



CHK Oil Limited 中港石油有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 632



CHK OIL LIMITED

**INTERIM REPORT
2020**

* For identification purpose only

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| | Notes | | |
| Revenue | 3 | 87,447 | 78,697 |
| Cost of sales | | <u>(85,622)</u> | <u>(79,094)</u> |
| Gross profit (loss) | | 1,825 | (397) |
| Other income | | 76 | – |
| Administrative expenses | | (12,885) | (17,306) |
| Finance costs | | <u>(2,211)</u> | <u>(7,615)</u> |
| Loss before tax | 4 | (13,195) | (25,318) |
| Income tax (expense) credit | 5 | <u>(180)</u> | <u>352</u> |
| Loss for the period | | <u>(13,375)</u> | <u>(24,966)</u> |
| Attributable to: | | | |
| Owners of the Company | | (13,375) | (25,009) |
| Non-controlling interests | | <u>–</u> | <u>43</u> |
| | | <u>(13,375)</u> | <u>(24,966)</u> |
| Other comprehensive loss for the period, net of tax | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | <u>(454)</u> | <u>–</u> |
| Total comprehensive loss for the period | | <u>(13,829)</u> | <u>(24,966)</u> |
| Total comprehensive (loss) profit attributable to: | | | |
| Owners of the Company | | (13,829) | (25,009) |
| Non-controlling interests | | <u>–</u> | <u>43</u> |
| | | <u>(13,829)</u> | <u>(24,966)</u> |
| Loss per share (HK cents) | | | |
| – Basic and diluted | 7 | <u>(2.18)</u> | <u>(15.41)</u> |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

| | Notes | At 30 June 2020 (Unaudited) HK\$'000 | At 31 December 2019 (Audited) HK\$'000 |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 39,355 | 40,340 |
| Right-of-use assets | | 1,535 | 3,224 |
| Intangible assets | | 230,068 | 230,068 |
| Statutory deposits and other assets | | 2,427 | 2,622 |
| | | 273,385 | 276,254 |
| Current assets | | | |
| Trade receivables | 9 | – | 3,837 |
| Prepayments, deposits and other receivables | 10 | 27,139 | 8,892 |
| Bank balances and cash | | 14,042 | 53,889 |
| | | 41,181 | 66,618 |
| Current liabilities | | | |
| Other payables and accruals | 11 | 11,010 | 12,592 |
| Unsecured loans | 12 | 25,000 | 36,186 |
| Leases liabilities | | 1,643 | 3,146 |
| Tax payable | | 181 | 141 |
| | | 37,834 | 52,065 |
| Net current assets | | 3,347 | 14,553 |
| Total assets less current liabilities | | 276,732 | 290,807 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 29,020 | 29,020 |
| Lease liabilities | | – | 246 |
| Asset retirement obligations | | 82 | 82 |
| | | 29,102 | 29,348 |
| Net assets | | 247,630 | 261,459 |
| Equity | | | |
| Share capital | 13 | 122,455 | 122,455 |
| Reserves | | 124,160 | 137,989 |
| | | 246,615 | 260,444 |
| Equity attributable to owners of the Company | | 246,615 | 260,444 |
| Non-controlling interests | | 1,015 | 1,015 |
| Total equity | | 247,630 | 261,459 |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | | | Non-controlling interests | Total equity |
|---|---------------------------------------|---------------|-------------------------|-----------------|----------------------|---------------------|--------------------|-----------|---------------------------|--------------|
| | Share capital | Share premium | Treasury shares reserve | Capital reserve | Share option reserve | Translation reserve | Accumulated losses | Sub-total | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31 December 2019 (Audited) | 122,455 | 2,816,743 | (10,556) | 403,851 | - | 91 | (3,072,140) | 260,444 | 1,015 | 261,459 |
| Loss for the period | - | - | - | - | - | - | (13,375) | (13,375) | - | (13,375) |
| Other comprehensive loss for the period | | | | | | | | | | |
| Exchange difference arising from translation of foreign operation | - | - | - | - | - | (454) | - | (454) | - | (454) |
| Total comprehensive loss for the period | - | - | - | - | - | (454) | (13,375) | (13,829) | - | (13,829) |
| At 30 June 2020 (Unaudited) | 122,455 | 2,816,743 | (10,556) | 403,851 | - | (363) | (3,085,515) | 246,615 | 1,015 | 247,630 |
| At 31 December 2018 (Audited) | 324,552 | 2,222,586 | (10,556) | 403,851 | 22,032 | - | (2,825,331) | 137,134 | 1,143 | 138,277 |
| Total comprehensive loss for the period | - | - | - | - | - | - | (25,009) | (25,009) | 43 | (24,966) |
| At 30 June 2019 (Unaudited) | 324,552 | 2,222,586 | (10,556) | 403,851 | 22,032 | - | (2,850,340) | 112,125 | 1,186 | 113,311 |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash used in operating activities | (26,304) | (15,247) |
| Net cash used in investing activities | (8) | – |
| Net cash (used in) generated from financing activities | (13,082) | 14,514 |
| Net decrease in cash and cash equivalents | (39,394) | (733) |
| Effect on exchange rate changes | (453) | – |
| Cash and cash equivalents at beginning of period | 53,889 | 993 |
| Cash and cash equivalents at end of period | 14,042 | 260 |





NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 ("the Period") have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the unaudited condensed consolidated interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2019.

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

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in preparing these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 December 2019, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2020 as described below.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The adoption of the amendment does not have any significant impact on the unaudited condensed consolidated interim financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

As at the date of authorisation of these unaudited condensed consolidated interim financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current period, which the Group has not early adopted. The Group is in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs but it is not yet in a position to reasonably estimate the impact on the Group's unaudited condensed consolidated interim financial statements.

3. REVENUE AND SEGMENT INFORMATION

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 Company's executive directors assess the performance of reportable segments and resources allocation based on the net profit for the period before finance costs, income tax and corporation income and expenses which are not directly attributable to the business activities of 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 and tax payable.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and geographical location of customers is as follows:

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Disaggregated by major products of service lines | | |
| – Sales of oil and gas | – | 104 |
| – Sales of oil-related products | 87,447 | 78,593 |
| | 87,447 | 78,697 |
| Disaggregated by geographical location of customers | | |
| – United States of America (“USA”) | – | 104 |
| – Mainland China | 87,447 | – |
| – Hong Kong | – | 78,593 |
| | 87,447 | 78,697 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

2020

For six months ended 30 June 2020

| | Oil and gas sales (Unaudited) HK\$'000 | Trading of oil-related products (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|-----------------------|---|--|----------------------------------|
| Segment revenue | — | 87,447 | 87,447 |
| Segment (loss) profit | (1,279) | 2,303 | 1,024 |
| Unallocated income | | | 73 |
| Unallocated expenses | | | (12,115) |
| Finance costs | | | (2,177) |
| Loss before tax | | | (13,195) |
| Income tax expense | | | (180) |
| Loss for the period | | | (13,375) |

At 30 June 2020

| | Oil and gas sales (Unaudited) HK\$'000 | Trading of oil-related products (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|--------------------------|---|--|----------------------------------|
| Segment assets | 271,286 | 24,841 | 296,127 |
| Unallocated assets | | | 18,439 |
| Total assets | | | 314,566 |
| Segment liabilities | 2,062 | 303 | 2,365 |
| Deferred tax liabilities | | | 29,020 |
| Unallocated liabilities | | | 35,551 |
| Total liabilities | | | 66,936 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

2019

For six months ended 30 June 2019

| | Oil and gas sales (Unaudited) HK\$'000 | Trading of oil-related products (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|-----------------------|---|--|----------------------------------|
| Segment revenue | 104 | 78,593 | 78,697 |
| Segment (loss) profit | (1,637) | 308 | (1,329) |
| Unallocated expenses | | | (16,374) |
| Finance costs | | | (7,615) |
| Loss before tax | | | (25,318) |
| Income tax credit | | | 352 |
| Loss for the period | | | (24,966) |

At 31 December 2019

| | Oil and gas sales (Audited) HK\$'000 | Trading of oil-related products (Audited) HK\$'000 | Total (Audited) HK\$'000 |
|--------------------------|---|--|--------------------------------|
| 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 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

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

| | Revenue from external customers | | Specified non-current assets | |
|------------------------------------|--|---------------------------------|---|---|
| | Six months ended 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 | As at 30 June 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
| - Hong Kong (place of domicile) | - | 78,593 | 2,686 | 5,310 |
| - Mainland China | 87,447 | - | - | - |
| - USA | - | 104 | 270,699 | 270,944 |
| | 87,447 | 78,697 | 273,385 | 276,254 |

4. LOSS BEFORE TAX

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Depreciation of property, plant and equipment | 993 | 1,128 |
| Depreciation of right-of-use asset | 1,689 | 1,593 |
| Finance cost | | |
| - Interest expenses on unsecured loans | 2,063 | 7,274 |
| - Interests on lease liabilities | 148 | 341 |
| Employee benefit expense, including director emoluments: | | |
| - Salaries and allowances | 4,943 | 4,794 |
| - Termination benefits | 3,200 | - |
| - Retirement scheme contributions | 93 | 79 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. INCOME TAX (EXPENSE) CREDIT

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Current income tax on profits for the period: | | |
| – People's Republic of China ("PRC") | | |
| Enterprise Income Tax | (180) | – |
| Deferred tax | – | 352 |
| Total income tax (expense) credit | (180) | 352 |

No provision for Hong Kong Profits Tax has been made as the Group's operation in Hong Kong has no assessable profits for the Period (2019: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for both periods at the rates of taxation prevailing in the countries in which the Group operates.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the Period (2019: Nil).

7. LOSS PER SHARE

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

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2020 (Unaudited) | 2019 (Unaudited) |
| Loss for the period attributable to owners of the Company (HK\$'000) | (13,375) | (25,009) |
| Weight average number of ordinary shares in issue ('000) | 612,276 | 162,270 |
| Basic loss per share (HK cents) | (2.18) | (15.41) |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. LOSS PER SHARE (continued)

The weighted average number of ordinary shares has been retrospectively adjusted the effect of share consolidation on 10 July 2019.

There were no dilutive potential ordinary shares outstanding during the periods ended 30 June 2020 and 2019, therefore the diluted loss per share were the same as the basic loss per share.

8. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2020, additions to property, plant and equipment was approximately HK\$8,000 and depreciation of approximately HK\$993,000 was charged to the profit or loss for the period.

9. TRADE RECEIVABLES

| | As at 30 June 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|-------------------|---|---|
| Trade receivables | — | 3,837 |

As at 31 December 2019, all trade receivables were from trading of oil-related products segment with credit terms of 30 days. These receivables were expected to be recovered within one year. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. TRADE RECEIVABLES (continued)

The following is an aged analysis of trade receivables net of loss allowance presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

| | As at 30 June 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|---------------|---|---|
| 0 to 30 days | – | 2,815 |
| 31 to 60 days | – | – |
| 61 to 90 days | – | – |
| Over 90 days | – | 1,022 |
| | <hr/> | <hr/> |
| | – | 3,837 |
| | <hr/> | <hr/> |

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 30 June 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|--|---|---|
| Prepayments | 479 | 905 |
| Rental and other deposits paid | 1,159 | 1,201 |
| Deposit paid for acquiring Russia oil fields (note (a)) | 69,929 | 69,929 |
| Trade deposits paid | 23,371 | 6,215 |
| Other receivables (note (b)) | 3,810 | 2,251 |
| | <hr/> | <hr/> |
| | 98,748 | 80,501 |
| Less: Impairment loss on other receivable (notes (a) and (b)) | (71,609) | (71,609) |
| | <hr/> | <hr/> |
| | 27,139 | 8,892 |
| | <hr/> | <hr/> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(continued)

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.

Having considered the partial repayment of the initial consideration after deduction of certain costs and expenses incurred by Levant out of the initial consideration paid under the S & P Agreement in prior years, the outstanding gross amount of HK\$69,929,000 had been fully provided.

- (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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. OTHER PAYABLES AND ACCRUALS

| | As at 30 June 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|-------------------------------------|---|---|
| Accruals | 2,031 | 3,382 |
| Accrued directors' fee and salaries | 198 | 948 |
| Deferred income | 144 | – |
| Interests payables | 8,491 | 6,439 |
| Other payables | 146 | 1,823 |
| | <u>11,010</u> | <u>12,592</u> |

The carrying amounts of other payables and accruals at the end of the period approximate 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.

12. UNSECURED LOANS

As at 30 June 2020, unsecured loans in the principal amount of HK\$25,000,000 were overdue and carried interest rate of 16% per annum. During the reporting period, total sum of HK\$11,186,000 unsecured loans were repaid.

13. SHARE CAPITAL

| | No. of shares '000 | Authorised ordinary shares of HK\$0.20 each HK\$'000 |
|---|-----------------------|--|
| At 31 December 2019, at 1 January 2020 and at 30 June 2020 | <u>100,000,000</u> | <u>20,000,000</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. SHARE CAPITAL (continued)

| | Issued and fully paid ordinary shares of HK\$0.20 each | |
|---|---|-----------------|
| | <i>No. of shares '000</i> | <i>HK\$'000</i> |
| At 31 December 2019, at 1 January 2020 and at 30 June 2020 | 612,276 | 122,455 |

14. RELATED PARTIES TRANSACTION

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

Directors' material interests in transactions and arrangement

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2020 | 2019 |
| | (Unaudited) <i>HK\$'000</i> | (Unaudited) <i>HK\$'000</i> |
| Interest expenses on unsecured loans paid to directors | | |
| – Ms. Fan Amy Lizhen* | – | 233 |
| – Mr. Lin Qing Yu | – | 47 |
| | – | 280 |

* Ms. Fan Amy Lizhen, the former executive director of the Company who retired on 28 June 2019.

15. EVENTS AFTER THE REPORTING PERIOD

The continuous spread of COVID-19 subsequent to end of the reporting period, including but not limited to the countries in South-East Asia and North America, has an adverse impact on market sentiments and posed challenge to the global economy. At the date of this report, the Group does not expect these events have any significant adverse impacts to the Group's financial position as at 30 June 2020 and the application of going concern for the preparation of the unaudited condensed consolidated interim financial statements. The Group will pay close attention to the development of COVID-19 outbreak and take all possible and reasonable measures to mitigate the effect on the Group's operations.



MANAGEMENT DISCUSSION & ANALYSIS

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2020 (the “Period”), the Group focused on its principal business of (i) trading of oil-related products (the “Trading Business”) and (ii) exploring, exploiting, maintenance and sales of oil and natural gas (the “Oil and Gas Business”).

For the Period, the Group recorded a consolidated revenue of approximately HK\$87,447,000 (2019: HK\$78,697,000), and the loss attributable to the owners of the Company amounted to approximately HK\$13,375,000 (2019: HK\$25,009,000). Basic loss per share for the Period was HK2.18 cents (2019: HK15.41 cents).

The consolidated revenue was mainly contributed from the Trading Business. Gross profit for the Period amounted approximately HK\$1,825,000 (2019: Gross loss HK\$397,000), which was mainly contributed by trading of oil-related product in the Mainland China.

Loss for the Period was approximately HK\$13,375,000 (2019:HK\$24,966,000). The decreases was mainly due to the decrease in finance costs of unsecured loans and strengthening measures in administrative cost control of the Group as compared to that of the corresponding period last year.

BUSINESS REVIEW

Oil and Gas Business

There are seven (7) shale gas producing wells and one (1) oil well in the Utah Gas and Oil Field. This oil well broke down in May 2019 and ceased production. After comprehensive evaluations, the Group started repairing this well in February 2020. The repairment was done in March 2020. We carried out second round of repairment of well in June 2020 and it has gradually resumed production after the repairment.

MANAGEMENT DISCUSSION & ANALYSIS

Trading Business

Due to COVID-19 and the 2020 Russia–Saudi Arabia oil price war, the prices of oil have undergone significant fluctuations including its historical plunge of prices in early 2020 and the oil price (WTI) has dropped to US\$16.50 on 20 April 2020. Although it rose above US\$40 since July 2020, the price is still at historical low level (data source: <http://markets.businessinsider.com>).

Furthermore, amid COVID-19 pandemic, the governments all over the world has adopted strict policies to contain the spread of the virus, including quarantine and lock-down measures, which has disrupted the international trade business as result of travel restrictions and boarder closures.

Under the circumstances, the Group continued to expand its trading business domestically. At the beginning of this year, the Company has completed the capital injection of 東方明珠(大慶)石油有限公司 (Pearl Oriental (Daqing) Oil Limited*) (the “Relevant Subsidiary”), which is an wholly-owned subsidiary of the Company incorporated in the PRC in 2019 and is principally engaged in trading of oil and oil-related products, such as fuel oil, raw oil and crude oil, domestically. Although the lock-down and quarantine measures against the fast spread of COVID-19 severely limited business activities in the Mainland China during certain months of the Period, the Relevant Subsidiary still secured the downstream orders and achieved revenue of approximately HK\$87,447,000 (For the year ended 31 December 2019: HK48,136,000) which represents 82% increase comparing to the revenue of the Relevant Subsidiary last year. Internationally, due to a sharp decline in the global demand of oil for the Period, the Group has difficulties to secure the orders from our international partners.

PROSPECTS

It remains extremely challenging for the Company for the rest of the year as there are grave uncertainties relating international oil and gas industry and the business trading segment in light of potentially further waves of outbreak of COVID-19.

Trading Business

With the possible slow economic recovery from COVID-19, the Group intends to commence trading of diluted bitumen during the second half of the year. These products will be primarily sold to market in China. Meanwhile, the Group also carefully considers the option of renting floating vessels or tankers in order to further promote the trading business.

Furthermore, the Group will also continue to expand the business to other industries, such as electronic products.

With China cautiously resuming business activities during the COVID-19 epidemic, the Group will continue to increase in trading volumes of oil-related products domestically. It is expected that the sales of trading oil-related products by the Relevant Subsidiary will be improving during the second half of the year.



MANAGEMENT DISCUSSION & ANALYSIS

Oil and Gas Business

Although oil price and gas price have recovered to some extent recently, the markets are still confronted with ongoing uncertainties and challenges due to the ongoing pandemic in the world. In the meantime, COVID-19 outbreak raised the cost of drilling new wells while made it extremely difficult for the Group to locate labor for oil and gas field development. Therefore, the Group will focus on regular maintenance of our current oil and gas wells for the time being. The management of the Group will continue to keep a close eye on and make assessment of the market situation from time to time. To reduce investment risk, the management may also consider seeking new co-operators and/or investors with solid financial strength to expand the Group's gas and oil business as and when opportunities arise.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations from the proceeds of the subscriptions which was completed in 2019, borrowing and internally generated resources. As at 30 June 2020, the Group had approximately HK\$25,000,000 unsecured loans repayable within one year (As at 31 December 2019: HK\$36,186,000). The Group's cash and bank balances as at 30 June 2020 decreased to approximately HK\$14,042,000 from HK\$53,889,000 as at 31 December 2019, mainly due to the net effect of the repayment of unsecured loans, other payable and cash inflow from trading activities. The current ratio (calculated on the basis of the Group's current assets over current liabilities) was to 1.09 as at 30 June 2020 (As at 31 December 2019: 1.28). The Group is considering the possibility of further debt and equity fund-raising during the second half of the year.

During the Period, the Group conducted its business transactions principally in RMB and US dollars. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, the management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

MANAGEMENT DISCUSSION & ANALYSIS

UPDATE ON USE OF PROCEEDS

The remaining balance of the net proceeds is approximately HK\$22.2 million at the beginning of the year. The actual use of the net proceeds during the Period and the intended allocation of the unutilised net proceeds under the subscriptions of shares of the Company pursuant to (i) the subscription agreement and the supplemental agreement entered into among the Company, Xin Hua Petroleum (Hong Kong) Limited and Noble Pioneer Limited ("Noble") dated 13 February 2019 and 29 March 2019 respectively; and (ii) the subscription agreement and the supplemental agreement entered into between the Company and Noble dated 3 April 2019 are set out below:

| Use of Net Proceeds | Actual use of the proceeds during the Period (HK\$ million) | Intended allocation of the Unutilised Net Proceeds (HK\$ million) |
|---|--|--|
| 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 | 1.8 (Note 1) | 10.3 (Note 2) |
| General working capital of the Group | 7.2 (Note 3) | 2.9 (Note 4) |

Notes:

1. Of HK\$1.8 million, HK\$1.1 million has been applied on the development and maintenance of the Group's oil and gas field. Approximately HK\$0.7 million was injected into an wholly-owned subsidiary of the Company which is principally engaged in trading of oil related products.
2. Of HK\$10.3 million, HK\$10.2 million will be used for trading electronic product and HK\$0.1 million will be used for maintenance of the Group's oil and gas field, all of which will be fully utilized on or before 31 December 2020.
3. HK\$7.2 million was used on payment of remuneration to the employees and directors of the Group and the payment of office rent during the Period.
4. HK\$2.9 million will be used on payment of remuneration to the employees and directors of the Group and the payment of office rent, all of which will be fully utilized on or before 31 December 2020.



MANAGEMENT DISCUSSION & ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the number of employees and directors of the Group was 23. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and travelling allowances and discretionary bonuses.

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

As at 30 June 2020, 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 of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code set out in Appendix 10 to the Rules (the “Listing Rules”) Listing of Securities on the Stock Exchange 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 |
|------------------|------------------------------------|---------------------------------------|--|
| Yu Zhibo | Interest in controlled corporation | 365,625,096 ² | 59.72% |
| Chen Junyan | Interest in controlled corporation | 365,625,096 ² | 59.72% |
| Zhong Bifeng | Beneficial owner | 5,000,000 ³ | 0.82% |

Notes:

1. The Company had 612,275,987 Shares in issue as at 30 June 2020.
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%.
3. These 5,000,000 Shares were beneficially owned by Ms. Zhong Bifeng.

MANAGEMENT DISCUSSION & ANALYSIS

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 |
|------------------|---------------------------------------|------------------|---------------------------------------|--|
| Yu Zhibo | Xin Hua Petroleum (Hong Kong) Limited | Beneficial owner | 3,492 | 34.92% |
| Chen Junyan | Xin Hua Petroleum (Hong Kong) Limited | Beneficial owner | 4,628 | 46.28% |

Save as disclosed above, as at 30 June 2020, 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 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.

SUBSTANTIAL SHAREHOLDER

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 30 June 2020, 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 | 59.72% |

Note:

1. The Company had 612,275,987 Shares in issue as at 30 June 2020.
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%.



MANAGEMENT DISCUSSION & ANALYSIS

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 requirement of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding securities transactions by the Directors during the Period.

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 Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standard of corporate governance.

In the opinion of the Board, for the six months ended 30 June 2020, the Company has complied throughout the Period with the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules.

OTHER INFORMATION

CHANGES IN DIRECTORS' INFORMATION

Upon specific enquiry by the Company and following confirmations from the Directors, save as disclosed hereunder, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published annual report. The change of Directors' information is set out below:

1. Mr. Yun Guangrui resigned as an executive Director of the Company with effect from 1 June 2020.
2. Mr. Xu Guoqiang resigned as an independent non-executive Director of the Company and ceased to be a member of Audit Committee, Remuneration Committee and Nomination Committee with effect from 1 June 2020.
3. Mr. Zhong Bifeng was appointed as a member of Audit Committee and a member of Nomination Committee with effect from 1 June 2020.
4. Mr. Cao Wei was appointed as a member of Remuneration Committee with effect from 1 June 2020.
5. Mr. Yu Zhibo was appointed as executive Director of the Company and Vice Chairman of the board with effect from 29 June 2020. His total emoluments have also been adjusted from HK\$700,000 per annum to HK\$800,000 per annum with effect from 29 June 2020.
6. Ms. Zhong Bifeng acquired 5,000,000 Shares in the Company in January 2020.

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company has reviewed and confirmed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the Period.

The Audit Committee consists of three independent non-executive Directors, namely Mr. Li Songtao (Chairman), Mr. Cao Wei and Ms. Zhong Bifeng.



OTHER INFORMATION

DIRECTORS' RESPONSIBILITY OF FINANCIAL REPORTING

The Directors acknowledge their responsibility for the preparation of financial statements of the Company for each financial period with a true and fair presentation of the financial position of the Group. The Company's financial statements are prepared in accordance with all statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and the related interpretations, adjustments and estimates made are prudent and reasonable and the financial statements have been prepared on a going concern basis.

The Directors are aware of conditions, as disclosed in basis of preparation of the unaudited condensed consolidated interim financial statements, indicating the Group's ability to continue as a going concern is dependent on the ongoing availability of funds to the Group. Taken into account these considerations, the Directors are of the opinion that the Group will have sufficient funds to meet in full its financial obligations as and when they fall due.

BOARD OF DIRECTORS

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

CHANGE OF COMPANY NAME

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 purpose 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 5 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.