this ESG report.

STAKEHOLDER ENGAGEMENT

We believe that stakeholder engagement is crucial from a sustainability perspective, as it supports our understanding of emerging risks and opportunities, and also facilitates the mitigation of these risks as well as the realisation of opportunities. Our stakeholder engagement covers all aspects of our business, from project development to operation, management and decommissioning.

Throughout the course of the year, we communicate with our stakeholders through various channels. These include visits to our offices, general meetings and our social community services, so that all stakeholders have a better understanding of our operations. We also actively participate in industry and professional organizations, both locally and internationally, to ensure that we keep track of emerging market trends and business drivers, such as the adoption of new technological developments and latest industry best practices.

The following table presents the key stakeholders identified for the Group, as well as the engagement channels used for communication with them:

Internal Stakeholders

- The Board
- Management
- General Staff

External Stakeholders

- Shareholders
- Investors
- Customers
- Local Community Groups
- Suppliers
- Government Regulatory Authorities

Engagement methods:

Meetings, interviews, direct mails, staff performance appraisal interviews, internal publications, Annual General Meeting ("AGM") and announcements.

ENVIRONMENTAL

The Group is committed to protecting natural resources and the global environment. Our commitment to emission reduction, energy and resources conservation encompasses every aspect of our operation.

In light of our business nature, our business of operating the Gas and Oil Field in Utah is thoroughly governed by the relevant laws and regulations, including location and drilling of oil wells, oil production and well plugging, storage of products, disposal of waste and reclamation. In addition to the compliance of our internal operation standards, our operations are subjected to routine investigation from the government body. The Group is pleased to report that during the reporting period, full compliance has been in place and there is no violation of the relevant laws and regulations noted.

Resource Consumption

The Group is aware of the importance of efficient consumption of resources, including electricity, water and energy, are crucial to the protection of the environment. As part of our initiative to conserve resources and reduce our environmental impact, we have developed various internal policies in our operations to promote good resource-consumption habits.

Electricity

At our offices and workspaces, the Group has adopted energy-saving measures, which includes the setting of energy-efficient temperatures for offices to create a comfortable working environment for our employees as well as limiting energy loss due to excessive cooling/heating.

For example, natural ventilation is encouraged where possible, air-conditioning is only turned on when the ambient temperature is in excess of 32 degrees Celsius. In addition, electronic appliances with high energy efficiency ratings are given higher priority when purchasing office electronics. It is also mandatory for non-essential electronics and unnecessary lighting to be turned off outside of office hours. For electrical equipment that are not frequently used, our employees are instructed to ensure that the power supplies are switched off when the devices are not in use.

Notices on energy-saving policies are posted in common areas to remind our staff to maintain power-saving practices where possible. During the reporting period, the total electricity consumption by the Group was 22,228 kWh.

Water

In addition to conservation of electricity, the Group also encourages employees to reduce water consumption. Employees are reminded to turn off water after use and avoid unnecessary flushes. Since our water supply facilities are managed by the landlord of the respective office units, specific figures associated with our water consumption were not available for analysis. Although our Group does not consume significant quantities of water, our staff are reminded to conserve water.

Atmospheric Emissions

The Group recognizes that our emission performance, in terms of greenhouse gases and air pollutants, are vital metrics for assessing our ecological footprint on Earth. It is our goal to continuously limit the level of greenhouse and air emissions associated with our operations.

We have estimated our greenhouse gas emissions through the use of data associated with electricity and fossil fuel consumption. To associate energy consumption data with their corresponding greenhouse gas emissions, emission factors obtained from utility invoices, along with references to reputable third-party references were used during the calculation. In addition to the quantity of carbon dioxide (CO_2) emissions, greenhouse gas emission calculations also took into consideration the global warming contribution associated with other greenhouse gases emitted into the atmosphere, including methane (CH_4) and nitrous oxide (N_2O). The cumulative impact of the Group's operations to the greenhouse effect is ultimately consolidated and expressed in terms of equivalent quantities of carbon dioxide (CO_2e).

During the year, we have complied with the relevant environmental laws and regulations. The total greenhouse gas emissions associate with the Group's operations during the reporting period was estimated to be 50.7 tonnes CO_2e.

In addition to the emission of greenhouse gases, consumption of fossil fuels is also associated with the emission of a number of air pollutants, namely nitrogen oxides (NOx), sulphur oxides (SOx) and particulate matter (PM). Similar to the estimation of greenhouse gas emissions, air emissions associated with the Group's operations have been evaluated based on fuel consumption and vehicle usage data. The total amount of air emissions produced by the Group during the reporting period included 7.3 kg of NOx, 0.06 kg of SOx and 0.57 kg of particulate matter.

Waste Management

The Group took the initiative to limit non-hazardous waste generation by promoting recycling of paper and other wastes generated during daily operations. During the reporting period, the Group generated a total of 0.19 tonnes of non-hazardous waste.

We always remind our employees to consider whether it is necessary to print their documents. For those documents which are not statutory or important, employees are encouraged to print double-sided and reuse single-sided printed paper as much as possible.

As a result of our recycling efforts, the Group recycled 386 kg of paper during the reporting period.

Summary

The consolidated data with respect to key performance indicators (KPIs) regarding emissions and resource consumption associated with the Group during the reporting period is summarized below:

Environmental KPIs

Category	Unit	Total
Energy Consumption		
Total Energy Consumption	GJ	212
Petrol Consumption	GJ (L)	132 (3,829)
Electricity Consumption	GJ (kWh)	80 (22,228)
Total Consumption Intensity	MJ/1000 HKD revenue	1.21
Greenhouse Gas Emissions		
Total Greenhouse Gas (GHG) Emissions	t CO_2e	50.7
Scope 1 – Direct Emissions	t CO_2e	11.9
Carbon Dioxide (CO_2) Emissions	t	10.6
Methane (CH_4) Emissions	kg	1.0
Nitrous Oxide (N_2O) Emissions	kg	4.2
Scope 2 – Energy Indirect Emissions	t CO_2e	14
Scope 3 – Other Indirect Emissions	t CO_2e	24.5
Paper Waste Disposed At Landfills	t CO_2e	7.0
Employee Business Travel	t CO_2e	17.5
Total Greenhouse Gas (GHG) Emissions Intensity	t CO_2e/1,000 HKD revenue	0.29
Air Emissions		
Nitrogen Oxides (NOx) Emissions	kg	7.3
Sulphur Oxides (SOx) Emissions	kg	0.06
Particulate Matter Emissions	kg	0.57
Waste Management		
Total Hazardous Waste Produced	t	N/A
Total Non-Hazardous Waste Produced	t	0.19
Total Hazardous Waste Intensity	kg/1,000 HKD revenue	N/A
Total Non-Hazardous Waste Intensity	kg/1,000 HKD revenue	1.14
Use of Resources		
Total Water Consumption	m^3	43
Total Water Consumption Intensity	m^3/1,000 HKD revenue	0.25

SOCIAL

Employment

As a socially-responsible enterprise, we are not only responsible to consumers, but also responsible to our employees. When pursuing economic goals, we also bear social and environmental responsibilities in order to achieve sustainable development together with the local community. The Group places considerable emphasis on staff management and has developed a set of human resources management procedures, striving to create a favourable working environment for employees and reduce labour and employment risks for the Company.

The Group is committed to comply with all relevant labour legislations, providing employees with appropriate holidays and paid leave pursuant to various labour legislations stipulated by the national and local governments. The specific days of leave varies with reference to the individual years of experience of employees. Every year, the Board of the Group reviews and discusses the development of improvement measures and implementation of human resources management procedures.

The Group places considerable value on the career development of employees and has taken measures to enhance employee retention. Employee development has two aspects in accordance with their abilities, one is the promotion to management position, and the other is the enhancement of professional and technical expertise. During the reporting period, we have complied with the relevant laws and regulations relating to the rights and benefits of our Group's employees. For example, for our operations in Hong Kong, we are in strict compliance with the Employment Ordinance, Mandatory Provident Fund Scheme Ordinance, Employees' Compensation Ordinance and Minimum Wage Ordinance.

The Group shall continue to monitor its compliance with relevant Ordinances and regulations pertaining to employment and renew its employment policies accordingly.

Remuneration Committee

The Group has established a remuneration committee, which is responsible for establishing a formal and transparent procedure for determining remuneration packages for the Group's employees, including for directors and senior management. Also, the committee is responsible for making recommendations to the Board on the remuneration of non-executive Directors.

The Remuneration Committee holds regular meetings during the year to review the remuneration policy according to the Group's financial performance and individual performance of staff members, with reference to prevailing market conditions.

Health and Safety

The Group attaches importance to the health and safety of its employees. Each subsidiary has established occupational safety and health guidelines to create a safe working environment for employees and protect them from occupational hazards. The Group reviews the health and safety management system for its employees every year, and displays warning signs on facilities and machines which are potentially hazardous or prone to accidents. We perform regular inspections to our offices to ensure that a safe working environment is provided to our employees. Our offices are equipped with first-aid kits for providing basic treatment in case of minor office injuries.

In addition, the Group actively strengthens the occupational safety awareness of employees to reduce the occurrence of workplace accidents. During the year, we have complied with the Occupational Safety and Health Ordinance. The Group did not have any reportable accidents regarding safety production, and the condition of production is stable and safe.

Labour Standards

The Group complies with all relevant laws and regulations towards the use of forced labour and child labour in our business operations. The Group aims not to be directly or indirectly complicit in human rights abuses and to ensure that all work that is performed on our behalf is in compliance with all relevant labour laws and regulations.

During the recruitment process, applicants are required to submit copies of their identification documents for verification of their age and identity. Personal data and credentials of job applicants are kept in a secure data system for human resource purposes, which is only accessible to authorized personnel.

In compliance with local labour laws and regulations, the Group's employees are entitled to statutory holidays are various types of paid leave, including annual leave, sick leave, maternity leave, paternity leave, marital leave and bereavement leave. Terms of leave entitlement, working hours, rest, labour protection and termination of employment are clearly laid out in the respective employment contracts of each employee, in compliance with local labour regulations.

During the reporting period, the Group has not identified any non-compliance relating to regulations governing child and forced labour.

Equal Opportunities and Anti-Discrimination

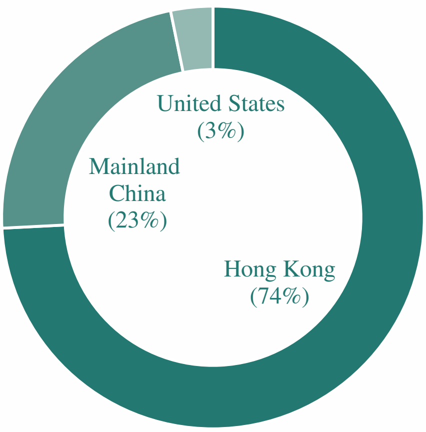
The Group is committed to instilling anti-discrimination in its employees, and we do not tolerate any form of discrimination within our operations, including but limited to: gender, disability, pregnancy, family status, race, religion, age, sexual orientation and or other conditions as recognized by relevant anti-discriminatory regulations. All of our staff members enjoy equal opportunities for recruitment, work, training, remuneration and promotion.

Not only do our efforts against discrimination help develop the professionalism and professional ethics among employees, but it also creates a more friendly working environment of the Group, a more harmonious and peaceful social atmosphere, thus fulfilling social responsibility.

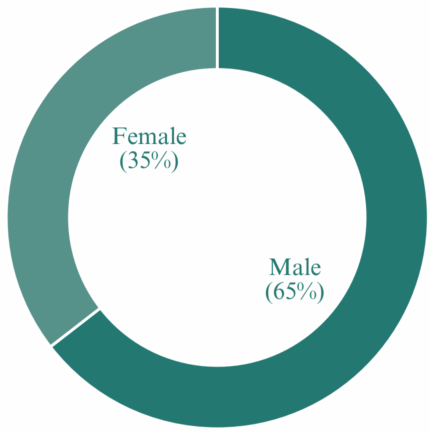
Staff Demographics

As of 31 December 2019, the Group employs a total of 31 employees. The distribution of our staff with respect to gender, age, and distribution based on payroll is presented in the figures below:

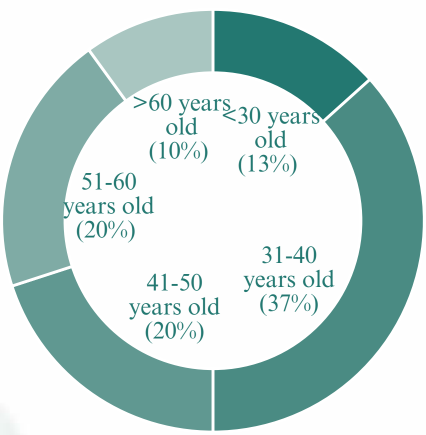
Geographic Distribution



Gender Distribution



Age Distribution



Development and Training

The Group attaches great importance to the working performance and development of employees during their employment periods.

For its newly-employed employees, the Group provides a set of orientation training based on the curriculum established by the Group's guidelines, as well as on-job training to introduce the new staff with the essential skills required to perform their responsible tasks. New employees are led by experienced staffs, providing new employees with proper guidance on works and enhance their job knowledge and skills. They also promptly help new employees adapt to the Company's operation and culture.

Our employees are also encouraged to do continuous learning, attending training and education programs on topics related to their field of work, as part of their personal and career development.

During the reporting period, a number of our staff members attended a training program which covered the listing rules of The Stock Exchange of Hong Kong Limited.

Team Building Activities

The Group is highly aware of the importance of teamwork in a corporate environment. Where opportunities arise, the Group organizes team building events and staff gatherings to enhance the level of interaction amongst its staff members. Team events set outside the regular working environment provides our staff with an opportunity to have an enjoyable time in a relaxing environment.

During the reporting period, we have organized a fishing trip and dinner gatherings for our employees at the Hong Kong office, and the events received good reception from our staff.

Supply Chain Management

In respect of supply management of our operation of Gas and Oil Field, our main suppliers include service providers for on-site support. In view of the complexity of the supply chain, during the supplier selection process by our operating units, conditions that must be considered includes price, quality of service, location, productivity (service capacity) and legal procedures. In addition, the Group also pays attention to the corporate responsibility performance of suppliers, including but limited to their social responsibility and environmental protection efforts.

Product Responsibility

As a diversified enterprise, the Group is committed to providing quality products and services to customers. The Group has formulated a set of stringent policies and procedures for its production and sales activities. During the reporting period, the Group's products did not require any recall due to safety and health reasons. The Group complies with the Personal Data Privacy Ordinance. All personal data collected from employees, customers and suppliers are kept confidential and our computers and servers are protected by access passwords to prevent unauthorized access. As stipulated in the Group's Code of Conduct on ethical policy, employees are instructed to ensure data is collected, used, maintained, managed, stored and handled properly and secured appropriately.

Anti-Corruption

The Group adheres to stringent anti-corruption policies as stated in the Group's Office Manual that includes Integrity of Business Practices, ethical standard, conflicts of interest, breach of conduct, handling of confidential information and legal requirement on prevention of bribery and against corruption. The Group has adopted best practices with respect to whistle-blowing and anti-corruption, and has carefully formulated its anti-corruption strategy based on *Anti-Corruption Programme – A Guide for Listed Companies* published by Independent Commission Against Corruption (ICAC).

Employees are encouraged to report occurrences of suspicious activities. Investigation will be performed on the suspicious activities, and if required, a detailed investigation will be performed and a formal investigation report will be issued to management for review. Regardless of whether the reported cases are found to require further investigation, all reported cases are confidential and are kept on record. No cases of corruption were reported within the Group during the financial year ended 31 December 2019.

The Group has complied with relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance". During the reporting period, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

COMMUNITY

As a responsible enterprise, the Group is well aware of its essential role in resource optimization throughout its business operation and promotion of environmental protection in areas where we may affect. As a result, the Group is committed to integrating environmental conservation into its daily operation, and encouraging our employees, customers, business partners and the community to reduce our impact on the environment. Additionally, the Group actively looks for opportunities to participate in charitable activities, such as tree planting in countryside, cleaning up garbage, and donating food to local communities. Such activities help raise the environmental awareness of our employees, at the same time providing opportunities for team building and work-life balance. In addition to raising the awareness of environmental protection, the Group encourages our staff to donate to the recognized charitable institutions in order to help grass-roots community or those in need.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2019 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2019 (including discussions on the principal risks and uncertainties that the Group may be facing) is set out in the section headed "Management Discussion and Analysis" of this annual report. In addition, an indication of likely future development in the Group's business is set out in the Chairlady's Statement and the sub-section "Prospects" in the section headed "Management Discussion and Analysis" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE AND COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group is committed to protecting the environment and effective consumption of natural resources. Although the Group does not directly produce significant quantities of atmospheric emissions, we encourage our employees and business partners to be aware of their impact to the environment and develop strategies to minimize their ecological footprint. The environmental policies of the Group include minimising consumption of paper and electricity, and reducing waste.

During the reporting period, the Group's operations were in compliance with relevant environmental regulations and standards, including but not limited to regulations governing oil exploration activities, oil production, storage, and waste disposal.

During the year, we have maintained positive relationships with various stakeholders, including employees, suppliers, and customers. Through the use of a variety of engagement channels, we were able to regularly exchange feedbacks with our stakeholders and continuously improve on our strategies to better address their priorities and concerns.

Further information on the Group's environmental issues also detailed in the "Environmental, Social and Governance Report" on pages 13 to 20.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 51.

The board of directors (the "Board" or the "Directors") do not recommend the payment of final dividend for the Year (2018: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

RIGHT-OF-USE ASSETS

Details of the movements during the year in the right-of-use assets of the Group are set out in note 13 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 54 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2019, no distributable reserves were available for distribution to the equity shareholders of the Company.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reason therefor are set out in note 25 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Liu Gui Feng *(Chairlady)*
Fan Amy Lizhen *(retired on 28/06/2019)*
Xiao Li *(resigned on 17/06/2019)*
Cheung Kam Shing, Terry *(resigned on 01/10/2019)*
Tang Yau Sing *(resigned on 01/10/2019)*
Chen Bin *(Chief Executive Officer)*
(appointed on 19/07/2019)
Lin Qing Yu
Chen Junyan *(appointed on 15/07/2019)*
Yu Jiyuan *(appointed on 15/07/2019)*
Yun Guangrui *(appointed on 15/07/2019)*

Independent Non-Executive Directors:

Xing Yong *(retired on 28/06/2019)*
Shi Wen Jiang *(retired on 28/06/2019)*
Chen Zhong Min *(retired on 28/06/2019)*
Jiang Cai Yi *(retired on 28/06/2019)*
Zhang Yue Yang *(retired on 28/06/2019)*
He Jun *(retired on 28/06/2019)*
Chen Xue Hui *(retired on 28/06/2019)*
Hu Jing *(retired on 28/06/2019)*
Lyu Jia Lian *(retired on 28/06/2019)*
Cao Wei *(appointed on 14/08/2019)*
Xu Guoqiang *(appointed on 14/08/2019)*
Zhong Bifeng *(appointed on 14/08/2019)*
Li Songtao *(appointed on 24/09/2019)*

In accordance with Bye-law 86(2) of the Company, each of Mr. Chen Bin, Ms. Chen Junyan, Mr. Yu Jiyuan, Mr. Yun Guangrui, Mr. Cao Wei, Mr. Xu Guoqiang, Ms. Zhong Bifeng and Mr. Li Songtao, so appointed by the Board to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting.

In accordance with Bye-law 87(1) of the Company, one-third of the Directors for the time being will retire as Directors by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election as Directors, provided that Directors appointed pursuant to Bye-law 86(2) shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. Accordingly, Ms. Liu Gui Feng and Mr. Lin Qing Yu will retire at the forthcoming annual general meeting, who being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors of the Company are set out on pages 5 to 7 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "SHARE SUBSCRIPTION AND CONNECTED TRANSACTION" in this Directors' Report, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2019, the interests of the Directors, chief executive, and their associates in the Shares, underlying Shares, and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Long positions in shares, underlying shares and debentures of the Company

Name of director	Capacity	Number of issued ordinary shares held	Approximately percentage of the issued share capital of the Company[1]
Chen Junyan	Interest in controlled corporation	365,625,096[2]	59.71%

Notes:

1. The Company had 612,275,987 Shares in issue as at 31 December 2019
2. These 365,625,096 Shares are held by Xin Hua Petroleum (Hong Kong) Limited, which, in turn, is owned by Ms. Chen Junyan as to 46.28%, Mr. Yu Zhibo as to 34.92% and Mr. Chen Yaxin as to 18.80%.

Long positions in the shares of our associated corporation (as defined in the SFO)

Name of director	Name of associated corporation	Capacity	Number of issued ordinary shares held	Percentage in the associated corporation
Chen Junyan	Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	4,628	46.28%

Save as disclosed above, at 31 December 2019, none of the Directors or chief executives had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDER

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 31 December 2019, so far as known to the Directors and other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long Positions

Name of substantial shareholders	Capacity	Number of shares/ underlying shares held	Approximate percentage to the issued share capital of the Company[1]
Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	365,625,096[2]	59.71%

Note:

1. The Company had 612,275,987 Shares in issue as at 31 December 2019.
2. These 365,625,096 Shares are held by Xin Hua Petroleum (Hong Kong) Limited which, in turn, is owned by Ms. Chen Junyan as to 46.28%, Mr. Yu Zhibo as to 34.92% and Mr. Chen Yaxin as to 18.80%.

Save as disclosed above, the Company has not been notified of any other person (other than Directors and chief executives of the Company) who had interest or short positions in the Shares and/or underlying Shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

On 12 December 2019, a share option scheme (the "Share Option Scheme") which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The major terms of the Share Option Scheme are as follows:

1. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions to those who had made, may have made or will make contributions to the Group. The Share Option Scheme will provide those who are eligible an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivate them to optimize their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain an ongoing business relationship with those whose contributions are or will be beneficial to the long-term growth of the Group;

2. The participants of the Share Option Scheme include (i) any full-time employee, Director, chief executives or part-time employee of the Group; (ii) any substantial shareholder of any member of the Group or any holder of any securities issued or proposed to be issued by any member of the Group, who on its own or in aggregate holding or will be holding (as a result of the proposed issue, if applicable) 10% or more of the shares or securities in the respective member of the Group; or (iii) any adviser or, consultant, distributors, suppliers, agents, customers, joint venture partners, service provider to the Group who the Board of Directors considers, in its sole discretion, has contributed or will contribute to the Group;

3. The total number of Shares available for issue under the Share Option Scheme was 61,227,598 Shares, representing 10% of the issued Shares as at the date of adoption of the Share Option Scheme (i.e. 12 December 2019);

4. The total number of Shares issued and to be issued upon the exercise of options granted under the Share Option Scheme (including exercised, cancelled and outstanding options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant;

5. The exercise period of any options granted under the Share Option Scheme shall be determined by the Board in its absolute discretion at the time of grant, save that such period shall not exceed ten (10) years from the date of grant and the Board may impose restrictions on the exercise of an option during the period an option may be exercised;

6. The Share Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the rules of the Share Option Scheme provide that the Board may determine, at its sole discretion, such term(s) on the grant of an option; and

7. The previous share option scheme adopted by the Company on 15 July 2009 ("Previous Share Option Scheme") expired on 14 July 2019. The exercise period of all outstanding options granted under the Previous Share Option Scheme also expired on 14 July 2019.

8. The acceptance of an offer of the grant of the options must be made within 21 days from (and including) the date of offer with a non-refundable payment of HK$1.00 from each participant;

9. The subscription price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any event shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business day immediately preceding the date of grant; and

10. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date of the Share Option Scheme on 12 December 2019.

There have been no share options granted in accordance to the Share Option Scheme as at the date of this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a Share Option Scheme as an incentive to Directors and eligible employees. There have been no share options granted in accordance to the Share Option Scheme as at the date of this report.

SHARE SUBSCRIPTION AND CONNECTED TRANSACTION

(A) First Subscription Agreement and Supplemental Agreement

On 13 February 2019 (after trading hours), the Company, Xin Hua Petroleum (Hong Kong) Limited ("Xin Hua") and Noble Pioneer Limited ("Noble") entered into a subscription agreement (the "First Subscription Agreement"), pursuant to which the Company conditionally agreed to allot and issue and each of Xin Hua and Noble conditionally agreed to subscribe for 7,300,000,000 then shares in the Company (the "Xin Hua Subscription Share(s)") (representing 365,000,000 Shares following the share consolidation on 10 July 2019) and 1,700,000,000 then shares in the Company (representing 85,000,000 Shares following the share consolidation on 10 July 2019) respectively, constituting an aggregate of 9,000,000,000 then shares in the Company ("Subscription Shares") (representing 450,000,000 Shares following the share consolidation on 10 July 2019), in each case at an issue price of HK$0.02 per Subscription Share. On 29 March 2019, the Company, Xin Hua and Noble entered into a supplemental agreement (the "Supplemental Agreement"), pursuant to which the parties thereto agreed to cancel Noble's subscription of Subscription Shares under the First Subscription Agreement, while the subscription by Xin Hua of 7,300,000,000 Subscription Shares remained unchanged. As at the date of the First Subscription Agreement (i.e. 13 February 2019), the closing price of the then shares in the Company as quote on the Stock Exchange was HK$0.122.

(B) Second Subscription Agreement

On 3 April 2019 (after trading hours), the Company and Noble entered into another subscription agreement (the "Second Subscription Agreement"), pursuant to which the Company conditionally agreed to allot and issue and Noble conditionally agreed to subscribe for 1,700,000,000 Subscription Shares ("Noble Subscription Shares") (representing 85,000,000 Shares following the share consolidation on 10 July 2019) at an issue price of HK$0.02 per Subscription Share.

Noble is beneficially wholly owned by Ms. Fan Amy Lizhen ("Ms. Fan"), a then executive Director of the Company. Therefore, Noble is an associate of Ms. Fan and a connected person of the Company. As a result, the subscription of Noble Subscription Shares constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules.

Details of the subscriptions of Xin Hua Subscription Shares and Noble Subscription Shares have been disclosed in the joint announcement of the Company and Xin Hua dated 16 April 2019 and the circular of the Company dated 21 May 2019. Completion of the subscription of Xin Hua Subscription Shares and Noble Subscription Shares took place on 8 July 2019.

Following completion of the subscription of the Xin Hua Subscription Shares and the Noble Subscription Shares, the gross proceeds amounted to HK$180 million. Having taken into account the offsetting of the HK$80 million against the then outstanding loans owed by Xin Hua to the Company and the professional fees and other related expenses, the net proceeds was approximately HK$95 million.

The intended use of the net proceeds and the actual use of the proceeds under the subscriptions of Xin Hua Subscription Shares and Noble Subscription Shares as of 31 December 2019 are set out below:

Intended use of proceeds	Actual use of the proceeds
(i) As to approximately HK$28 million for the repayment of the loan owed by the Company to NPCC (Hong Kong) Limited (the "Lender"), comprising a principal amount of HK$25 million plus interest	The Company is in the course of negotiating with the Lender and it is given to understand from the Lender that the Lender's parent company is undergoing certain internal restructuring procedures and cannot confirm the repayment details of the Lender. Up to the date of this report, no amount has been repaid to the Lender.
(ii) As to approximately HK$57 million for the 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	Approximately HK$16 million was used for expanding trade business to electronic products. Approximately HK$22 million was injected into the subsidiary of the group for trading oil related products. Approximately HK$860,000 was used for the expenditure of the Group's oil and gas field
(iii) As to approximately HK$10 million for general working capital of the Group	Approximately HK$34 million had been utilized for general working capital of the Group and the repayment of the debts.

As disclosed in the announcement of the Company dated 16 April 2019, the Company was in financial difficulties since 2017 and the outstanding borrowing at the material time amounted to approximately HK$111 million. On 19 October 2018, the Company was also served with legal notice in which Burberlon sought a winding-up order against the Company (i.e. the Petition) and an order for the appointment of provisional liquidators to assist the Board in restructuring the debts and liabilities of the Company (i.e. the Summons) from the Supreme Court of Bermuda. The Company has encountered difficulties in recent years which have adversely affected the Group's financials, liquidity, operations and prospects, as well as the negative publicity surrounding the Company, all of which hinder the ability of the Company to secure financing from banks and procure underwriting offers for a rights issue or open offer from securities firms in order to improve its financial condition and develop its business. The Company then exhausted all other alternative fund raising methods. By bringing in Xin Hua as a suitable strategic shareholder, the Company will be optimally placed to leverage on the business opportunities and resources available to Xin Hua. Given such cooperation is expected to create synergies which the Company would not otherwise be able to achieve through other financing mean.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the subscription of Noble Subscription Shares as disclosed in the section "Share Subscription and Connected Transaction" in this Directors' Report, no transaction, arrangement or contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the subscription of Noble Subscription Shares by Ms. Fan Amy Lizhen, who was an executive Director of the Company, the details of which were disclosed in the section headed "Share Subscription and Connected Transaction" of this annual report, none of the Directors or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right during the year ended 31 December 2019.

RESIGNATION OF DIRECTORS DURING THE YEAR

On 17 June 2019, Ms. Xiao Li tendered her resignation from the positions of executive Director and Chief Executive Officer of the Company with effect from 17 June 2019. The Company received a letter from the Stock Exchange relating to a complaint against Ms. Xiao for failing to disclose her criminal conviction in the PRC. The Board considered that Ms. Xiao was not suitable to continue her role as a director and/or any other position in the Company. For details, please refer to the announcement of the Company on 18 June 2019.

On 1 October 2019, each of Mr. Tang Yau Sing and Mr. Cheung Kam Shing, Terry, resigned from their position as the executive Director to pursue his personal and other business commitments. For details, please refer to the announcement of the Company on 30 September 2019.

COMPETING INTERESTS

During the Year, the Directors were not aware of any business or interest of the Directors, the controlling Shareholders and their respective close associates (as defined under the Listing Rules) that competes or may compete with the business of the Group and any other conflict of interest, which any such person has or may have with the Group.

PERMITTED INDEMNITY PROVISION

The Directors, secretary and other officers Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts.

The Company has maintained director's liability insurance which provides appropriate cover for the Directors and the directors of the subsidiaries of the Company for indemnifying their liabilities arising out of corporate activities.

MANAGEMENT CONTRACTS

During the Year, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year are detailed in note 29 to the consolidated financial statements.

During the year, none of these related party transactions are connected transaction or continuing connected transaction which are subject to disclosure requirement under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights, under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Year.

TAX RELIEF

The Company is not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's principal businesses are (i) exploring, exploiting and sale of oil and natural gas; and (ii) trading of oil-related products.

During the Year, the aggregate turnover attributable to the Group's largest customer and five largest customers accounted for approximately 27.7% (2018: 27.1%) and 82.1% (2018: 86.6%) respectively of the total revenue of the Group.

During the Year, the aggregate purchase attributable to the Group's largest supplier and five largest suppliers accounted for approximately 27.6% (2018: 35.2%) and 89.3% (2018: 87.5%) respectively of the total purchase of the Group. Due to the nature of the business, the Company has no major supplier.

At no time during the Year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as at the date of this annual report.

SUBSEQUENT EVENTS

Pursuant to a special resolution passed by the shareholders of the Company at the special general meeting of the Company held on 12 December 2019, the English name of the Company was changed from "Pearl Oriental Oil Limited" to "CHK Oil Limited" and new Chinese name of "中港石油有限公司" for identification purposes only has been adopted to replace the previous name of the Company in Chinese, namely "東方明珠石油有限公司" which was used for identification purposes only. The change of names took effect on February 2020.

Details of the change of Company name are set out in the announcements of the Company dated 28 October 2019, 12 December 2019 and 5 February 2020 and the circular of the Company dated 20 November 2019.

Save as the above, there is no material event undertaken by the Company or the Group subsequent to 31 December 2019 and up to the date of this annual report.

AUDITORS

Cheng & Cheng Limited acted as auditor of the Group's consolidated financial statements for the financial year ended 31 December 2019.

The consolidated financial statements for the year ended 31 December 2019 have been audited by Cheng & Cheng Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board

Yu Jiyuan
Executive Director

31 March 2020

Corporate Governance Report

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 Corporate Governance Code as contained in Appendix 14 to the Listing Rules, save for the following:

1. Code Provision A.2.1 – for the period from 17 June 2019 to 19 July 2019, the position of Chief Executive Officer was vacant and all duties of Chief Executive Officer were shared among the executive Directors, including the Chairlady of the Board. Following the appointment of Mr. Chen Bin as a new Chief Executive Officer and executive Director on 19 July 2019, the Company has re-complied with this requirement.

2. Code Provision I(f) and Rules 3.10(1) of the Listing Rules – for the period from 28 June 2019 to 14 August 2019, the number of Independent Non-Executive Directors for the composition of the Board has fallen below the minimum number required. Following the appointment of new Directors on 14 August 2019, the Company has re-complied with this requirement.

3. Code Provision I(f) and Rule 3.10(2) of the Listing Rules – for the period from 28 June 2019 to 24 September 2019, the Company failed to meet the requirement that at least one Independent Non-Executive Director must have appropriate professional qualifications or accounting or related financial management expertise. Following the appointment of new Independent Non-Executive Director on 24 September 2019, the Company has re-complied with this requirement.

4. Code Provision I(f) and Rule 3.10A of the Listing Rules – for the period from 28 June 2019 to 24 September 2019, the number of Independent Non-Executive Directors for the composition of the Board has fallen below the minimum ratio required. Following the appointment of a new Independent Non-Executive Director on 24 September 2019, the Company has re-complied with this requirement.

5. Code Provision A.5.1 – for the period from 28 June 2019 to 14 August 2019, as the Board comprised no Independent Non-Executive Director, the positions in the nomination committee were vacant. Following the appointment of new Directors and the members of nomination committee on 14 August 2019, the Company has re-complied with this requirement.

6. Rule 3.21 of the Listing Rules – for the period from 28 June 2019 to 24 September 2019, the number of members of the audit committee of the Company has fallen below the minimum number required. Following the appointment of new Independent Non-Executive Director on 24 September 2019, the Company has re-complied with this requirement.

7. Rule 3.25 of the Listing Rules – for the period from 28 June 2019 to 14 August 2019, the remuneration committee of the Company did not have a chairman who was an Independent Non-executive Director. Following the appointment of new Directors on 14 August 2019, the Company has re-complied with this requirement.

8. Code Provision E.1.2 – it is required under the Code Provision that the chairman of the board to invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. The chairmen and members of the Audit Committee and Remuneration Committee could not attend the annual general meeting of the Company held on 28 June 2019 due to other business commitments.

In respect of items (2), (3), (4), (5), (6), and (7) above, the Company deviated from the Code Provisions as a result of the re-election of Ms. Fan Amy Lizhen, Mr. Xing Yong, Mr. Shi Wen Jiang, Mr. Chen Zhong Min, Mr. Jiang Cai Yi, Mr. Zhang Yue Yang, Mr. He Jun, Ms. Chen Xue Hui, Ms. Hu Jing and Ms. Lyu Jia Lian as Directors were not passed at the annual general meeting held on 28 June 2019 and all of them retired as Directors upon conclusion of the relevant annual general meeting. The Company appointed three Independent Non-executive Directors, namely Mr. Cao Wei, Mr. Xu Guoqiang and Ms. Zhong Bifeng on 14 August 2019 and one Independent Non-executive Director, namely Mr. Li Songtao, on 24 September 2019.

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

Paragraph A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Ms. Liu Gui Feng is the Chairlady of the Company. Ms. Xiao Li was the Chief Executive Officer of the Company. As disclosed in the announcement dated 18 June 2019, given there was complaint against Ms. Xiao relating to her criminal conviction in the PRC, Ms. Xiao tendered her resignation from the position as the executive director and Chief Executive Officer of the Company with effect from 17 June 2019.

As announced by the Company on 18 July 2019, Mr. Chen Bin was appointed as the Chief Executive Officer of the Company with effect from 19 July 2019.

For the period from 17 June 2019 to 19 July 2019 when the position of Chief Executive Officer was vacant, all duties of Chief Executive Officer were shared among all executive Directors, including Chairlady of the Board. Save for the above, the roles of Chairlady and the Chief Executive are separate and exercised by different individuals.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the Model code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the Year.

BOARD OF DIRECTORS

As at the date of this report, the Board comprised six executive Director and four independent non-executive Directors (the "INED"). The list of Directors is set out headed "Directors' Report" of this annual report.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

The Board met regularly during the Year on an regular basis as required by business needs. The Board's primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance Shareholders' value. The Board is responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value. The Board is responsible for the leadership and the overall development of the Group. The Board focuses on determining the business strategies, approving the development and investment plan and annual budget of the Group; approving the annual financial statements of the Group; supervising the effectiveness of the internal control system and risk management system of the Group; and monitoring the financial and operating performances of the Group.

Daily operational decisions are delegated to the Executive Directors. The Executive Directors and the senior management are responsible for the day-to-day management, administration and operation and the implementation of policies of the Group. The management should report to the Board before any significant decisions and commitments are to be made and approval has to be obtained from the Board prior to any significant transactions entered into by the Executive Director(s) and senior management. The delegated functions are periodically reviewed by the Board to ensure that these are appropriate and effective.

In addition, the Board has also delegated various responsibilities to each of the Company's audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"). Further details of these committees are set out in the sections headed "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The independent non-executive Directors are not appointed for specific term, but are subject to retirement by rotation in accordance with the Bye-Laws.

NON-EXECUTIVE DIRECTORS

The composition of the Board during the Year only had Executive Directors and Independent Non-executive Directors. All Independent Non-executive Directors (being all non-executive Directors) have been appointed for a fixed term. Pursuant to the letters of appointment between the Company and the Independent Non-executive Directors, the Independent Non-executive Directors have been appointed for a term of one year which may be terminated by either party by giving one months' written notice. Every Director is subject to re-election on retirement by rotation in accordance with the Bye-Laws.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars of the Directors' remuneration for the Year are set out in Note 11 to the consolidated financial statement.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) for the Year by band is set out below:

Remuneration band (in HKD)	Number of Individuals
Nil to 1,000,000	9
1,000,001 to 2,000,000	1

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

According to the code provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company provides to the newly appointed directors tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

During the Year, all Directors have participated in appropriate continuous professional development activities by attending seminars, reading materials including seminar handouts or reviewing the papers and circulars sent by the Company. Details of those continuous professional development activities participated by the Directors are as follows:

Directors	Reading Relevant Material	Attending Seminar(s)
Executive Directors		
Liu Gui Feng	✓	✓
Chen Bin	✓	✓
Lin Qing Yu	✓	✓
Chen Junyan	✓	✓
Yu Jiyuan	✓	✓
Yun Guangrui	✓	✓
Independent Non-Executive Directors		
Cao Wei	✓	✓
Xu Guoqiang	✓	✓
Zhong Bifeng	✓	✓
Li Songtao	✓	✓

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organized by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

All Directors are required to provide the Company with their training records on an annual basis.

COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Chairman of the Board on governance matters and also facilitates induction and professional development of Directors. The Company Secretary reports to the Chairman of the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, all applicable law, rules and regulations are followed.

Ms. Liu Xiaoting ("Ms. Liu") has appointed as the Company Secretary on 1 October 2019. Ms. Liu graduated with a Master of Financial Analysis from University of New South Wales, Australia. Ms. Liu is a member of both Hong Kong Institute of Certified Public Accountants and the CPA Australia. Prior to joining the Company, she had been working public companies listed on the Stock Exchange, taking the positions as a company secretary and senior positions in finance management. Prior to that, she worked as an external auditor in one of a well-known international accounting firms. She has a solid experience in financial, auditing and company secretarial areas. During the Year, Ms. Liu has undertaken over 15 hours of professional training pursuant to Rule 3.29 of the Listing Rules to update his skills and knowledge.

BOARD DIVERSITY POLICY

During the year, the Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company aims to achieve board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

POLICY ON DISCLOSURE OF INSIDE INFORMATION

The Board has adopted the Policy on the Disclosure of Inside Information ("Policy") with respect to the procedures and internal controls for the handling and dissemination of inside information. The Policy sets out guidelines and procedures to the Directors and relevant officers of the Group to ensure inside information of the Group is to be disseminated to the public on an equal basis and in timely manner. Directors and relevant officers in possession of potential inside information and/or inside information are required to take reasonable measures to ensure that proper safeguards are in place to preserve strict confidentiality of inside information and to ensure that its recipients recognise their obligations to maintain the information confidential. The Policy shall be updated and revised as and when necessary in light of changes in circumstances and changes in the Listing Rules, Part XIVA of the Securities and Futures Ordinance and relevant statutory and regulatory requirements from time to time.

DIVIDEND POLICY

The Company has a dividend policy in compliance with E.1.5 of the Corporate Governance Code, which aims to establish the principles and guidelines in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements. The Board has the absolute discretion to declare and distribute dividends to the shareholders of the Company, subject to the Bye-Laws of the Company and all applicable laws and regulations. The Board shall also take into account various factors of the Group when considering the declaration and payment of dividends. The Board will review the Dividend Policy as appropriate from time to time.

BOARD MEETINGS

During the Year, 21 board meetings have been held, the attendance of each director, on named basis and by category at Board meetings, Audit Committee meetings and shareholders' meetings is set out below:

	Meetings attended/held						
	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Annual General Meeting on 28 June 2019	Special General Meeting on 24 June 2019	Special General Meeting on 12 December 2019
Executive Directors:							
Liu Gui Feng	20/21	N/A	N/A	1/2	1/1	1/1	1/1
Fan Amy Lizhen (retired on 28 June 2019)	3/9	N/A	N/A	1/1	0/1	0/1	N/A
Xiao Li (resigned on 18 June 2019)	2/9	N/A	N/A	1/1	N/A	N/A	N/A
Cheung Kam Shing, Terry (resigned on 30 September 2019)	16/19	N/A	N/A	1/1	1/1	1/1	N/A
Tang Yau Sing (resigned on 30 September 2019)	8/19	N/A	N/A	0/1	1/1	0/1	N/A
Chen Bin (Chief executive officer) (appointed on 18 July 2019)	7/9	N/A	N/A	1/1	N/A	N/A	0/1
Lin Qing Yu	8/21	N/A	N/A	N/A	0/1	0/1	0/1
Chen Junyan (appointed on 15 July 2019)	8/10	N/A	N/A	N/A	N/A	N/A	1/1
Yu Jiyuan (appointed on 15 July 2019)	9/10	N/A	3/3	N/A	N/A	N/A	1/1
Yun Guangri (appointed on 15 July 2019)	9/10	N/A	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors:							
Xing Yong (retired on 28 June 2019)	1/9	0/1	N/A	0/1	0/1	0/1	N/A
Shi Wen Jiang (retired on 28 June 2019)	2/9	0/1	N/A	1/1	0/1	0/1	N/A
Chen Zhong Min (retired on 28 June 2019)	3/9	0/1	N/A	1/1	0/1	0/1	N/A
Jiang Cai Yi (retired on 28 June 2019)	0/9	0/1	N/A	0/1	0/1	0/1	N/A
Zhang Yue Yang (retired on 28 June 2019)	5/9	1/1	N/A	1/1	0/1	1/1	N/A
He Jun (retired on 28 June 2019)	4/9	0/1	N/A	1/1	0/1	0/1	N/A
Chen Xue Hui (retired on 28 June 2019)	3/9	0/1	N/A	1/1	0/1	0/1	N/A
Hu Jing (retired on 28 June 2019)	4/9	0/1	N/A	1/1	0/1	0/1	N/A
Lyu Jia Lian (retired on 28 June 2019)	4/9	1/1	N/A	1/1	0/1	0/1	N/A
Cao Wei (appointed on 14 August 2019)	7/7	1/1	3/3	N/A	N/A	N/A	1/1
Xu Guoqiang (appointed on 14 August 2019)	6/7	N/A	3/3	1/1	N/A	N/A	1/1
Zhong Bifeng (appointed on 14 August 2019)	5/7	1/1	N/A	1/1	N/A	N/A	0/1
Li Songtao (appointed on 24 September 2019)	2/3	N/A	N/A	1/1	N/A	N/A	1/1

Notes

(1) N/A: Not Applicable

(2) Prior to the annual general meeting of the Company held on 28 June 2019, (i) the Audit Committee held one meeting and the Remuneration Committee held one meeting; and (ii) there was no meeting held by the Nomination Committee.

(3) Please also refer to the details as described under Corporate Governance Practices on page 20.

To the best knowledge of the Board, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 December 2019. All of them are free to exercise their individual judgments.

REMUNERATION COMMITTEE

As at 31 December 2019, the Remuneration Committee currently comprises three Directors, namely Ms. Zhong Bifeng (Chairlady), Mr. Chen Bin, Mr. Xu Guoqiang.

The remuneration committee met twice in the Year. Individual attendance of each committee member at these meetings is shown in the table presented above.

The primary role of the Remuneration Committee under its terms of reference is to:

(i) make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of formal and transparent procedure for developing remuneration policy on such remuneration;

(ii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

(iii) make recommendations to the Board on the remuneration packages of individual executive directors and senior management.

During the Year, the remuneration committee had performed the following works:

(i) reviewed and recommended for the Board's approval the existing policy and structure for the remuneration of Directors; and

(ii) assessed the performance of and reviewed the remuneration packages of all the Directors for the Year.

Details of the remuneration of Directors for the Year are set out in note 11 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference. The Nomination Committee currently comprises three Directors, namely Mr. Cao Wei (Chairman), Mr. Yu Jiyuan and Mr. Xu Guoqiang.

The principal role of the committee is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

The nomination committee met three times in the Year. Individual attendance of each committee member at these meetings is shown in the table presented above.

The Nomination Committee has formulated and set out the nomination policy ("Nomination Policy") in its terms of reference. The objective of the Nomination Policy is to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. To ensure changes to the Board composition can be managed without undue disruption, a formal, considered and transparent procedure is in place for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities. Further details of the selection criteria and the procedure are set out in the terms of reference of the Nomination Committee which are available on the websites of the Stock Exchange and the Company.

During the Year, the Nomination Committee performed the works as summarised below:

(i) reviewed and recommended for the Board's approval the proposed resolutions for re-election of the retiring Directors at 2019 AGM; and

(ii) reviewed the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board.

AUDIT COMMITTEE

The Audit Committee currently comprises all three Independent Non-executive Directors, namely Mr. Li Songtao (Chairman), Mr. Cao Wei, Mr. Xu Guoqiang. During the Year, the Audit Committee held two meetings to review annual financial results and reports in respect of the year ended 31 December 2019, and interim financial results and reports in respect of the period ended on 30 June 2019. During the Year, the Audit Committee was unable to comply Provision C3.3(e)(i) since all Independent Non-executive Directors retired after the annual general meeting on 28 June 2019. The Audit Committee is provided with sufficient resources to discharge its duties. The Audit Committee has clear terms of reference and its principal duties include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts review and monitoring of the appointment of the auditors and their independence.

During the Year, the Audit Committee performed the works as summarised below:

(i) making recommendations to the board on the reappointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

(ii) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discussing with the external auditor the nature and scope of the audit and reporting obligations;

(iii) implementing the Company's policy on the engagement of an external auditor to supply non-audit services;

(iv) reviewing and monitoring the integrity of the financial statements of the Company and the Company's annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position;

(v) making recommendation to the Board any appropriate extensions or changes in the duties of the Audit Committee;

(vi) reviewing the Company's financial controls, risk management and internal control systems to ensure that management has discharged its duty to have effective systems including discussing the risk management and internal control systems with management;

(vii) ensuring the coordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring the effectiveness of the audit function;

(viii) reviewing the Company's financial and accounting policies and practices;

(ix) reviewing the external auditor's management letter, material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and

(x) reporting to the Board on the matters set out in the Corporate Governance Code on the audit committee.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to ensure that a sound and effective internal control system and risk management, which serves as an integral part of the Company's management system, is maintained. The Board is responsible for approving and reviewing internal control policy, while the responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with the management. An internal control system is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- encouraging internal reporting on serious concern about malpractice
- conducting internal independent review by internal audit function

The Company places great value upon creating an environment where employees maintain the highest standard of integrity. To this end, the Board encourages the raising of concerns by employees about internal malpractice directly to the Board which will review complaints and decide how the investigation should be conducted. The Group has an Internal Audit ("IA") function, which consists of professional staff with relevant expertise, the IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, a review of the risk management and internal control systems is conducted annually and the results are reported to the Board via Audit Committee afterwards.

The Board has reviewed the effectiveness of the risk management and internal control systems and considers the risk management and internal control systems effective and adequate.

Systems and procedures are put in place to identify, evaluate and manage the risks of different businesses and activities. The annual assessment is performed through the completion by the relevant business units and department heads of their respective responsibility statements as co-ordinated by the IA function. The result and findings are reported to the Chairlady who puts forward the same to the Audit Committee and the Board for review on the effectiveness of the risk management and internal control systems, which have been considered effective and adequate.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the nature of the audit and non-audit services provided by the Auditor of the Company, Cheng & Cheng Limited, and the relevant fee paid and payable by the Company for such services are as follows:

	HK$'000
Annual audit services	720
Non-assurance services	150
	870

The other assurance services mainly cover the review of the interim results of the Group for the six months ended 30 June 2019.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such consolidated financial statements.

The Directors wish to refer to Note 2.1 to the consolidated financial statements, which indicates that the Group reported a net loss attributable to the owners of the Group of approximately HK$268,841,000 and had net operating cash outflow of approximately HK$45,529,000 for the year ended 31 December 2019, and as at 31 December 2019, the Group had (i) balance of cash and cash equivalents amounting to approximately HK$53,889,000; and (ii) unsecured loans of approximately HK$25,000,000 were overdue and still outstanding up to the date of this report. As stated in Note 2.1 to the consolidated financial statements, these conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The auditors' opinion is not modified in respect of this matter.

The statement of the external auditors of the Company, Cheng & Cheng Limited, with regard to their reporting responsibilities on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 46 to 50.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

Shareholders to convene a Special General Meeting ("SGM")

The Directors of the Company, notwithstanding anything in its bye-laws shall, on the requisition of Shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a SGM of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited with the Company Secretary at the Company's principal place of business at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong, and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the SGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The procedures for sending enquiries to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited with the Company Secretary at the Company's principal place of business at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong.

The procedures for making proposals at Shareholders' Meetings

To put forward proposals at an Annual General Meeting ("AGM"), or SGM, the Shareholders should submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Company's principal place of business at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at AGM or SGM varies according to the nature of the proposal, as follows:

— At least 21 days' notice (the notice period must include not less than 20 clear business days) in writing if the proposal constitutes a resolution of the Company in AGM

— At least 21 days' notice (the notice period must include not less than 10 clear business days) in writing if the proposal constitutes a special resolution of the Company in SGM

— At least 14 days' notice (the notice period must include not less than 10 clear business days) in writing for all other SGM of the Company

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

The Group will continue to maintain a close relationship with investors and develop greater understanding about the Group for international investors, to enhance investors' confidence in the Group.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

To promote effective communication, the Company maintains a website at www.chkoilltd.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

During the Year, the Company has not made any changes to its Bye-Laws. An up to date version of the Company's Bye-Laws is also available on the Company's website and the Stock Exchange's website.

Independent Auditor's Report

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭 鄭 會 計 師 事 務 所 有 限 公 司

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHK OIL LIMITED (FORMERLY KNOWN AS PEARL ORIENTAL OIL LIMITED)
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of CHK Oil Limited (formerly known as Pearl Oriental Oil Limited) (the "Company") and its subsidiaries (the "Group") set out on pages 51 to 121, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1 to the consolidated financial statements, which indicates that the Group reported a net loss attributable to the owners of the Group of approximately HK$268,841,000 and had net operating cash outflow of approximately HK$45,529,000 for the year ended 31 December 2019, and as at 31 December 2019, the Group had (i) balance of cash and cash equivalents amounting to approximately HK$53,889,000; and (ii) unsecured loans of approximately HK$25,000,000 were overdue and still outstanding up to the date of this report. As stated in Note 2.1, these conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the matter was addressed in our audit
Assessment of the recoverable amount of intangible assets related to the oil and gas business in United States of America	
Refer to Note 14 to the consolidated financial statements, the intangible assets of approximately HK$230,068,000 represents oil and gas processing rights in Utah, the United States of America. The management of the Company are of the opinion that the recoverable amount of the intangible assets was lower than its carrying amount as at 31 December 2019, and therefore, the Group made a further impairment of intangible assets of approximately HK$25,739,000 during the year ended 31 December 2019. This conclusion was based on a fair value less cost of disposal calculation with reference to a valuation performed by an independent valuer that required significant management judgement with respect to the discount rate and the underlying cash flows.	Our procedures in relation to management's valuation of intangible assets included: – Evaluated the independent external valuer's competence, capabilities and objectivity; – Performed sensitivity analysis over the key assumptions used in order to assess the potential impact of a range of possible outcomes; – Assessed the methodologies used and the appropriateness of the key assumptions based on our knowledge of the oil and gas industry; and – Checked with the comparable data through internal or external sources, on a sample basis, the accuracy and relevancy of the input data used.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR' S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CHENG & CHENG LIMITED
Certified Public Accountants
Lui Chun Yip
Practising Certificate Number P07004

Hong Kong, 31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	4	**175,467**	74,036
Cost of sales		**(175,439)**	(75,781)
Gross profit/(loss)		**28**	(1,745)
Other income	5	**3,992**	220
Administrative expenses		**(32,514)**	(38,392)
Impairment loss on intangible assets	14	**(25,739)**	–
Expenditure on settlement of indebtedness	33	**(210,572)**	–
Finance costs	6	**(10,100)**	(19,645)
Loss before tax	7	**(274,905)**	(59,562)
Income tax credit	8	**5,936**	860
Loss for the year		**(268,969)**	(58,702)
Attributable to:			
Owners of the Company		**(268,841)**	(58,415)
Non-controlling interests		**(128)**	(287)
		(268,969)	(58,702)
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		**91**	–
Total comprehensive loss for the year		**(268,878)**	(58,702)
Total comprehensive loss attributable to:			
Owners of the Company		**(268,750)**	(58,415)
Non-controlling interests		**(128)**	(287)
		(268,878)	(58,702)
			(Restated)
Loss per share (HK cents)			
– Basic and diluted	10	**(70.66)**	(36.00)

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	12	**40,340**	42,734
Intangible assets	14	**230,068**	255,944
Right-of-use assets	13	**3,224**	–
Statutory deposits and other assets	15	**2,622**	–
		276,254	298,678
Current assets			
Trade receivables	16	**3,837**	–
Prepayments, deposits and other receivables	17	**8,892**	19,344
Bank balances and cash	18	**53,889**	993
		66,618	20,337
Current liabilities			
Other payables and accruals	19	**12,592**	39,588
Unsecured loans	20	**36,186**	102,093
Obligations under finance lease due within one year	21	**–**	120
Lease liabilities	22	**3,146**	–
Tax payable		**141**	2
		52,065	141,803
Net current assets/(liabilities)		**14,553**	(121,466)
Total assets less current liabilities		**290,807**	177,212
Non-current liabilities			
Deferred tax liabilities	23	**29,020**	34,984
Obligations under finance lease due after one year	21	**–**	372
Lease liabilities	22	**246**	–
Asset retirement obligations	24	**82**	3,579
		29,348	38,935
Net assets		**261,459**	138,277

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Equity			
Share capital	25	**122,455**	324,552
Reserves		**137,989**	(187,418)
Equity attributable to owners of the Company		**260,444**	137,134
Non-controlling interests		**1,015**	1,143
Total equity		**261,459**	138,277

The consolidated financial statements on pages 51 to 121 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Yu Jiyuan
Executive Director

Chen Junyan
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Treasury shares reserve *HK$'000* *(Note 27)*	Capital reserve *HK$'000* *(Note 27)*	Share option reserve *HK$'000*	Translation reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2018	324,552	2,222,586	(10,556)	403,851	28,954	–	(2,773,838)	195,549	1,430	196,979
Total comprehensive loss for the year	–	–	–	–	–	–	(58,415)	(58,415)	(287)	(58,702)
Share option lapsed	–	–	–	–	(6,922)	–	6,922	–	–	–
At 31 December 2018 and 1 January 2019	**324,552**	**2,222,586**	**(10,556)**	**403,851**	**22,032**	**–**	**(2,825,331)**	**137,134**	**1,143**	**138,277**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(268,841)**	**(268,841)**	**(128)**	**(268,969)**
Other comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**91**	**–**	**91**	**–**	**91**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**91**	**(268,841)**	**(268,750)**	**(128)**	**(268,878)**
Share subscription on 8 July 2019 *(note 25(a))*	**50,000**	**46,060**	**–**	**–**	**–**	**–**	**–**	**96,060**	**–**	**96,060**
Capitalisation of unsecured loan *(notes 20 and 33)*	**40,000**	**256,000**	**–**	**–**	**–**	**–**	**–**	**296,000**	**–**	**296,000**
Share reduction on 3 July 2019 and share consolidation on 10 July 2019 *(note 25(b))*	**(292,097)**	**292,097**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share option lapsed	**–**	**–**	**–**	**–**	**(22,032)**	**–**	**22,032**	**–**	**–**	**–**
At 31 December 2019	**122,455**	**2,816,743**	**(10,556)**	**403,851**	**–**	**91**	**(3,072,140)**	**260,444**	**1,015**	**261,459**

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Loss before tax		**(274,905)**	(59,562)
Adjustments for:			
Finance costs		**10,100**	19,645
Depreciation and depletion		**1,985**	2,269
Depreciation of right-of-use assets		**3,377**	–
Amortisation of intangible assets		**137**	–
Reversal of assets retirement obligations		**(3,497)**	–
Impairment loss on intangible assets		**25,739**	–
Expenditure on settlement of indebtedness		**210,572**	–
Operating loss before working capital changes		**(26,492)**	(37,648)
(Increase)/Decrease in trade receivables		**(3,837)**	2,541
Decrease in trade payables		**–**	(5,993)
Decrease/(Increase) in prepayments, deposits and other receivables		**7,830**	(12,678)
(Decrease)/Increase in other payables and accruals		**(23,141)**	23,509
Cash used in operations		**(45,640)**	(30,269)
Tax refunded		**111**	–
Net cash used in operating activities		**(45,529)**	(30,269)
Cash flows from investing activity			
Purchase of property, plant and equipment		**(85)**	(6,271)
Net cash used in investing activity		**(85)**	(6,271)
Cash flows from financing activities	*32*		
Net proceeds from subscription of shares		**96,060**	–
Proceeds from unsecured loans		**28,076**	114,253
Repayment of unsecured loans		**(13,983)**	(70,460)
Interest paid		**(938)**	(7,379)
Capital element of finance lease rental paid		**–**	(146)
Interest element of finance lease rental paid		**–**	(17)
Repayment of lease liabilities		**(3,795)**	–
Debts settlement expenses paid		**(6,910)**	(3,221)
Net cash generated from financing activities		**98,510**	33,030
Net increase/(decrease) in cash and cash equivalents		**52,896**	(3,510)
Cash and cash equivalents at beginning of year		**993**	4,503
Cash and cash equivalents at end of year, represented by bank balances and cash	*18*	**53,889**	993

Notes to the Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

CHK OIL LIMITED (formerly known as PEARL ORIENTAL OIL LIMITED)(the "Company") 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 Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, 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 when otherwise indicated.

The consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 31 March 2020.

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on the historical cost basis.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 3.

2.1 BASIS OF PREPARATION *(Continued)*

Going concern basis

The Group reported a net loss attributable to the owners of the Company of approximately HK$268,841,000 and had net operating cash outflow of approximately HK$45,529,000 for the year ended 31 December 2019, and as at 31 December 2019, the Group had balance of cash and cash equivalents amounting to approximately HK$53,889,000.

As disclosed in Note 20, unsecured loans in the principal amount of HK$25,000,000 due to NPCC (Hong Kong) Limited (the "Lender") was overdue as at 31 December 2019. The Company is given to understand from the Lender that the Lender's parent company is undergoing certain internal restructuring procedures and cannot confirm the repayment details of the Lender. These loans are still outstanding up to the date of this report.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The management of the Company has taken the following steps to improve the Group's financial position:

(1) Monitoring of the Group's operating cash flows

The Group has taken various measures to tighten cost controls over operating costs and expenses with the aim to attain profitable and positive cash flow operations. The directors are taking steps to improve the Group's liquidity and financial performance including active cost-saving and other measures to improve the Group's operating cash flows and financial position.

(2) Financial support from a director of the Company

In addition, a director of the Company has confirmed to provide financial support to the Group to meet its financial obligations as they fall due, if required.

2.1 BASIS OF PREPARATION *(Continued)*

Going concern basis *(Continued)*

The directors of the Group have reviewed the Group's cash flow projections prepared by the management. The cash flow projections covered a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors of the Group are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2019 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements for the year ended 31 December 2019.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

New and amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16, *Leases*

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16, *Leases* *(Continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8 (b) (ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate is 12%.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	**6,850**
Lease liabilities discounted at relevant incremental borrowing rates	
Less: Total future interest expenses	**(743)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	**6,107**
Add: Obligations under finance leases recognised at 31 December 2018	**492**
Lease liabilities as at 1 January 2019	**6,599**
Analysed as	
Current	**3,206**
Non-current	**3,393**
	6,599

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16, *Leases* *(Continued)*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019.

	Carrying amounts previously reported at 31 December 2018	Adjustments	**Carrying amounts under HKFRS 16 at 1 January 2019**
	HK$'000	*HK$'000*	***HK$'000***
Non-current assets			
Property, plant and equipment	42,734	(494)	**42,240**
Intangible assets	255,944	–	**255,944**
Right-of-use assets	–	6,601	**6,601**
	298,678	6,107	**304,785**
Current assets			
Prepayments, deposits and other receivables	19,344	–	**19,344**
Bank balances and cash	993	–	**993**
	20,337	–	**20,337**
Current liabilities			
Other payables and accruals	39,588	–	**39,588**
Unsecured loans	102,093	–	**102,093**
Obligations under finance lease due within one year	120	(120)	**–**
Leases liabilities	–	3,206	**3,206**
Tax payable	2	–	**2**
	141,803	3,086	**144,889**
Net current liabilities	(121,466)	(3,086)	**(124,552)**
Total assets less current liabilities	177,212	3,021	**180,233**
Non-current liabilities			
Deferred tax liabilities	34,984	–	**34,984**
Obligations under finance lease due after one year	372	(372)	**–**
Lease liabilities	–	3,393	**3,393**
Asset retirement obligations	3,579	–	**3,579**
	38,935	3,021	**41,956**
Net assets	138,277	–	**138,277**

notes:

(i) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to approximately HK$494,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of approximately HK$120,000 and HK$372,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(ii) For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and amendments to HKFRSs issued but not yet effective *(Continued)*

Amendments to HKAS 1 and HKAS 8, Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and amendments to HKFRSs issued but not yet effective *(Continued)*

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (together referred to as the "Group"). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interest in subsidiary is presented separately from the Group's equity therein, which represent present ownership interest entitling its holder to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of a financial asset or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Foreign currency translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment

Oil and gas properties

Oil and gas properties are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and impairment losses.

The successful efforts method of accounting is used for oil and gas exploration and production activities. The Group capitalises the initial acquisition costs of oil and gas properties. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

Oil and gas properties are depreciated on a unit-of-production basis over the proved reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved and probable developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment *(Continued)*

Other property, plant and equipment

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the shorter of the lease terms or 5 years
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	30%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(d) Intangible assets

Acquired intangible assets are recognised initially at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

The intangible assets of oil and gas possessing right of the natural gas and oil properties have been amortised upon the commercial production of oil and gas on a unit-of-production basis over the total proved reserves.

(e) Financial assets

The Group's accounting policies for financial assets other than investment in subsidiaries are set out below.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets occurs when the rights to receive cash from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial assets *(Continued)*

Financial assets are initially stated at fair value plus directly attributable transaction costs, except for those financial assets measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. Financial assets are subsequently accounted for as follows, depending on their classification.

Financial assets held by the Group are all classified as amortised cost. The financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income is calculated using effective interest method.

(f) Credit losses and impairment of assets

i. Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rate where the effect of discounting is material:

– fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof.

– variable rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Credit losses and impairment of assets *(Continued)*

i. Credit losses from financial instruments *(Continued)*

Measurement of ECLs *(Continued)*

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Credit losses and impairment of assets *(Continued)*

i. Credit losses from financial instruments (Continued)

Significant increases in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2.3(m)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Credit losses and impairment of assets *(Continued)*

i. *Credit losses from financial instruments* *(Continued)*

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Credit losses and impairment of assets *(Continued)*

ii. Impairment of other non-current assets

The following assets are subject to impairment testing:

– Intangible assets;

– Right-of-use assets;

– Property, plant and equipment;

– Statutory deposits and other assets; and

– The Company's interests in subsidiaries

All the above assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquids investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Financial liabilities

The Group's financial liabilities include trade and other payables and unsecured loans.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

i. Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

ii. Unsecured loans

Unsecured loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

When an existing financial liability is renegotiated in such a way that the liability is extinguished fully or partially by issuing equity instruments, it is accounted for as an extinguishment of the original financial liability and a recognition of equity instrument at the fair value upon issue with the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the consideration paid (being the fair value of the equity instruments issued), recognised to profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(j) Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2.2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with note 2.2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leases *(Continued)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leases *(Continued)*

The lease payments include: (Continued)

- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessee (prior to 1 January 2019)

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i. *Classification of assets leased to the Group*
Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

ii. *Operating lease charges as the lessee*
Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil and gas properties.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where the Company's equity share capital is repurchased (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

(m) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customers at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition *(Continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

i. Oil and gas sales are recognised when the customer accepts and takes the control of the products, being when the products are physically transferred into a vessel, pipe or other delivery mechanism agreed with customers.

ii. Revenue from trading of oil-related and other products is recognised when the customer accepts and takes the control of the products.

iii. Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the financial asset (see note 2.3(f)(i)).

iv. Other income is recognised whenever it is received or receivable.

(n) Employee benefits

i. Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

ii. Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

ii. ***Share-based employee compensation*** *(Continued)*

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

(o) Income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income taxes *(Continued)*

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(i) the Group has the legally enforceable right to set off the recognised amounts; and

(ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(i) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(a) the same taxable entity; or

(b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

Each of the operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its consolidated financial statements prepared under HKFRSs, except that:

- finance costs
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets exclude corporate assets which are not directly attributable to the business activities of any operating segment. Corporate assets include certain property, plant and equipment, prepayment, deposits and other receivables and bank balances and cash.

Segment liabilities exclude deferred tax liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment. Corporate liabilities include certain other payables and accruals, unsecured loans, lease liabilities (2018: obligations under finance lease) and tax payable.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third party and the other entity is an associate of the third party.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provide key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

3. 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.

Estimation of asset retirement obligations

Provision is recognised for the future decommissioning and restoration of oil and gas assets. The amounts of the provision recognised are the present values of the estimated future expenditures. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of oil and gas assets. Changes in any of these estimates will impact the operating results and the financial position of the Group.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Trading of oil-related and other products business acts as a principal

The Group assesses its business relationship with suppliers and customers in respect of the trading of oil-related and other products business and determines that the Group acts as a principal.

The factors taken into account by the management include:

(i) The Group has the primary responsibility for fulfilling the promise to provide the specified goods.

(ii) The Group has inventory risk before the specified goods have been transferred to a customer and the Group is exposed to significant inventory risk.

(iii) The Group has discretion in establishing the price for the oil-related and other products with the customers.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) exploring, exploiting and sales of oil and natural gas ("Oil and gas sales"); and (ii) trading of oil-related and other products.

2019

	Oil and gas sales *HK$'000*	Trading of oil-related and other products *HK$'000*	Total *HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– United States of America ("USA")	111	–	111
– Sales of oil-related and other products:			
recognised at a point in time			
– Hong Kong	–	127,220	127,220
– People's Republic of China ("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, depletion and amortisation	249	–	
Impairment loss on intangible assets	25,739	–	

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

2018

	Oil and gas sales *HK$'000*	Trading of oil-related and other products *HK$'000*	Total *HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– USA	191	–	191
– Sales of oil-related and other products:			
recognised at a point in time			
– Hong Kong	–	73,845	73,845
	191	73,845	74,036
Segment (loss)/profit	(2,585)	230	(2,355)
Unallocated income			100
Unallocated expenses			(37,662)
Finance costs			(19,645)
Loss before tax			(59,562)
Income tax credit			860
Loss for the year			(58,702)
Segment assets	297,446	12,628	310,074
Unallocated assets			8,941
Total assets			319,015
Segment liabilities	5,490	12,402	17,892
Deferred tax liabilities			34,984
Unallocated liabilities			127,862
Total liabilities			180,738
Depreciation, depletion and amortisation	279	–	

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	Revenue from external customers		Specified non-current assets	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**127,220**	73,845	**5,310**	4,366
USA	**111**	191	**270,944**	294,312
PRC	**48,136**	–	**–**	–
	175,467	74,036	**276,254**	298,678

The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specified 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.

The Group's customer base includes five (2018: five) customers with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers were amounted to approximately HK$48,627,000, HK$25,777,000, HK$25,128,000, HK$25,101,000 and HK$19,350,000 respectively (2018: HK$20,085,000, HK$14,921,000, HK$11,569,000, HK$9,228,000 and HK$8,348,000 respectively) were related to trading of oil-related and other products segment.

5. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
Interest income	**1**	–
Reversal of asset retirement obligations	**3,497**	–
Sundry income	**494**	220
	3,992	220

6. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expenses on unsecured loans *(notes (i) and (ii))*	**9,512**	8,933
Debts settlement expenses *(note (iii))*	**–**	10,692
Finance charges on obligations under finance lease	**–**	17
Interest on lease liabilities	**588**	–
Interest on bank overdrafts	**–**	3
	10,100	19,645

notes:

(i) On 13 February 2019, the Company, Xin Hua and Noble Pioneer Limited ("Noble") entered into the first subscription agreement (the "First Subscription Agreement"), pursuant to which the interest payable to Xin Hua in the amount of approximately HK$5,428,000 was waived.

(ii) Include in interest expenses on unsecured loans there was approximately HK$4,071,000 related to overdue unsecured loans.

(iii) Include in debts settlement expenses there was HK$561,000 related to overdue interest payable to a trade creditor and HK$10,131,000 related to unsecured loans which was settled under the debt settlement agreement in 2018.

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after crediting:

	2019 HK$'000	2018 HK$'000
Depreciation and depletion		
– owned property, plant and equipment	**1,985**	2,213
– right-of-use assets*	**3,377**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17*	**–**	3,657
Amortisation of intangible assets	**137**	56
Auditor's remuneration:		
– Annual audit	**720**	800
– Non-assurance services	**151**	150
Impairment loss on intangible assets *(Note 14)*	**25,739**	–
Expenditure on settlement of indebtness *(Note 33)*	**210,572**	–
Legal and professional fees	**7,116**	7,755
Financial advisory fee	**222**	1,458
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**11,564**	16,330
– Retirement scheme contributions	**111**	190

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balance at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative informative is not restated. Further details on impact of the transition to HKFRS 16 are set out in Note 2.2.

8. INCOME TAX CREDIT

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year (2018: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the country in which the Group operates.

The tax rate adopted to measure the deferred tax balances is reduced to 21% to reflect the reduction in the US federal tax rate since 1 January 2018.

	2019 *HK$'000*	2018 *HK$'000*
Current income tax on profits for the year		
– Hong Kong Profits Tax	**2**	–
– PRC Enterprise Income Tax	**26**	–
Deferred tax credit	**(5,964)**	(860)
	(5,936)	(860)

Reconciliation between tax credit and accounting loss at applicable tax rates:

	2019 *HK$'000*	2018 *HK$'000*
Loss before tax	**(274,905)**	(59,562)
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(46,319)**	(10,017)
Tax effect of non-taxable revenue	**(74)**	(53)
Tax effect of non-deductible expenses	**40,298**	8,273
Tax effect of tax losses not recognised	**150**	705
Tax effect of unrecognised temporary differences	**189**	232
Utilisation of tax losses previously not recognised	**(68)**	–
Tax relief for the year	**(112)**	–
Income tax credit	**(5,936)**	(860)

9. DIVIDENDS

The directors of the Group did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

10. LOSS PER SHARE

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

	2019 ***HK$'000***	2018 *HK$'000* *(Restated)*
Loss for the year attributable to owners of the Company *(HK$'000)*	**(268,841)**	(58,415)
Weighted average number of ordinary shares in issue *('000)*	**380,495**	162,276
Basic loss per share *(HK cents)*	**(70.66)**	(36.00)

The weighted average number of ordinary shares has been retrospectively adjusted the share consolidation which was completed on 10 July 2019 (note 25(b)(iii)).

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

2019

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Fan Amy Lizhen (resigned on 28 June 2019)	–	450	9	459
Cheung Kam Shing, Terry (resigned on 1 October 2019)	–	962	13	975
Tang Yau Sing (resigned on 1 October 2019)	–	962	13	975
Liu Gui Feng (appointed on 28 November 2018)	–	1,083	–	1,083
Xiao Li (appointed on 28 November 2018 and resigned on 17 June 2019)	–	369	–	369
Lin Qing Yu (appointed on 3 October 2018)	–	758	–	758
Chen Junyan (appointed on 15 July 2019)	–	120	–	120
Yu Jiyuan (appointed on 15 July 2019)	–	351	–	351
Yun Guangrui (appointed on 15 July 2019)	–	120	–	120
Chen Bin (appointed on 19 July 2019)	–	117	–	117

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

2019

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Independent non-executive directors:				
Xing Yong (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Shi Wen Jiang (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Chen Zhong Min (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Jiang Cai Yi (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Zhang Yue Yang (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
He Jun (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Chen Xue Hui (appointed on 3 October 2018 and resigned on 28 June 2019)	60	–	–	60
Hu Jing (appointed on 3 October 2018 and resigned on 28 June 2019)	60	–	–	60
Lyu Jia Lian (appointed on 3 October 2018 and resigned on 28 June 2019)	60	–	–	60
Cao Wei (appointed on 14 August 2019)	92	–	–	92
Xu Guoqiang (appointed on 14 August 2019)	92	–	–	92
Zhong Bifeng (appointed on 14 August 2019)	92	–	–	92
Li Songtao (appointed on 24 September 2019)	65	–	–	65
	881	5,292	35	6,208

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

2018

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Fan Amy Lizhen (resigned on 28 June 2019)	–	3,310	18	3,328
Cheung Kam Shing, Terry (resigned on 30 September 2019)	–	2,130	18	2,148
Tang Yau Sing (resigned on 30 September 2019)	–	2,130	18	2,148
Liu Gui Feng (appointed on 28 November 2018)	–	83	–	83
Xiao Li (appointed on 28 November 2018 and resigned on 17 June 2019)	–	67	2	69
Lin Qing Yu (appointed on 3 October 2018)	–	138	3	141
Cheung Ka Chun, David (retired on 29 June 2018)	–	1,138	9	1,147

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

2018

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Independent non-executive directors:				
Xing Yong (appointed on 28 November 2018 and resigned on 28 June 2019)	11	–	–	11
Shi Wen Jiang (appointed on 28 November 2018 and resigned on 28 June 2019)	11	–	–	11
Chen Zhong Min (appointed on 28 November 2018 and resigned on 28 June 2019)	11	–	–	11
Jiang Cai Yi (appointed on 28 November 2018 and resigned on 28 June 2019)	11	–	–	11
Zhang Yue Yang (appointed on 28 November 2018 and resigned on 28 June 2019)	11	–	–	11
He Jun (appointed on 28 November 2018 and resigned on 28 June 2019)	11	–	–	11
Chen Xue Hui (appointed on 28 November 2018 and resigned on 28 June 2019)	30	–	–	30
Hu Jing (appointed on 28 November 2018 and resigned on 28 June 2019)	30	–	–	30
Lyu Jia Lian (appointed on 28 November 2018 and resigned on 28 June 2019)	30	–	–	30
Lum Pak Sum (retired on 29 June 2018)	150	–	–	150
Chan Sung Wai (retired on 29 June 2018)	150	–	–	150
Koo Luen Bong (retired on 29 June 2018)	150	–	–	150
Chau Wing Man (retired on 29 June 2018)	150	–	–	150
Wang Jing Ting (retired on 29 June 2018)	150	–	–	150
Lam Kwan (retired on 29 June 2018)	150	–	–	150
Chan Kwan Pak (retired on 29 June 2018)	150	–	–	150
	1,206	8,996	68	10,270

note:

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

No emoluments were paid by the Group to any directors as inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2019 .

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

During the year ended 31 December 2019, out of the five individuals with the highest emoluments in the Group, three (2018: four) were directors of the Company whose emoluments, details are set out in note 10(a) above. The emoluments of the remaining two (2018: one) individuals for the year ended 31 December 2019 were as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Salaries and other benefits	**2,225**	1,530
Retirement benefits scheme contributions	**33**	18
	2,258	1,548

	Number of Individual **2019**	 2018
Emoluments band		
Nil – HK$1,500,000	**2**	–
HK$1,500,001 – HK$2,000,000	**–**	1
	2	1

12. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2018	89,519	85	614	–	90,218
Additions	589	5,216	466	638	6,909
Eliminated on disposal	–	(85)	–	–	(85)
At 31 December 2018 and 1 January 2019	90,108	5,216	1,080	638	97,042
Adjustments upon application of HKFRS 16	–	–	–	(638)	(638)
At 1 January 2019 (Restated)	90,108	5,216	1,080	–	96,404
Additions	–	41	44	–	85
At 31 December 2019	**90,108**	**5,257**	**1,124**	**–**	**96,489**
Accumulated depreciation					
At 1 January 2018	51,522	85	573	–	52,180
Charge for the year	223	1,739	107	144	2,213
Eliminated on disposal	–	(85)	–	–	(85)
At 31 December 2018 and 1 January 2019	51,745	1,739	680	144	54,308
Adjustments upon application of HKFRS 16	–	–	–	(144)	(144)
At 1 January 2019 (Restated)	51,745	1,739	680	–	54,164
Change for the year	112	1,759	114	–	1,985
At 31 December 2019	**51,857**	**3,498**	**794**	**–**	**56,149**
Net book value					
At 31 December 2019	**38,251**	**1,759**	**330**	**–**	**40,340**
At 31 December 2018	38,363	3,477	400	494	42,734

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the year ended 31 December 2018, there was no addition to motor vehicles financed by new finance lease was HK$638,000. At 31 December 2018, the net book value of motor vehicles held under finance lease was HK$494,000.

13. RIGHT-OF-USE ASSETS

	Motor vehicles *HK$'000*	Leased properties *HK$'000*	Total *HK$'000*
At 1 January 2019			
Carrying amount	494	6,107	6,601
At 31 December 2019			
Carrying amount	303	2,921	3,224
For the year ended 31 December 2019			
Depreciation charge for the year	191	3,186	3,377
Total cash outflow for leases			3,795

For both years, the Group leases an office for its operations. Lease contracts are entered into for fixed term of 3 years. A lease of motor vehicle was accounted for as finance leases during the year ended 31 December 2018 and carried interest for 4.84%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

14. INTANGIBLE ASSETS

	Oil and gas processing rights HK$'000
Cost	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	2,818,920
Accumulated amortisation and impairment	
At 1 January 2018	2,562,920
Amortisation for the year	56
At 31 December 2018 and 1 January 2019	2,562,976
Amortisation for the year	137
Impairment loss	25,739
At 31 December 2019	**2,588,852**
Net carrying amounts	
At 31 December 2019	**230,068**
At 31 December 2018	255,944

The intangible assets represent oil and gas processing rights in Utah, the United States of America. 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.

For the purpose of impairment testing, in property, plant and equipment set out in Note 12 and intangible assets set out in this note have been allocated to the oil and gas segment of the Group, which is an individual CGU.

The recoverable amount for this CGU was determined based on fair value, reflecting market conditions less cost of disposal calculation with reference to a valuation performed by an independent valuer, BMI Appraisals Limited. The fair value less cost of disposal calculations use cash flow projections of 36 years, which is the expected period of time estimated by the management to fully utilise the reserve as per the latest competent person report, and a discount rate of 11.77% (2018: 14.31%). The management determined the key assumptions based on past performance and expectation on market development by reference to market information such as forecast to future oil and gas prices, historical growth rate of oil and gas prices and expectation on oil and gas consumption.

The fair value measurement in the impairment assessment is categorised in level 3 of the fair value hierarchy.

After assessing the information, the impairment loss on intangible assets in the amount of approximately HK$25,739,000 in relation to oil and gas processing rights was recognised during the year (2018: Nil).

15. STATUTORY DEPOSITS AND OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Oil and gas or geothermal lease bond	**507**	–
Right of way surety bond	**516**	–
Certificate of deposit	**1,599**	–
	2,622	–

16. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**3,837**	–

As detailed in note 30.4, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$1,022,000 which are past due as at the reporting date.

These receivables were expected to be recovered within one year.

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

	2019 HK$'000	2018 HK$'000
0-30 days	**2,815**	–
31-60 days	**–**	–
61-90 days	**–**	–
Over 90 days	**1,022**	–
	3,837	–

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 *HK$'000*	2018 *HK$'000*
Prepayments	**905**	5,317
Rental and other deposits paid	**1,201**	1,089
Deposit paid for acquiring Russia oil fields *(note (a))*	**69,929**	69,929
Trade deposits paid	**6,215**	12,308
Other receivables	**2,251**	2,310
	80,501	90,953
Less: Impairment loss on other receivables *(notes (a) and (b))*	**(71,609)**	(71,609)
	8,892	19,344

notes:

(a) 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 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.

To date, the Company has received US$500,000 out of the initial consideration paid under the S & P Agreement. In 2014, the Company considered that the remaining balance should be fully impaired for conservative accounting purpose. The Company is still chasing for the return of the remaining balance.

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

The carrying amounts of prepayments, deposits and other receivables at the end of the reporting period approximated their fair values. All of the prepayments, deposits and other receivables are expected to be recovered, or recognised as expenses within one year.

18. BANK BALANCES AND CASH

Cash and cash equivalents include short-term bank deposit, carrying interest at prevailing market rates.

19. OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	*HK$'000*
Accruals	**3,382**	6,805
Accrued directors' fee and salaries	**948**	8,332
Accrued debts settlement expenses	**–**	6,910
Contract liabilities *(note (a))*	**–**	12,402
Interests payables	**6,439**	3,293
Other payables	**1,823**	1,846
	12,592	39,588

The carrying amounts of other payables and accruals at the end of the reporting period approximated their fair values. All of the other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

note:

(a) Contract liabilities

	2019	2018
	HK$'000	*HK$'000*
Contract liabilities		
Trading of oil-related products		
– Sales deposits received	**–**	12,402
Movement in contract liabilities:		
At 1 January	**12,402**	–
(Decrease)/Increase in contract liabilities for sales deposits	**(12,402)**	12,402
At 31 December	**–**	12,402

When the Group receives a deposit before delivery this will give rise to contract liabilities at the inception of a sales contract, until the revenue recognised when the customer accepts and takes control of the products.

20. UNSECURED LOANS

	HK$'000
At 1 January 2018	58,300
Proceeds from unsecured loans	114,253
Repayment of unsecured loans	(70,460)
At 31 December 2018 and 1 January 2019	102,093
Proceeds from unsecured loans	28,076
Repayment of unsecured loans	(93,983)
At 31 December 2019	**36,186**

Unsecured loans of RMB10,000,000 (equivalent to approximately HK$11,186,000) (2018: HK$70,000,000) carrying interest at 8.2% (2018: 12%) per annum is repayable within one year.

As at 31 December 2019, unsecured loans in the principal amount of HK$25,000,000 due to the Lender was overdue and carried overdue interest rate of 16% per annum. The Company is given to understand from the Lender that the Lender's parent company is undergoing certain internal restructuring procedures and cannot confirm the repayment details of Lender. These loans were still outstanding up to the date of this report.

On 13 February 2019, the Company, Xin Hua and Noble entered into the First Subscription Agreement (as amended and supplemental by the supplemental agreement dated 29 March 2019), pursuant to which the Company agreed to allot and issue and Xin Hua agreed to subscribe for 7,300,000,000 subscription shares at an issue price of HK$0.02 per subscription share (the "Xin Hua Subscription Shares").

On 3 April 2019, the Company and Noble entered into the second subscription agreement (the "Second Subscription Agreement"), pursuant to which the Company agreed to allot and issue and Noble agreed to subscribe for 1,700,000,000 subscription shares at an issue price of HK$0.02 per subscription share (the "Noble Subscription Shares").

These subscription agreements were approved at the special meeting held on 24 June 2019 and the Company completed the allotment and issue of the Xin Hua Subscription Shares and the Noble Subscription Shares on 8 July 2019. The Company received gross proceeds being the aggregate consideration for Xin Hua Subscription Shares and Noble Subscription Shares amounts to HK$146,000,000 and HK$34,000,000, respectively.

On 8 July 2019, 3,300,000,000 Xin Hua Subscription Shares were issued for the cash consideration of HK$66,000,000 and the remaining 4,000,000,000 Xin Hua Subscription Shares of HK$0.02 each were issued for the settlement of unsecured loans due to Xin Hua of HK$80,000,000, set-off with the waived interest payable to Xin Hua in the amount of approximately HK$5,428,000 was recognised.

As at 31 December 2018, unsecured loans in the principal amounts of HK$25,000,000 and HK$1,990,000 were overdue and carried interest rate of 16% per annum. During the financial year of 2019, the unsecured loan of HK$1,990,000 was repaid.

As at 31 December 2018, included in unsecured loans were amount of HK$4,623,000 and HK$480,000 due to former directors Ms. Fan Amy Lizhen and Mr. Tang Yau Sing, respectively. Except for the amount of HK$4,000,000 due to Ms. Fan Amy Lizhen carrying interest at 8% per annum and repayable within one year, all the remaining balances were interest free and repayable on demand.

21. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2018, the Group had obligations under finance lease repayable as follows:

	31 December 2018 *(note)*	
	Present value of minimum lease payments	Total minimum lease payments
	HK$'000	*HK$'000*
Amounts payable under finance lease:		
– within one year	120	140
– in the second to fifth years	372	398
	492	538
Deduct: Total future interest expenses		(46)
Present value of lease obligations		492

note The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases which HKAS 17. Obligations under fiance lease have been reclassified to lease liabilities upon transition to HKFRS 16. Further details on the impact of the transition to HKFRS 16 are set out in Note 2.2.

22. LEASE LIABILITIES

	HK$'000
Lease liabilities payable:	
Within one year	3,146
Within a period of more than one year but not more than two years	246
	3,392
Less: Amount due for settlement within 12 months shown under current liabilities	(3,146)
	246

23. 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 2018	45,275	(9,431)	35,844
Recognised in profit or loss	–	(860)	(860)
At 31 December 2018 and 1 January 2019	45,275	(10,291)	34,984
Recognised in profit or loss	(5,384)	(580)	(5,964)
At 31 December 2019	**39,891**	**(10,871)**	**29,020**

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

	2019 ***HK$'000***	2018 *HK$'000*
Deferred tax assets	**(10,871)**	(10,291)
Deferred tax liabilities	**39,891**	45,275
Net deferred tax liabilities	**29,020**	34,984

At the end of the reporting period, the Group has unused tax losses of approximately HK$48,853,000 (2018: HK$48,356,000) available for offset against future profits. However, no deferred tax asset in respect of them had been recognised due to the unpredictability of future profit streams even through those tax losses may be carried forward indefinitely.

24. ASSET RETIREMENT OBLIGATIONS

	2019 HK$'000	2018 HK$'000
At 1 January	**3,579**	3,579
Less: Written back of asset retirement obligations	**(3,497)**	–
At 31 December	**82**	3,579

Asset retirement obligations ("ARO") are the provision for the cost associated with the Group's obligation to plug and abandon all oil and gas wells and remediate the surface of the site once production ceases on a lease.

Such amount of the asset retirement obligations are based on the opinion of the directors and expected to be occurred since 2034.

25. SHARE CAPITAL

	Notes	2019 Number of shares '000	2019 HK$'000	2018 Number of shares '000	2018 HK$'000
Authorised:					
At beginning of year, ordinary shares of HK$0.1 each		**200,000,000**	**20,000,000**	200,000,000	20,000,000
Share subdivision on 3 July 2019	(b)	**1,800,000,000**	**–**	–	–
Share consolidation on 10 July 2019	(b)	**(1,900,000,000)**	**–**	–	–
At end of year, ordinary shares of HK$0.2 each		**100,000,000**	**20,000,000**	200,000,000	20,000,000
Issued and fully paid:					
At beginning of year, ordinary shares of HK$0.1 each		**3,245,520**	**324,552**	3,245,520	324,552
Share reduction on 3 July 2019	(b)	**–**	**(292,097)**	–	–
Share subscription on 8 July 2019	(a)	**5,000,000**	**50,000**	–	–
Capitalisation of unsecured loan	(a)	**4,000,000**	**40,000**	–	–
Share consolidation on 10 July 2019	(b)	**(11,633,244)**	**–**	–	–
At end of year, ordinary shares of HK$0.2 each		**612,276**	**122,455**	3,245,520	324,552

25. SHARE CAPITAL *(Continued)*

Notes:

(a) Details in Note b (i), pursuant to which the Company would allot and issue and each of Xin Hua and Noble agreed to subscribe for 7,300,000,000 subscription shares and 1,700,000,000 subscription shares, respectively, at an issue price of HK$0.02 per subscription share.

On 29 March 2019, the Company, Xin Hua and Noble entered into the supplemental agreement (the "Supplemental Subscription"), pursuant to which the parties thereto agreed to cancel Noble's subscription of new shares under the First Subscription Agreement, while the subscription by Xin Hua of 7,300,000,000 subscription shares remained unchanged (the "Xin Hua Subscription Shares").

On 3 April 2019, the Company and Noble entered into the second subscription agreement (the "Second Subscription Agreement"), pursuant to which the Company would allot and issue and Noble agreed to subscribe for 1,700,000,000 subscription shares at an issue price of HK$0.02 per subscription share (the "Noble Subscription Shares").

These 2 subscription agreements were approved at the special meeting held on 24 June 2019 and completed on 8 July 2019. The aggregate consideration for Xin Hua Subscription Shares and Noble Subscription Shares amounts to HK$146,000,000 and HK$34,000,000, respectively.

Details in Note 20, 4,000,000,000 of the Xin Hua Subscription Shares were issued for the settlement of the unsecured loans due to Xin Hua amount to HK$80,000,000.

(b) On 10 July 2019, the Company completed a capital reorganisation (the "Capital Reorganisation") involving the capital reduction (the "Capital Reduction"), the share subdivision (the "Share Subdivision") and the share consolidation (the "Share Consolidation"). The Capital Reorganisation was approved at the special meeting held on 24 June 2019. Details of which are as follows:

(i). Capital reduction
This involves the reduction of the nominal value of each then issued share from HK$0.10 to HK$0.01 each and every then authorised but unissued share will be sub-divided into 10 new shares (the "New Share(s)") with a par value of HK$0.01 each effective on 3 July 2019;

(ii). Share subdivision
Immediately following the Capital Reduction, each of the authorised but unissued Shares of nominal value of HK$0.10 each will be subdivided into 10 New Shares of nominal value of HK$0.01 each effective on 3 July 2019;

(iii). Share consolidation
After the completion of the Xin Hua Subscription Shares and Noble Subscription Shares, the Company implemented a Share Consolidation on the basis that every 20 issued and unissued new shares of nominal value of HK$0.2 each in the share capital of the Company effective on 10 July 2019.

26. SHARE OPTION SCHEME

Share option scheme in 2009

On 15 July 2009, the Company adopted a share option scheme (the "Prior Share Option Scheme") whereby the directors of the Company may grant options to eligible employees, including directors of any companies in the Group to subscribe for shares in Company upon and subject to a maximum number of shares available for issue thereunder, which is 10% of the issued shares of the Company. Also, the number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued shares or otherwise it must be approved by the shareholders of the Company.

The Prior Share Option Scheme was set up for the primary purpose of providing incentives to directors, eligible employees and consultants and expired on 14 July 2019.

The options vest from the date of grant and are exercisable at any time from the date of acceptance of the offer and the earlier of up to 10 years from the date of grant and 14 July 2019. The exercise price determined by the directors of the Company will be at least the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares. Each option gives the holder the right to subscribe for one ordinary share of the Company.

As at 31 December 2019, no share option has been granted under the Prior Share Option Scheme (2018: 74,890,000).

Share option scheme adopted in 2019

On 12 December 2019, the Company adopted a new share option scheme (the "New Share Option Scheme") whereby the directors of the Company may grant options to those who are eligible an opportunity to have a personal stake in the Company upon and subject to a maximum number of shares available for issue thereunder, which is 10% of the issued shares of the Company. Also, the number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued shares or otherwise it must be approved by the shareholders of the Company.

The New Share Option Scheme was set up for the primary purpose of providing incentives to directors, eligible employees and other personal stake in the Company and will expire on 11 December 2029.

The options vest from the date of grant and are exercisable at any time from the date of acceptance of the offer and the earlier of up to 10 years from the date of grant and 12 December 2019. The exercise price determined by the directors of the Company will be at least the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares. Each option gives the holder the right to subscribe for one ordinary share of the Company.

As at 31 December 2019, no share option has been granted under the New Share Option Scheme.

26. SHARE OPTION SCHEME *(Continued)*

Share options and weighted average exercise price are as follows:

	2019		2018	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	'000	***HK$***	*'000*	*HK$*
Outstanding at 1 January	**74,890**	**0.7975**	102,590	0.7453
Lapsed	**(74,890)**	**0.7975**	(27,700)	0.6044
Outstanding at 31 December	**–**	**–**	74,890	0.7975
Exercisable at 31 December	**–**	**–**	74,890	0.7975

The following discloses the particulars of the Company's share options movement during the year:

Grantee	Date of grant	Period during which options are exercisable	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Share consolidation	Lapsed during the year	Outstanding as at 31 December 2019	Exercise price per share option after share consolidation/ (before share consolidation) *HK$*
Consultants	9 June 2010	9 June 2010 – 14 July 2019	22,200,000	–	–	(21,090,000)	(1,110,000)	–	18.832/ (0.9416)
	10 April 2013	1 September 2013 – 14 July 2019	3,000,000	–	–	(2,850,000)	(150,000)	–	10.4/ (0.52)
Employees	9 June 2010	9 June 2010 – 14 July 2019	24,090,000	–	–	(22,885,500)	(1,204,500)	–	18.832/ (0.9416)
	27 June 2011	27 June 2011 – 14 July 2019	3,000,000	–	–	(2,850,000)	(150,000)	–	18.832/ (0.9416)
	10 April 2013	1 September 2013 – 14 July 2019	22,600,000	–	–	(21,470,000)	(1,130,000)	–	10.4/ (0.52)
			74,890,000	–	–	(71,145,500)	(3,744,500)	–	

26. SHARE OPTION SCHEME *(Continued)*

Grantee	Date of grant	Period during which options are exercisable	Outstanding as at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2018	Exercise price per share option *HK$*
Directors								
Lam Kwan	10 April 2013	1 September 2013 – 14 July 2019	5,000,000	–	–	(5,000,000)	–	0.52
Chan Kwan Pak	10 April 2013	1 September 2013 – 14 July 2019	3,000,000	–	–	(3,000,000)	–	0.52
			8,000,000	–	–	(8,000,000)	–	
Consultants	9 June 2010	9 June 2010 – 14 July 2019	22,200,000	–	–	–	22,200,000	0.9416
	10 April 2013	1 September 2013 – 14 July 2019	3,000,000	–	–	–	3,000,000	0.52
Employees	5 August 2009	5 August 2009 – 14 July 2019	3,600,000	–	–	(3,600,000)	–	0.4666
	9 June 2010	9 June 2010 – 14 July 2019	30,090,000	–	–	(6,000,000)	24,090,000	0.9416
	27 June 2011	27 June 2011 – 14 July 2019	3,000,000	–	–	–	3,000,000	0.9416
	10 April 2013	1 September 2013 – 14 July 2019	32,700,000	–	–	(10,100,000)	22,600,000	0.52
			94,590,000	–	–	(19,700,000)	74,890,000	
			102,590,000	–	–	(27,700,,000)	74,890,000	

The share options outstanding at 31 December 2018 had a weighted average remaining contractual life of 0.53 year.

The share option held by the directors who resigned would be lapsed after 3 months since the date of resignation.

27. RESERVES

Group

Capital reserve

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

Treasury shares reserve

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2019 the Group held 243,600 ordinary shares of the Company (31 December 2018: 4,872,000 ordinary shares).

Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2018	2,223,486	45,348	28,954	(2,424,901)	(127,113)
Total comprehensive loss for the year	–	–	–	(63,546)	(63,546)
Share options lapsed	–	–	(6,922)	6,922	–
At 31 December 2018 and 1 January 2019	2,223,486	45,348	22,032	(2,481,525)	(190,659)
Total comprehensive loss for the year	–	–	–	(273,016)	(273,016)
Share subscription on 8 July 2019	46,060	–	–	–	46,060
Capitalisation of unsecured loan (Note 32)	256,000	–	–	–	256,000
Share reduction on 3 July 2019 and share consolidation on 10 July 2019	292,097	–	–	–	292,097
Share options lapsed	–	–	(22,032)	22,032	–
At 31 December 2019	2,817,643	45,348	–	(2,732,509)	(130,482)

27. RESERVES *(Continued)*

Notes:

Contributed surplus

The contributed surplus of the Company represents the excess of the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Under the Companies Act 1981 Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

Share premium

The share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

No Company's reserves were available for distribution to shareholders as at 31 December 2019 (2018: Nil).

28. OPERATING LEASE COMMITMENT

The Group leases certain office properties under operating leases. The leases are negotiated for terms of three years in 2018. At 31 December 2018, the total future minimum lease payments payable by the Group under non-cancellable operating leases in respect of land and buildings are as follows:

	2018 *HK$'000*
Within one year	3,654
In the second to fifth years	3,196
	6,850

29. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions and balances with its related parties:

(i) Key management personnel remuneration

	2019 ***HK$'000***	2018 *HK$'000*
Key management personnel:		
– Short term employee benefits	**6,173**	10,202
– Pension scheme contribution	**35**	68
	6,208	10,270

(ii) Directors' material interests in transactions and arrangement

	2019 ***HK$'000***	2018 *HK$'000*
Interest expenses on unsecured loans paid to a director		
– Ms. Fan Amy Lizhen	**302**	72

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group actively and regularly reviews and manages its financial risk and takes actions to mitigate such risk. The board of directors reviews and agrees policies for managing each of these risks.

30.1 Categories of financial assets and liabilities

(i) Financial assets

	2019	2018
	HK$'000	*HK$'000*
At amortised cost:		
– Trade receivables	**3,837**	–
– Deposits and other receivables	**7,987**	1,719
– Bank balances and cash	**53,889**	993
	65,713	2,712

(ii) Financial liabilities

	2019	2018
	HK$'000	*HK$'000*
At amortised cost:		
– Other payables and accruals	**12,592**	27,186
– Unsecured loans	**36,186**	102,093
– Lease liabilities/obligations under finance lease	**3,392**	492
	52,170	129,771

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

30.2 Foreign currency risk

The functional currency and reporting currency of the Company and its subsidiaries is Hong Kong Dollars, except that the functional currency of the Group's USA subsidiary is US Dollars and PRC subsidiary is RMB.

As at 31 December 2019 and 2018, the Group was not exposed to any significant currency risk as substantially all of the Group's transactions are denominated in the functional currency of the entity of which the transactions are related.

30.3 Interest rate risk

The Group's interest-earning financial assets comprise bank balances. The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and lease liabilities, the Group's policy is to obtain the most favourable interest rates available and also by reviewing the terms of the interest-bearing liabilities to minimise the adverse effects of changes in interest rates.

30.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The maximum exposure to credit risk on recognised financial assets is limited to the carrying amount of receivables at the reporting date as summarised in Note 30.1(i).

The credit risk for bank balances is considered negligible as the counterparties are reputable banks.

In respect of trade receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

30.4 Credit risk *(Continued)*

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its trading operation because these customers consist of several customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired).

	2019	2018
	HK$'000	*HK$'000*
Current (not past due)	**2,815**	–
1-30 days past due	**–**	–
31-60 days past due	**–**	–
61-90 days past due	**–**	–
More than 90 days past due	**1,022**	–
	3,837	–

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

The management considers the credit risk on other receivables is minimal after considering the financial conditions of counterparties. Management has performed assessment over the recoverability of these balances and does not expect any losses from these balances.

30.5 Liquidity risk

In the opinion of the directors, the Group should have adequate resources to meet its obligation in the forthcoming year on the basis set out in Note 30.1 to the consolidated financial statements.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

30.5 Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the end of the reporting period) and the earliest date the company can be required to pay.

	2019		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	HK$'000	***HK$'000***	***HK$'000***
Other payables and accruals	**12,592**	**12,592**	**12,592**
Unsecured loans	**36,186**	**36,186**	**36,186**
Lease liabilities	**3,392**	**3,569**	**3,569**
	52,170	**52,347**	**52,347**

	2018			
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	27,186	27,186	27,186	–
Unsecured loans	102,093	102,900	102,900	–
Obligations under finance lease	492	538	140	398
	129,771	130,624	130,226	398

30.6 Fair value measurements

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

31. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of net debt to equity ratio. For this purpose net debt is defined as borrowings less cash and cash equivalents. To maintain or adjust the capital structure, the Group may adjust the dividends paid to shareholders, return capital to shareholders, issue new shares or raise new debt financing.

The Group's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the end of the reporting period was as follows:

	2019	2018
	HK$'000	*HK$'000*
Unsecured loans	**36,186**	102,093
Cash and cash equivalent	**(53,889)**	(993)
Net debt	**(17,703)**	101,100
Equity	**261,459**	138,277
Net debt to equity ratio	**N/A**	42%

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

	Unsecured loans *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 31 December 2018	**112,296**	**492**	**112,788**
Adjustment *(Note 2.2)*	**–**	**6,107**	**6,107**
At 1 January 2019 (Restated)	**112,296**	**6,599**	**118,895**
Changes from financing cash flow:			
Proceeds from unsecured loans	**28,076**	**–**	**28,076**
Repayment of unsecured loans	**(13,983)**	**–**	**(13,983)**
Interest paid	**(938)**	**–**	**(938)**
Debts settlement expenses paid	**(6,910)**	**–**	**(6,910)**
Repayment of lease liabilities	**–**	**(3,795)**	**(3,795)**
Total changes from financing cash flows	**6,245**	**(3,795)**	**2,450**
Other changes			
Interest expenses	**9,512**	**588**	**10,100**
Interest payable waived by Xin Hua *(note 6(i))*	**(5,428)**	**–**	**(5,428)**
Settlement of indebtness by issue of shares *(notes 20 and 25(a))*	**(80,000)**	**–**	**(80,000)**
Total other changes	**(75,916)**	**588**	**(75,328)**
At 31 December 2019	**42,625***	**3,392**	**46,017**

* Included in other payable and accruals, there were interest payables of HK$6,439,000 on unsecured loans.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

	Unsecured loans *HK$'000*	Obligations under finance lease *HK$'000*	Total *HK$'000*
At 1 January 2018	60,036	–	60,036
Changes from financing cash flow:			
Proceeds from unsecured loans	114,253	–	114,253
Repayment of unsecured loans	(70,460)	–	(70,460)
Interest paid	(7,376)	–	(7,376)
Debts settlement expenses paid	(3,221)	–	(3,221)
Capital element of finance lease rentals paid	–	(146)	(146)
Interest element of finance lease rentals paid	–	(17)	(17)
Total changes from financing cash flows	33,196	(163)	33,033
Other changes			
Interest expenses	8,933	–	8,933
Debts settlement expenses	10,131	–	10,131
New finance lease	–	638	638
Finance charges on obligations under finance lease	–	17	17
Total other changes	19,064	655	19,719
At 31 December 2018	112,296*	492	112,788

* Included in other payables and accruals, there were interest payables and accrued debts settlement expenses of HK$3,293,000 and HK$6,910,000 respectively on unsecured loans

33. MAJOR NON-CASH TRANSACTIONS

As detailed in Note 20, 4,000,000,000 Xin Hua Subscription Shares of HK$0.02 each were issued for the settlement of unsecured loans due to Xin Hua of HK$80,000,000. The aggregate fair values of the shares issued amounted to HK$296,000,000 and the difference between the fair value and the settlement of unsecured loan of HK$80,000,000, set-off with the waived interest payable to Xin Hua in the amount of approximately HK$5,428,000, was recognised.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
Non-current assets		
Interests in subsidiaries	**303,972**	298,657
Right-of-use asset	**2,921**	–
	306,893	298,657
Current assets		
Prepayment, deposits and other receivables	**8,102**	3,665
Bank balances and cash	**22,548**	328
	30,650	3,993
Current liabilities		
Amounts due to subsidiaries	**46,000**	46,000
Other payables and accruals	**10,586**	24,664
Unsecured loans	**25,000**	98,093
Lease liabilities	**3,020**	–
	84,606	168,757
Net current liabilities	**(53,956)**	(164,764)
Net assets	**252,937**	133,893
Equity		
Share capital	**122,455**	324,552
Reserves	**130,482**	(190,659)
Total equity	**252,937**	133,893

Yu Jiyuan
Executive Director

Chen Junyan
Executive Director

35. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2019 are as follows:

Name of company	Place of incorporation/ operation	Issued ordinary share capital/ Paid-up share capital	Percentage of issued capital held indirectly by the Company	Principal activities
Pearl Oriental International Assets Limited	Hong Kong	HK$1	100%	Provision of corporate services
Festive Oasis Limited	The British Virgin Islands ("BVI")	US$1,000	100%	Investment holding
Shiny One Limited	BVI	US$100	100%	Investment holding
Shiny One, USA, LLC	USA	N/A	100%	Exploration, development, production and sales of natural gas and oil
Jet United Development Limited	Hong Kong	HK$1	100%	Trading of oil-related products
東方明珠(大慶)石油有限公司* Pearl Oriental (Daqing) Oil Limited	PRC	RMB19,397,231	100%	Trading of oil

* The subsidiary is registered as a wholly foreign owned enterprise, which is incorporated in 2019, with a total registered capital of RMB20,000,000 under the PRC law. As at the end of the reporting period, the Company has contributed RMB19,397,231 capital and the Company contributed the remaining balance of capital at 3 January 2020.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

36. EVENTS AFTER THE REPORTING PERIOD

Details in price risk analysis after the reporting period, please refer to session "Management Discussion and Analysis" in this annual report.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below.

RESULTS

	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Reclassified)	(Restated)	(Restated)	(Restated)
Turnover	**175,467**	74,036	35,594	518	889
(Loss)/profit before tax	**(274,905)**	(59,562)	(447,259)	182,766	(1,955,366)
Income tax credit/(expense)	**5,936**	860	95,590	(48,450)	469,166
(Loss)/profit for the year	**(268,969)**	(58,702)	(351,669)	134,316	(1,486,200)
(Loss)/profit for the year attributable to:					
Owners of the Company					
– from continuing operations	**(268,841)**	(58,415)	(351,633)	132,844	(1,461,623)
– from discontinued operations	**–**	–	–	(769)	(25,954)
Non-controlling interests					
– from continuing operations	**(128)**	(287)	(36)	2,241	400
– from discontinued operations	**–**	–	–	–	977
	(268,969)	(58,702)	(351,669)	134,316	(1,486,200)
Total assets	**342,872**	319,015	307,748	698,559	511,024
Total liabilities	**(81,413)**	(180,738)	(110,769)	(171,484)	(118,265)
Net assets	**261,459**	138,277	196,979	527,075	392,759