CHK Oil Limited
中港石油有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 632

ANNUAL REPORT 2021

* *For identification purpose only*

Contents

Corporate Information

DIRECTORS

Executive Directors:

Yu Jiyuan *(re-designated from the vice Chairman as the Chairman on 03/06/2021 and the Chief Executive Officer)*
Liu Gui Feng *(resigned as the Chairlady and an executive Director on 03/06/2021)*
Lin Qing Yu
Chen Junyan
Li Songtao
Yang Yuyan *(re-designated from an independent non-executive Director to an executive Director on 06/08/2021)*
Sun Xiaoze *(appointed on 06/08/2021)*

Non-Executive Directors:

Yu Zhibo *(appointed as the vice-chairman on 03/06/2021)*
Zheng Ye *(appointed on 06/08/2021)*

Independent Non-Executive Directors:

Zhong Bifeng
Pang Jun
Huang Qingwei *(appointed on 06/08/2021)*
Shen Shigang *(appointed on 06/08/2021)*

LEGAL ADVISERS

YC Solicitors

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.

COMPANY SECRETARY

Liu Xiaoting

AUDITOR

Mazars CPA Limited

AUTHORISED REPRESENTATIVES

Yu Jiyuan
Liu Xiaoting

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Units 2617–18, 26/F, Mira Place Tower A
No. 132 Nathan Road
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	**2021** *HK$'000*	2020 *HK$'000*
For the year ended 31 December			
Revenue		**1,528,065**	736,762
Profit for the year		**147,820**	8,716
Profit attributable to owners		**147,820**	8,716
Earnings per share			
Basic *(HK cents)*			
– For earnings for the year		**17.56**	1.38
Diluted *(HK cents)*			
– For earnings for the year		**17.56**	1.38
Average shareholders' equity		**394,012**	288,789
Average capital employed		**435,295**	319,639
At 31 December			
Total indebtedness	*1*	**1,105**	2,678
Shareholders' equity		**470,890**	317,134
Capital employed	*2*	**522,120**	348,470
Ratio			
Return on average capital employed *(%)*	*3*	**34.0%**	2.7%
Return on average equity *(%)*	*4*	**37.5%**	3.0%
Total debt to total capital *(%)*	*5*	**0.2%**	0.8%

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 for the year/average capital employed
4. Return on average equity = net profit attributable to owners/average shareholders' equity
5. Total debt to total capital = debt/(shareholders' funds + non-controlling interests + debt)

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors of the Company, I am pleased to present the annual report of CHK Oil Limited and its subsidiaries for the year ending 31 December 2021.

The crude oil price increased in 2021 overall as the oil consumption exceeded the global oil supply since mid-2020. At the beginning of 2021, the price of Brent crude oil started at $54.38 per barrel, spiked to a high of $86.40 in late of October and landed to $77.78/b at the end of the year (https://markets.businessinsider.com/commodities/oil-price?type=brent). The demand outpacing the supply is mainly contributed by the increasing levels of COVID-19 vaccination, eased pandemic-related measures adopted by the governments worldwide, the growing economy and the OPEC+ crude oil production cuts started in late 2020. Meanwhile, the economic recovery, a succession of extreme weather events has contributed to a rebound of the Global natural gas consumption by 4.6% in 2021 more than double the decline seen in 2020 (https://www.iea.org/reports/). With the coronavirus contained and the high level of the vaccination rate in 2021, China's economy has enjoyed a strong rebound in 2021 with the economy growth rate of 8.1%.

Although the global economy recovery showed the positive signs, the challenges and uncertainties still remain. As of early February 2022, The US, India and Brazil have seen the highest number of confirmed cases, followed by the UK, France and Russia. As the new waves of COVID-19 infections, Omicron variant emerged in late November 2021, countries have reimposed the travel restriction, lockdown and other social distancing measures. The more transmissible virus could possibly cause economic disruptions and a decrease in oil demand.

Facing all the opportunities and challenges in 2021, the Group has managed to expand its oil trading operation. After a careful assessment of the demand in global market and the consideration of the great uncertainty over the course of the global pandemic by the management, the Group has mainly focused on increasing in trading volumes of oil and oil-related products in China's domestic market. Meanwhile for the Utah Oil & Gas field, because of the pandemic situation in US, drilling cost, labor costs and other production costs have been increasing. As a result, the Group shifted its focus on regular maintenance of our current oil and gas and other facilities in the field. Under the current business strategies, this year, the Group was able to achieve a total revenue of approximately HK$1,528 million which was approximately 107% increase, comparing to that of 2020 and this year's gross profit of approximately HK$96 million as compared to approximately HK$42 million in 2020.

Looking forward, the outlook for the oil market will still largely depend on how quickly the coronavirus can be contained worldwide. The IEA has lowered the global oil demand forecast due to the new restrictions on international travels caused by a surge of the Omicron variant cases but remained optimistic on the recovery of the oil demand market overall. While others have concerns that the emergence of the Omicron variant could threaten the economy recovery on the market. The Group will be closely monitoring the situation and adapt our business strategies to cope with the uncertainties in 2022. The Group will continue to focus on maintaining and developing its existing business. Furthermore, The Group will continue to explore new business opportunities in trading of oil, oil-related and other products internationally, in seeking possible acquisitions on high quality assets and business closely related to the existing business in order to achieve the optimization of the Group's structure in the foreseeable future. In mid to long term, the Group will consider to provide oil field development and maintenance services to oil field owners including oil exploration, oil well constructions, oil field management, providing energy efficient equipment for the oil exploration. In the long term, the Group will also consider possible investments on clean energy and renewable energy to reduce emission and achieve long-term sustainability.

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, shareholders and other stakeholders for their support. I would also like to express our gratitude to our staff for their invaluable service and contributions throughout the year.

Yu Jiyuan
Chairman

Hong Kong, 31 March 2022

Profiles of Directors

PROFILES OF DIRECTORS

Executive Directors

MR. YU JIYUAN

Mr. Yu, aged 29, the son of Mr. Yu Zhibo who is a non-executive Director and a substantial shareholder of the Company, was appointed as an executive Director on 15 July 2019 and appointed as the vice chairman of the Board and the chief executive officer of the Company on 21 September 2020. Mr. Yu was re-designated and appointed as the chairman of the Board on 3 June 2021. Mr. Yu Jiyuan 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 Jiyuan was a consultant to the International Department (國際部) of Heilongjiang province 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 Jiyuan became the Head of International Department (國際部部長) of Heilongjiang Longyou and he was responsible for the overseas business development. Since November 2018, Mr. Yu Jiyuan has been working as the general manager of Heilongjiang Longyou. 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). Since November 2018, Mr. Yu Jiyuan has been working as the chairman of Tianjin Binglixuleng Technology Co., Ltd.* (天津冰利蓄冷科技有限公司).

MR. LIN QING YU

Mr. Lin, aged 47, was appointed as an executive Director on 3 October 2018. He served as the General Manager of Jilin Xinda Petroleum and 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. He graduated from Economics and Management professional studies (大專班經濟管理事業) 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 33, was appointed as an executive Director 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), from September 2011 to September 2018 and Ms. Chen was responsible for the sales and marketing of the fuel oil business.

MR. LI SONGTAO

Mr. Li, aged 51, was appointed as an independent non-executive Director on 24 September 2019 and was re-designated as an executive Director on 21 September 2020. 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* (黑龍江安聯會計師事務所有限公司大慶分公司) since December 2007, and is currently taking the position of vice director of the Branch. He was working for the accounting department in Heilongjiang Dairy Machinery Factory* (黑龍江省乳品機械總廠) for the period from August 1991 to June 2004. Mr. Li currently holds the qualification of certified public accountant in the PRC and he also has been a Registered Tax Agent since 2010 in the PRC.

MS. YANG YUYAN

Ms. Yang, aged 39, was appointed as an independent non-executive Director on 21 September 2020 and re-designated as an executive Director on 6 August 2021. Ms. Yang finished her bachelor of accounting at Jilin University of Finance and Economics* (吉林財經大學) through passing self-taught higher education examinations in 2013. Ms. Yang has been qualified as a mid-level accountant in the PRC since 2009. Ms. Yang served as a financial manager of Heilongjiang Longyou from January 2017 to June 2018. Ms. Yang has served as financial controller of Daqing Direction Software Technology Co., Ltd* (大慶正方軟件科技股份有限公司), a company quoted on National Equities Exchange and Quotations (Code: 832911), since August 2018. She is a tax advisor as certified by The China Certified Tax Agent Association since November 2020. She obtained the qualification of the Certified Public Accountant in the PRC in April 2021.

MS. SUN XIAOZE

Ms. Sun, aged 35, was appointed as an executive Director on 6 August 2021. Ms. Sun received a Master of Science from the Graduate School of the Chinese Academy of Sciences (Research Center for Eco-Environmental Sciences, Chinese Academy of Sciences) in July 2011. From July 2011 to October 2015, Ms. Sun served as the director of the Human Resources Department of Groupama AVIC Property Insurance Co., Ltd.* (中航安盟財產保險有限公司). From October 2015 to October 2019, Ms. Sun served as the director of the Human Resources Department of ZK Engineering (Beijing) Development Corporation* (中科建設(北京)開發總公司). From November 2019 to June 2021, Ms. Sun served as the chief executive at Beijing Branch of Shenyang Rubai Hotel Management Co., Ltd.* (瀋陽瑞柏酒店管理有限公司北京分公司). Ms. Sun has served as the art consultant of ADGY (Beijing) International Cultural Center* (阿登高原(北京)國際藝術中心) and M56 Art Museum* (M56美術館) in Shenyang since 2018.

Non-executive Directors

MR. YU ZHIBO

Mr. Yu, aged 59, was appointed as an executive Director on 29 June 2020 and was re-designated as a non-executive Director on 21 September 2020. Mr. Yu was appointed as the vice-chairman of the Board on 3 June 2021. Mr. Yu is the father of Mr. Yu Jiyuan, an executive Director. Mr. Yu is a director and shareholder of Xin Hua Petroleum (Hong Kong) Limited, a substantial shareholder of the Company. Mr. Yu finished his legal professional studies (法律專科) in July 1989 and law studies (法律本科) in January 1998 at Heilongjiang Administrative Cadre Institute of Politics and Law* (黑龍江省政法管理幹部學院). Mr. Yu obtained his master in Executive MBA (高級管理人員工商管理碩士) at Tsinghua University (清華大學) in January 2019. Mr. Yu has more than 10 years of experience in the petrochemical industry. From January 2007 to January 2009, Mr. Yu was the chairman and the general manager of Daqing Jinlian Petrochemical Co., Ltd* (大慶錦聯石油化工有限公司). From October 2009 to March 2019, Mr. Yu was the director of Daqing Lianyi Petrochemical Co., Ltd* (大慶聯誼石化股份有限公司) ("Daqing Lianyi") and from August 2012 to October 2016, Mr. Yu was also acting as the chairman of Daqing Lianyi. From October 2016 to March 2019, Mr. Yu was the vice general manager of Daqing Lianyi. Daqing Lianyi is a petrochemical company engaging in, among others, sale of crude oil, petroleum processing and distribution of oil-related products business. Mr. Yu joined the Group in August 2019 and has been the vice president in the business trading department of the Company since then.

MR. ZHENG YE

Mr. Zheng, aged 55, was appointed as a non-executive Director on 6 August 2021. Mr. Zheng has nearly 30 years of working experience in the petroleum industry. From 1992 to 1998, Mr. Zheng served as a sales clerk at Changchun Materials Cooperation Co., Ltd.* (長春市物資協作有限公司) (the former name of Changchun Xinda Petroleum Group Co., Ltd.). From 1998 to 2015, Mr. Zheng served as the director of the Sales Department of Changchun Xinda Petroleum Group Co., Ltd.* (長春新大石油集團有限公司). Since 2015, Mr. Zheng has served as a director and the deputy general manager of Changchun Xinda Petroleum Group Co., Ltd. Since 2015, Mr. Zheng has served as the deputy general manager of Jilin Xinda Petrochemical Co., Ltd.* (吉林省新大石油化工有限公司). Since 2015, Mr. Zheng has served as the director of Beihu School of Changchun No. 11 High School* (長春市十一高中北湖學校). Since 2015, Mr. Zheng has served as the president of the Petroleum Chamber of Commerce of Jilin Federation of Industry & Commerce* (吉林省工商聯石油業商會).

Profiles of Directors

Independent Non-executive Directors ("INEDs")

MS. ZHONG BIFENG

Ms. Zhong, aged 37, was appointed as an independent non-executive Director 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 in June 2007. Ms. Zhong worked in Meizhou Culture, Radio, Television and the Tourism Bureau of Guangdong Province* (廣東省梅州市文化廣電旅遊局) during the years from November 2007 to October 2013; she 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) from April 2013 to March 2014; she was working as the supervisor of trade department and then promoted as 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.

MR. PANG JUN

Mr. Pang, aged 57, was appointed as an independent non-executive Director on 21 September 2020. Mr. Pang graduated from Heilongjiang People's Police School* (黑龍江省人民警察學校) in 1983; served as a policeman at section staff level in Qiqihar Railway Reeducation Center* (齊齊哈爾鐵路勞教所) from 1983 to 1992. Mr. Pang is currently a qualified lawyer in the PRC. Mr. Pang was a senior partner at Heilongjiang Benhe Law Firm* (黑龍江奔河律師事務所) from 2000 to 2002, a senior partner and the chief lawyer (主任律師) at Heilongjiang Baixing Law Firm* (黑龍江佰行律師事務所) from 2005 to 2008. He has been served as a senior partner and practicing lawyer at Heilongjiang Zeyan Law Firm* (黑龍江澤言律師事務所) since 2008.

MS. HUANG QINGWEI

Ms. Huang, aged 42, was appointed as an independent non-executive Director on 6 August 2021. Ms. Huang finished a 3-year diploma accounting course in Jilin College of Finance & Taxation* (吉林財税高等專科學校) in July 2003. Ms. Huang currently holds the qualifications of intermediate accountant and certified public accountant in the PRC. She joined Grant Thornton International Ltd in 2010 and served as a project manager from 2010 to 2013, as a manager from 2014 to 2017, and as a senior manager from 2018 to 2019. She has been served as a project manager at Zhongxi CPAs (Special General Partnership) since 2020.

MR. SHEN SHIGANG

Mr. Shen, aged 49, was appointed as an independent non-executive Director on 6 August 2021. Mr. Shen is currently a qualified lawyer in the PRC. Mr. Shen obtained a bachelor's degree in economic law in 2005. Mr. Shen passed the qualification of Insurance Surveyor in September 2014. Mr. Shen has served as legal counsel for many enterprises and public institutions: for Benxi Xiyuan Industrial Co., Ltd.* (本溪溪源實業有限公司) since April 2013; for Benxi Bureau of Finance* (本溪市財政局) since January 2019; for Liaoning Jiaguan Petrochemical Technology Co., Ltd.* (遼寧嘉冠石化科技有限公司) since July 2019; and for Liaoning Hexie Human Resources Co., Ltd.* (遼寧和協人力資源有限公司) since February 2021.

* *English translation for identification purpose only*

Management Discussion and Analysis

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2021 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of approximately HK$1,528,065,000 (2020: approximately HK$736,762,000) mainly contributed from the trading of oil, oil-related products and electronic products business. Basic and diluted earnings per share for the Year was HK17.56 cents (2020: Basic and diluted earnings per share was HK1.38 cents). Basic and diluted earnings per share was based on the weighted average of approximately 842 million shares (2020: approximately 630 million shares) in issue for the Year. Gross profit for the Year amounted approximately HK$95,807,000 (2020: approximately HK$42,279,000), which was mainly contributed by the trading of oil and oil-related product in the Mainland China.

The net profit attributable to the owners of the Company for the Year was approximately HK$147,820,000, as compared with the net profit attributable to owners of the Company of approximately HK$8,716,000 for the year ended 31 December 2020. The increase in net profit is mainly attributable to: (i) approximately more than 100% increase in the both of the revenue and the gross profit of the Group for the Year as compared to the results of year ended 31 December 2020 following the material increase in the sales of the oil and oil-related products; (ii) approximately more than 20% of decrease in administrative expenses for the Year by strengthening measures in administrative cost control of the Group; and (iii) approximately HK$111,423,000 of the reversal of impairment loss on the property, plant and equipment and intangible assets.

BUSINESS REVIEW

Trading Business

With the increasing levels of COVID-19 vaccination, eased pandemic-related measures adopted by the governments worldwide, the growing economy and the OPEC+ crude oil production cuts started in late 2020, the oil prices increased in 2021 overall. At the beginning of 2021, the price of Brent crude oil started at US$54.38 per barrel, spiked to a high of US$86.40 in late of October and dropped in the last few months of the Year. With the coronavirus contained and the high level of the vaccination rate in 2021, China's economy has enjoyed a strong rebound in 2021 with the economy growth rate of 8.1%.

Under the circumstances, the Group continues to expand its core trading business in China's domestic market. Apart from its subsidiary, Pearl Oriental (Daqing) Oil Limited, incorporated at the end of 2019, the Group has set up another subsidiary in Hainan Province, China, to use as a trading platform of oil and oil-related products. Through actively exploring new trading channels, increasing trading volumes of the products and forming new business partnership, the relevant subsidiaries were able to secure the downstream orders and achieved revenue of approximately HK$1,509,395,000 (2020: approximately HK$706,411,000) during the Year.

Utah Gas and Oil Field

The year between 2021 and 2022 has been a year of learning, reflection and re-adaption for the Company. During this time, COVID-19 continued to ravage the world and bring new challenges and difficulties for the energy sector. The recent outbreak of the pandemic in Hong Kong, for example, has significantly affected the operation of many businesses and offices in Hong Kong. On top of this, affairs in the arena of international politics (e.g., the Russia-Ukraine crisis which led to the fluctuation of oil prices) brought further uncertainties to our business.

In order to better address the challenges we face, during last year, the team at CHK Oil paid special attention to learning and reflection. Specifically, we carefully studied and reviewed details of our work from the year before, distilling lessons that could be of use for our work at hand; in the meanwhile, we proactively adapted our operational modes and thinking as per the changing circumstances. For instance, a number of administrative and operational procedures have been adapted to an online format and streamlined as well to allow faster and more efficient responses. We also carefully reviewed and monitored the conditions in our oil and gas fields and carried out work in a steady pace. Under this mode of learning and re-adaption, a series of tasks with regards to our oil and gas fields in Utah have been accomplished successfully – for instance: we maintained stable and efficient daily operations and maintenance of the fields. In particular, the evaluation of a number of oil and gas wells has been carried out effectively, which stands us in good stead for the repair operations that are to be conducted in 2022. In 2022, we plan to carry out overall workover on the majority of our current oil and gas fields in Utah.

Principal Risks and Uncertainties Facing the Group

Price risk

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

The crude oil price increased in 2021 overall as the oil consumption exceeded the global oil supply since mid-2020. At the beginning of 2021, the price of Brent crude oil started at US$54.38 per barrel, spiked to a high of US$86.40 in late of October and dropped to US$77.78 per barrel with a surge of the new COVID-19 Omicron variant cases at the end of the year 2021. It is expected by the IEA, the surge of the new COVID-19 cases could potentially slow the recovery of the oil demand but will not disrupt it. At the same time, global oil supplies are expected to be on the rise to ease the energy prices in 2022. While others may have concerns that more easily transmitted Omicron variant could bring negative effects on the economy. In 2021, natural gas prices remained volatile, as the price rose from below US$3 dollars at the beginning of April 2021 to above US$6 dollars at the early of October 2021 and then declined in the last few months of the year. (Source: http://markets.businessinsider.com) (https://www.worldbank.org/).

Natural gas and oil prices are both expected to fluctuate in the foreseeable future due to uncertain factors related to the supply and demand of these commodities in the market. These uncertain factors are in turn resulting from the high degree of uncertainty in the growth of the global economy and war situation between Russia and Ukraine. Another factor that cannot be ignored is the impact of COVID-19 on price fluctuations. As such, it may be difficult to budget and project the returns on the development and exploitation projects. In order to alleviate the negative impact of the price uncertainties, the Group has reviewed its pricing policies and ensure that the contracts entered into by the Group include necessary price adjustment mechanism with reference to the quoted market price.

Cost risks and risk associated by hiring third party service providers

The exploration for and development of our well sites of Utah Gas and Oil Field requires a significant amount of capital investment. The operation of the Gas and Oil Field also depends on services provided by third parties, including, without limitation, processing pipelines for the transportation of products, equipment procurement, and operation and construction services on the certain infrastructure. The possible costs for the construction and production equipment as well as the services can inflate costs of project development and increase future production cost. Furthermore, the failure of any third service party to comply with the terms and conditions of the applicable agreements will have a negative impact on our operations. The Group actively seeks alternative third party service providers with reasonable cost and necessary licences across the world and conducts due diligence on the counter-parties to mitigate the risks associated with the third party service providers.

OPERATIONAL REVIEW AND UPDATE ON RESERVES

The Group has not undertaken any further exploration and development on the oil and gas fields in Utah this Year. During the Year, there has been production activities on the oil and gas fields in Utah and the expenditure for such production activities and its associated cost was approximately HK$1,687,000.

To the best of the Group's knowledge, as of 31 December 2021, there was no material difference in the reserves of the Utah Gas and Oil Field when comparing with that of 2020.

PROSPECTS

Utah Gas and Oil Field

Between 2021 and 2022, the prices of oil and gas have been on an increasing trend – WTI and Brent oil prices have increased by around 55.6% and 52.7% year-to-date respectively, while Henry Hub natural gas prices rose by around 58.8% since March 2021. Specifically, the Brent oil price has risen from 63.69 US dollars per barrel on 1 March 2021, to over 100 US dollars per barrel during the remainder of last year (current price has stayed at around 99 US dollars per barrel). Similarly, the WTI price rose from 60.64 US dollars per barrel about a year ago to 96.93 US dollars at present. The Henry Hub natural gas price was rated at around 2.78 (US$ per MMBtu) about a year ago and increased to 4.41 US dollars today, reaching as high as 6.31 US dollars on 5 October 2021.

The recent Russia-Ukraine crisis has led to further increase in the prices of oil and gas. Based on its most recent monthly report, the U.S. Energy Information Administration (EIA) raised its forecasts for the year 2022 for U.S. and global benchmark oil prices by around 11%, under which the Brent price is expected to average 82.87 US dollars a barrel. The EIA also lifted its forecasts for 2023 by 1.5%.

Despite such promising prospects of oil and gas prices, we have chosen to continue to move forward our work in a cautious manner because of the continuing existence of the COVID pandemic as well as the uncertainties in international politics and businesses. In the coming year, we are prioritizing the workover operations on the majority of our existing wells, particularly the ones that have low production volume or have malfunctioned. By far, we have finished evaluation of and tests on four of such wells and have put in our agenda for coming months to repair three of such wells. In the meanwhile, we will continue with the evaluation of other wells and carry out the workover operations on them afterwards. In all, the goal for this year is to finish the workover on as many wells as possible to improve the overall production of our fields.

In addition, we will be exploring the possibility of drilling new wells. We will be able to make a decision after we complete a careful and comprehensive cost-benefit analysis. If new wells are to be drilled and to share the drilling costs, we may also invite new investors and partners, which may be beneficial for the overall expansion of our operations.

Trading and Service Business

The outlook for the oil market in 2022 will still largely depend on how quickly the coronavirus can be contained worldwide. Given the market volatility with the outbreaks of new variant coronavirus over the past year, it still remains difficult to assess the full economic impacts arising from the pandemic in 2022. In spite of the uncertainties and challenges ahead, the Group will continue to maintain and develop its existing business as well as explore new business opportunities in the following areas international trade on oil and oil-related products; seeking for high-quality leasable and purchasable projects in the upstream and the downstream of the industries, striving to achieve vertical synergies in the whole industries of the petroleum and petrochemical. In mid-long run, providing oil field development and maintenance services to oil field owners including oil exploration, oil well constructions, oil field management, providing energy efficient equipment for the oil exploration; In the long run, the Group will also consider possible investments on clean energy and renewable energy to reduce emission and achieve long-term sustainability.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, the Group had HK$2,000,000 of loan from a substantial shareholder (As at 31 December 2020: nil balance) , such loan is unsecured, interest-free and repaid on 4 January 2022. The Group's cash and bank balances as at 31 December 2021 was approximately HK$9,069,000 (approximately HK$27,948,000 as at 31 December 2020), it was mainly due to the net effect of the decrease in cash inflows from the proceeds of right issue which was completed in December 2020 and decrease in the net cash used in operating activities compared with last year. As at 31 December 2021, the current ratio (calculated on the basis of the Group's current assets over current liabilities) was 2.45 (As at 31 December 2020: 1.38) and the gearing ratio (debt-to-asset ratio) (calculated as total liabilities divided by total assets) was approximately 23.58% (As at 31 December 2020: 41.37%).

CONTINGENT LIABILITIES

As at 31 December 2021, the Group had no material contingent liabilities (31 December 2020: Nil).

CHARGES ON GROUP ASSETS

As at 31 December 2021, the Group did not have any charges on assets (31 December 2020: 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 annual report, 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" in this annual report, 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 and RMB. The results of operations and the financial position of the Group may be affected by any changes in the exchange rates. The conversion of RMB 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 RMB or in the local currencies of the operating subsidiaries. Having considered (i) the historical trend of the exchange rates between the RMB and HK$ and (ii) the operation of the Group which does not involve significant volume of cross-border remittances, 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 2021, the gearing ratio (debt-to-asset ratio) of the Group, calculated as total liabilities divided by total assets, was approximately 23.58% (31 December 2020: 41.37%)

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the number of employees of the Group was about 36 (2020: 22). 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 travelling allowances and discretionary bonuses.

Environmental, Social and Governance Report

ABOUT US

CHK Oil Limited (the "Company", together with its subsidiaries, the "Group" or "we") is principally engaged in the investment holding, exploring, exploiting and sale of oil and natural gas, and trading of oil, oil-related and other products. The Group holds exploitation interest in the Utah Gas and Oil Field Project located in Utah of the United States of America (the "US").

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report (the "ESG Report") aims to provide a balanced representation of the efforts made by the Group on its environmental, social and governance ("ESG") management approach, performance, strategy, priorities, objectives, and compliance with the relevant laws and regulations.

Reporting Period

Unless otherwise stated, the ESG Report covers the activities, challenges and measures with respect to ESG aspects of the Group for the year ended 31 December 2021 (the "Reporting Period" or "2021").

Reporting Scope

The reporting scope is determined based on the revenue contribution of the business segments under the Group's direct operational control. As the Group has formed a new subsidiary in the Peoples' Republic of China (the "PRC") in July 2021, the reporting scope has been adjusted accordingly.

Unless otherwise stated, the ESG Report covers the Group's business operations at the headquarters office in Hong Kong and three offices of principal subsidiaries in the PRC and the US. All of the Group's revenue were derived from the above operations. ESG key performance indicators ("KPIs") data are obtained from the aforementioned business operations. The ESG Report excludes any business operations which have been outsourced or subcontracted, where the related ESG information is not made available to the Group.

Reporting Framework

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Information relating to the Group's corporate governance practices can be found in the Corporate Governance Report from page 50 to 60 of the Annual Report.

During the preparation for this ESG Report, the Group has applied the reporting principles in the ESG Reporting Guide as follows:

Materiality: Materiality assessment was conducted to identify material issues during the Reporting Period, thereby adopting the confirmed material issues as the focus for the preparation of the ESG Report. The materiality of issues was reviewed and confirmed by the Board of Directors (the "Board") and the ESG Task Force ("Task Force"). For further details, please refer to the sections headed "Stakeholder Engagement" and "Materiality Assessment".

Quantitative: The standards, methodologies and applicable assumptions used in the calculation of KPIs data were supplemented by explanatory notes.

Consistency: Unless otherwise stated, the preparation approach of this ESG Report is consistent with the previous year for comparison. If there are any changes in the scope of disclosure and calculation methodologies that may affect the comparison with previous reports, explanations will be provided to the corresponding data.

BOARD STATEMENT

Dear Valued Stakeholders,

On behalf of the Board, I am pleased to present the ESG Report of the Group, which demonstrates our growing commitment to improving our ESG performance in five aspects, including corporate governance, environmental protection, employment practices, operating practices and community investment.

In order to adapt to an ever-changing operating environment and to ensure a strong compliance culture, the Group strives to formulate a sound governance structure to effectively manage ESG matters related to the Group. The Board must assess the potential impact of ESG issues on the overall strategy of the Group, set out ESG management approach and strategy, and supervise the Group's ESG issues. Information about the Group's ESG governance structure is stated in the section headed "ESG Governance Structure".

To identify and prioritise major ESG issues that have a significant impact on our operations and stakeholders, we continuously communicate with internal and external stakeholders. The Board has delegated the Task Force and hired independent third parties to conduct materiality assessments. Information about the stakeholder engagement channels and the materiality assessment conducted by the Group is stated in the sections headed "Stakeholder Engagement" and "Materiality Assessment" respectively.

The Group believes that sustainable development is vital to the earth and contributes to the long-term prosperity and development of the Group's business. In alignment with the international trend and the PRC's ambitious pledge to hit peak emissions by 2030 and carbon neutrality by 2060 ("30–60 goals"), the Group is responding to climate change and preparing for energy transition. With the aim to transform itself into an integrated energy enterprise, the Group is pursuing to decarbonise its operations and increase its investment in renewables and lower-carbon alternatives. As a responsible corporate citizen, the Group has implemented a group-wide "Climate Change and Environmental Protection Policy" during the Reporting Period to proactively identify, assess and manage climate-related issues. We will continue to accord a high priority to climate change on our business agenda and integrate climate-related risk into our risk management framework.

To fulfil the Group's commitment to corporate social responsibility and allow the Group's stakeholders to better understand the Group's progress in improving ESG performance, the Group has decided to set environmental targets. These targets cover aspects of emission reduction, waste management and resources conservation, in order to align with the national vision of carbon neutrality and enhance corporate reputation. To achieve these targets, the Group actively implements the principles of sustainable development and adopts relevant measures at operational levels. The Board has delegated the Task Force to collect relevant ESG data, track and review our performance, and evaluate the Group's progress towards the targets.

In closing, on behalf of the Board and the management team of the Group, I would like to express my sincere gratitude to our valued stakeholders for the persistent support, while also expressing my appreciation to our employees for their valuable contribution to the development of the Group. Looking forward, the Group will continue to deepen the integration of ESG concepts into its business strategy and management system, and operate its business in a more responsible manner in order to create value for shareholders and pursue a sustainable future.

Yu Jiyuan
Chairman and Executive Director

ESG GOVERNANCE STRUCTURE

The Group has developed an ESG governance structure to ensure its ESG governance aligns with its business strategy and to integrate ESG management into its business operations and decision-making process.

The Board holds the overall responsibility for the Group's ESG issues and sets out ESG management approach, strategy, priorities and objectives. In order to better manage the Group's ESG performance, related issues and potential risks, the Board regularly evaluates and determines ESG-related risks and opportunities of the Group, as well as reviews its performance against ESG-related targets. The Board is also responsible for ensuring the effectiveness of the Group's risk management and internal control systems and approving disclosures in the ESG reports.

Before the publication of the ESG Report, the Group has established the Task Force to develop systematic management of ESG issues under the Board's delegations. The Task Force is composed of core members from various departments, which facilitates the Board's oversight of ESG matters. The Task Force is responsible for collecting and analysing ESG data, monitoring and evaluating the Group's ESG performance, keeping track of and reviewing the progress made against the Group's ESG-related targets, ensuring compliance with ESG-related laws and regulations, assisting in conducting materiality assessment and preparing ESG reports. The Task Force arranges meetings regularly to evaluate the effectiveness of current policies and procedures, and formulates appropriate solutions to improve the overall performance of ESG policies. The Task Force reports to the Board periodically, assists in assessing and identifying the Group's ESG risks and opportunities, ensuring the implementation and effectiveness of the risk management and internal control systems.

STAKEHOLDER ENGAGEMENT

We believe that stakeholder engagement is crucial to the sustainable growth of our business, as it improves our understanding of emerging risks and opportunities, and also facilitates the mitigation of these risks as well as the realisation of opportunities. To fully understand, respond to, and address the core concerns of various stakeholders, we have been maintaining close communication with key stakeholders, including but not limited to investors and shareholders, customers, suppliers and contractors, employees, regulatory bodies and government authorities, and community, non-governmental organisations ("NGOs") and media.

By using the diversified cooperation methods and communication channels shown in the table below, we bring the expectation of our stakeholders into our operation and ESG strategies.

Stakeholders	Communication channels	Expectations
Investors and shareholders	• Annual general meetings and other shareholder meetings • Corporate website • Financial reports • Announcements and circulars	• Compliant operation • Information transparency • Protection of interests and fair treatment to shareholders • Investment returns
Customers	• Face-to-face meetings • Customer hotline	• Stable relationship • Product quality • Customer services
Suppliers and contractors	• Business meetings, emails and phone calls • Review and assessment	• Fair tendering • Business ethics and reputation • Long-term partnership

Stakeholders	Communication channels	Expectations
Employees	• Trainings, seminars and briefing sessions • Staff performance appraisal interviews • Emails	• Career development opportunities • Health and safety • Remuneration and benefits • Working environment
Regulatory bodies and government authorities	• Written or electronic correspondences • Tele-conferences	• Timely taxation
The community, NGOs and media	• Association meetings • Community investment • ESG reports	• Contribute to society • Environmental protection • Ethical operations • Social welfare

MATERIALITY ASSESSMENT

In hope of understanding the views and expectations of stakeholders on the Group's ESG performance effectively, we adopt a systematic approach in conducting the annual materiality assessment. With reference to the Group's business development strategy and industry practices, the Group identified and determined a list of material ESG issues, which covers five major areas: corporate governance, environmental protection, employment practices, operating practices and community investment. The Group prepared a questionnaire based on the list and invited relevant stakeholders to rate the potential material issues according to the influence of the ESG issues and the significance of their impacts on the economy, environment and society. The results of the survey were analysed to develop the materiality matrix. The materiality matrix and the identified material topics were reviewed and confirmed by the Board and the Task Force and disclosed in the ESG Report. During the Reporting Period, the Group's materiality matrix is shown below:

Materiality Matrix

During the Reporting Period, the Group confirms that it has established appropriate and effective management policies and monitoring systems on ESG issues, and confirms that the disclosures meet the requirements of the ESG Reporting Guide.

CONTACT US

The Group welcomes opinions and suggestions from stakeholders. You can provide your valuable advice on the ESG Report or the Group's performance on sustainable development via:

Address: Units 2617–18, 26/F, Mira Place Tower A, 132 Nathan Road, Kowloon, Hong Kong
Phone: (852) 2522 2898
Email: enquiry@chkoilltd.com

A. ENVIRONMENTAL

A1. Emissions

Environmental protection and sustainable development rely on collective efforts from all industries and society. It is our goal to integrate environmental sustainability into our business operations and continuously control the level of emissions associated with our operations.

The Group has established "Energy Saving and Emission Reduction Procedures" to regulate the air emissions, greenhouse gas ("GHG") emissions and wastes generated during the operation in order to reduce our environmental footprint. The Group has formed an energy-saving working group, which is responsible for formulating measures at operational level, and supervising and inspecting our energy and emissions performance.

Besides, the Group has formulated "Pollution Prevention and Waste Management Procedures" to manage its environmental impacts during the stages of oil exploration and development. All parties including contractors who are involved in drilling and oil production operations are required to comply with the Group's guidelines. Relevant emergency preparedness plan and preventive measures should be taken place to avoid any emissions of flammable gases, toxic gases and dust, and prevent any contamination to the waterbodies and any pollution to the environment.

The Group keeps track of the latest national and regional environmental protection laws and regulations. During the Reporting Period, the Group was not aware of any material non-compliance with environment-related laws and regulations that would have a significant impact on the Group, including but not limited to the "Environmental Protection Law of the People's Republic of China", "Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste" of the PRC, the "Air Pollution Control Ordinance", "Waste Disposal Ordinance" of Hong Kong, and the "Federal Clean Air Act", "Federal Clean Water Act", "National Environmental Policy Act" of the US.

Air Emissions

The Group's air emissions were mainly generated from the consumption of petrol by its company vehicles. To mitigate emissions, the Group has set a target to replace all company vehicles with electric vehicles on or before the year ended 31 December 2025 ("2025"). Using 2021 as the baseline year, the Group will also gradually reduce the intensity of air emissions in the next five years. To reduce its impact to the environment, the Group also actively executes the following emission reduction measures:

- Regularly maintain and repair vehicles to prevent them from generating excess exhaust gas emissions from broken parts and other reasons;

- Phase out unqualified trucks in accordance with the local emission regulations; and
- Subsidise employees who commute to work by public transportation and driving new energy vehicles.

As the Group has taken account of the administrative and oversight work related to the production activities in the US and extended the reporting scope, the total amount of air emissions produced by the Group has increased significantly during the Reporting Period. The performance of air emissions generated by self-owned vehicles is summarised below:

Type of air pollutants	**Unit**	**2021**	2020
Nitrogen oxides (NO_x)	kg	**12.27**	2.3
Sulphur oxides (SO_x)	kg	**0.09**	0.03
Particulate matter (PM)	kg	**0.91**	0.19

GHG Emissions

The major sources of GHG emissions of the Group were direct GHG emissions from the consumption of petrol by vehicles and the consumption of natural gas for heating (Scope 1), energy indirect GHG emissions from purchased electricity (Scope 2), and other indirect emissions from employees' business trips (Scope 3).

In line with the national strategic development of overall GHG emissions reduction, the Group has set a target to gradually reduce the intensity of GHG emissions in the next five years, using 2021 as the baseline year. With respect to the emission sources mentioned above, we actively adopted the following GHG emissions reduction measures:

- Actively adopt emission reduction measures on vehicles, which are described in the section headed "Air Emissions" in this Aspect;
- Actively adopt environmental protection and energy-saving measures, which are described in the section headed "Energy Management" in Aspect A2;
- Encourage staff to use e-communication channels, such as video conference for business meetings whenever possible; and
- Encourage staff to reduce unnecessary overseas business trip.

During the Reporting Period, the Group has refined its data collection system and extended its disclosure on natural gas consumption of the heaters used in the US office. In addition, the Group has taken account of the administrative and oversight work related to the production activities in the US and extended the reporting scope, the total GHG emissions produced by the Group has therefore increased significantly during the Reporting Period. The performance of GHG emissions is summarised below:

Indicator[1]	**Unit**	**2021**	2020
Scope 1 – Direct GHG emissions[2]	tCO_2e	**96.48**	6.1
Scope 2 – Energy indirect GHG emissions[3]	tCO_2e	**19.92**	13.1
Scope 3 – Other indirect emissions[4]	tCO_2e	**8.00**	2.4
Total GHG emissions	tCO_2e	**124.40**	21.6
Total GHG emissions intensity[5]	tCO_2e/million HK$ revenue	**0.08**	0.03

Notes:

1. GHG emission data is presented in terms of carbon dioxide equivalent and is based on, including but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, the 2019 baseline emission factors for regional power grids in the PRC, the "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5), "How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, the "2021 Sustainability Report" released by CLP Power Hong Kong Limited and the 2020 grid emission factor of the US released by the US Environmental Protection Agency.

2. During the Reporting Period, the direct GHG emissions generated from the petrol consumption by vehicles was approximately 16.93 tCO_2e, while that generated from the natural gas consumption was approximately 79.55 tCO_2e.

3. During the Reporting Period, the energy indirect GHG emissions generated from the purchased electricity was approximately 19.92 tCO_2e.

4. During the Reporting Period, the other indirect emissions generated from the paper waste disposed at landfills was approximately 1.17 tCO_2e, while that generated from the employee business travel was approximately 6.83 tCO_2e.

5. During the Reporting Period, the Group's revenue was approximately HK$1,528,065,000. The data are also used for calculating other intensity data.

Sewage Discharge

The office operations of the Group do not generate any industrial wastewater in the course of operation, but only domestic sewage. Since the wastewater produced is discharged into the sewage treatment plant through the sewage pipeline network for processing, the amount of water consumption of the Group represents the wastewater discharge volume. Information related water consumption will be described in the section headed "Water Management" in Aspect A2.

Waste Management

The Group adheres to the principles of waste management and is dedicated to the reasonable management and disposal of wastes generated from our business activities. The Group maintains a high standard in reducing wastes, educates employees the importance of sustainable development and provides them with relevant supports to improve their skills and knowledge in sustainable development.

Hazardous wastes

Due to its business nature, the Group does not generate any significant amount of hazardous wastes during its daily operation. Nevertheless, we are devoted to waste reduction. If any hazardous waste is generated, the Group must appoint a qualified waste collector to handle such waste to comply with relevant environmental laws and regulations.

Non-hazardous wastes

The major non-hazardous wastes generated during our operation are general waste and paper waste. To reduce wastes generated, the Group has set a target to gradually reduce the intensity of total non-hazardous wastes in the next five years, using 2021 as the baseline year. We have implemented the following measures to achieve the target:

- Encourage employees to maximise the usage of electronic copies instead of hardcopies;
- Set duplex printing as default setting in printers for printing internal documents;
- Reuse office stationaries, such as envelopes and folders; and
- Recycle paper, plastic bottle and tin can.

As the Group has taken account of the administrative and oversight work related to the production activities in the US and extended the reporting scope, the non-hazardous wastes produced by the Group has increased during the Reporting Period. The performance of non-hazardous wastes generation is summarised below:

Type of wastes	**Unit**	**2021**	2020
Total non-hazardous wastes produced[6]	tonnes	**0.31**	0.30
Total non-hazardous wastes intensity	kg/million HK$ revenue	**0.20**	0.41

Note:

6. During the Reporting Period, the Group produced approximately 0.07 tonnes of general waste and approximately 0.24 tonnes of paper.

A2. Use of Resources

The Group upholds and promotes the principle of efficient use of resources. It has established the aforementioned environmental policies and procedures to optimise the use of energy across business operations and thus to reduce corresponding GHG emissions.

Energy Management

The major sources of energy consumption by the Group are the petrol used for its motor vehicles, the natural gas for heating, and the purchased electricity for its electric vehicle and office operations.

To uphold the Group's commitment to energy conservation, the Group has set a target to gradually reduce the intensity of total energy consumption in the next five years, using 2021 as the baseline year. On or before 2025, the Group will replace all lighting in its offices with LED lights. From the year ended 31 December 2022 ("2022") onwards, the Group will also participate in Earth Hour to raise its employees' awareness of energy conservation.

Aside from measures for vehicles described in the section headed "Air Emissions" under Aspect A1, the Group also actively promotes a green office culture and adopts electricity-saving measures to control its electricity consumption. Relevant measures are listed below:

- Turn off electrical appliances or switch them to standby mode when they are not in use;
- Switch off all unnecessary lighting, air-conditioning, and electrical appliances upon leaving the office;
- Optimise the temperature of air-conditioning to create a comfortable working environment for its employees as well as to limit energy loss;
- Prioritise electronic appliances with high energy efficiency ratings when purchasing office electronics; and
- Post notices or reminders at prominent locations in the offices to remind its employees to conserve energy.

During the Reporting Period, the Group has refined its data collection system and extended its disclosure on the energy usage to include natural gas consumption. In addition, the Group has taken account of the administrative and oversight work related to the production activities in the US and extended the reporting scope, the total energy consumption of the Group has therefore increased significantly during the Reporting Period. The energy consumption performance is summarised below:

Types of energy	Unit	2021	2020
Direct energy consumption[7]	kWh	**454,400.22**	21,491
Indirect energy consumption[8]	kWh	**36,096.00**	26,149
Total energy consumption	kWh	**490,496.22**	47,640
Total energy consumption intensity	kWh/thousand HK$ revenue[5]	**0.32**	0.06

Notes:

7. The unit conversion method of direct energy consumption data is based on the "Energy Statistics Manual" issued by the International Energy Agency. During the Reporting Period, the Group consumed approximately 61,669.99 kWh of petrol and approximately 392,730.23 kWh of natural gas.

8. During the Reporting Period, the Group consumed approximately 36,096.00 kWh of purchased electricity.

Water Management

The Group's water consumption is mainly for domestic use in the office area. Due to the geographical location of the Group's operations, the Group does not have any issues in sourcing water that is fit for purpose.

The Group has set a target to gradually reduce the intensity of total water consumption in the next five years, using 2021 as the baseline year. From 2022 onwards, the Group will participate in environmental protection activities such as World Water Day and posting water-saving slogans at prominent locations in the office to promote water conservation. To reduce water use, the Group has also actively adopted the following measures:

- Remind employees to turn off water taps after use to avoid unnecessary flushing;
- Strengthen daily maintenance of water pipes and inspect regularly to prevent leakage; and
- Encourage employees to report any leakages as soon as possible.

As the Group has taken account of the administrative and oversight work related to the production activities in the US and extended the reporting scope, the total water consumption of the Group has increased significantly during the Reporting Period. The water consumption performance is summarised below:

Indicator	**Unit**	**2021**	2020
Total water consumption	m^3	**615.20**	316
Total water consumption intensity	m^3/million HK$ revenue	**0.40**	0.43

Use of Packaging Materials

Due to the nature of the Group's business, no packaging material is used in our business operations.

A3. The Environment and Natural Resources

The Group believes that corporate development should not come at the expense of the environment and natural resources, therefore the Group recognises the responsibility in minimising the negative environmental impacts of its business operations as an ongoing commitment to good corporate citizenship. The Group remains conscious of its potential impact and has established aforementioned environmental policies and procedures to regularly assess the environmental risks of its business model, adopt preventive measures to reduce risks, and ensure compliance with relevant laws and regulations.

Green Working Environment

The Group considers that providing a pleasant and safe working environment to its employees is of paramount importance. Air quality is therefore regularly monitored and measured. In offices, air purifying equipment is placed and the ventilation system is cleaned periodically. At well sites in the oil field, preventive and monitoring measures will be performed to regulate air emissions.

In addition to air quality, noise is regularly monitored and measured at the operation sites. The Group has formulated relevant guidelines for all parties involved in drilling operations to ensure that workers and the surrounding neighbourhood will not be disturbed. Such measures include:

- Equip the operation engines with soundproof enclosure or muffling devices;
- Install acoustic barriers and install equipment and pipeline underground;
- Arrange office or staff dormitory in the upwind direction of the prevailing wind;
- Inspect and maintain all equipment before use to ensure compliance of permitted noise level; and
- Only undertake drilling operation during permitted hours and days.

A4. Climate Change

Climate change is one of the most crucial issues of the past decade. In response to the community's gradual concern on climate changes and related issues, the Group has implemented the "Climate Change and Environmental Protection Policy", which outlines the Group's management approach on climate-related issues and commitment to climate mitigation, adaptation and resilience across its operations and along the value chain.

During the Reporting Period, making reference to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") framework, a climate risk assessment exercise is conducted to identify and assess the potential risks in our operations, thereby facilitating the formulation of our climate risk mitigation measures. Through the above method, the Group identified the material impacts on the Group's business arising from the following risks:

Physical Risks

The increasing frequency and severity of extreme weather events such as extreme cold or extreme heat, storms, rainstorms and typhoons, could lead to an increased risk of power shortages, interrupt the supply chain and damage the Group's assets, therefore disrupting the operation of the Group's offices and resulting in reduced revenue, as well as increasing the cost of repairing or restoring damaged sites. These events could also disrupt the work of employees and even cause casualties. Taking into account the risk of business interruption related to extreme weather events, the Group regularly organises emergency drills and strictly complies with the emergency plan initiated by the local government, so that loss can be reduced or avoided when extreme weather events affect the Group's operating sites.

Transition Risks

To achieve sustainable development, the PRC has driven energy transition to meet its 30–60 goals. As the country reorients its energy strategy, oil companies are anticipated to face an uncertain future and have to explore ways to expand their core business area beyond oil-related products. Failure to meet the climate change compliance requirements may expose the Group to risks of claims and lawsuits, or a decline in corporate reputation. In an attempt to respond to climate change, the Group will regularly monitor existing and emerging climate-related trends, policies and regulations to avoid reputational risks due to delayed response. In addition, the Group is striving to decarbonise its operations and increase its investment in renewables and lower-carbon alternatives, with the aim to transform itself into an integrated energy enterprise. The Group will continue to assess the effectiveness of the Group's actions to address climate change and enhance its resilience against climate-related issues.

B. SOCIAL

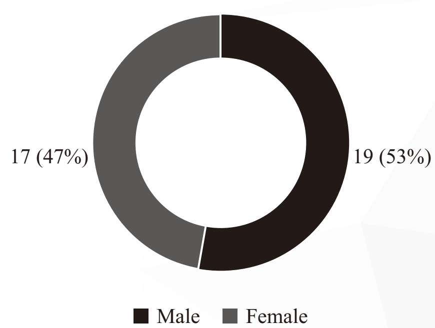
B1. Employment

When pursuing economic goals, we also bear social 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 in the "Employee Handbook" for each subsidiary, striving to create a favourable working environment for its employees and reduce labour and employment risks for the Group.

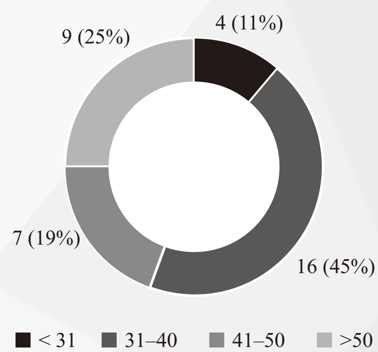
During the Reporting Period, the Group was not aware of any incident of non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that would have a significant impact on the Group, including but not limited to the "Labour Law of the People's Republic of China", "Labour Contract Law of the People's Republic of China" of the PRC, the "Employment Ordinance" of Hong Kong, and the "Fair Labor Standards Act" of the US.

As at 31 December 2021, the Group had a total of 36 full-time employees and no part-time employees within the reporting scope and the composition is shown below:

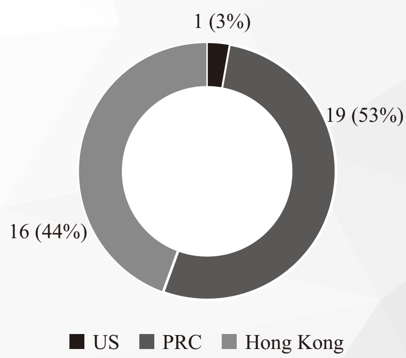
Total workforce by gender



Total workforce by age group



Total workforce by geographical region



Recruitment, Promotion, Remuneration and Dismissal

We uphold the principle of fairness, impartiality and openness employment in recruiting talents to provide sufficient talent reserves for the Group's businesses and strengthen the competitiveness of our business. Job applicants are assessed based on their suitability for the positions and potential to fulfil the Group's current and future needs, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

We offer competitive remuneration packages and promotion opportunities for outperforming employees to explore employees' capabilities. In accordance with labour laws and regulations, the remuneration packages of our employees are clearly laid out in the "Employee Handbook" and in the respective employment contracts of each employee. Through an open and fair performance review system, the Group determines employees' salaries, benefits and promotion opportunities based upon their job nature, experience, work performance, and with reference to the Group's financial performance and prevailing market conditions.

Apart from basic salary, the Group's employees are entitled to benefits and rights, which include but are not limited to Mandatory Provident Fund, statutory holidays and various types of paid leaves, where applicable, including annual leave, sick leave, maternity leave, parental leave, marital leave and bereavement leave. For employees in the PRC, the Group pays "Five Social Insurance and One Housing Fund" in accordance with the law, including endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident fund to protect employees' social insurance entitlements.

Besides, the Group does not tolerate the dismissal of employees on any unreasonable basis. Any termination of the employment contract would be based on reasonable and lawful grounds supported by internal policies of the Group.

During the Reporting Period, the employee turnover rate[9] of the Group was approximately 18% and the composition is as follows:

	Employee turnover rate
By gender	
Male	14%
Female	21%
By age group	
< 31	–
31–40	22%
41–50	22%
> 50	13%
By geographical location	
Hong Kong	25%
PRC	9%
US	–

Note:

9. The employee turnover rate is calculated by dividing the number of employees leaving employment during the Reporting Period by the average number of employees at the beginning and the end of the Reporting Period.

Equal Opportunity, Diversity and Anti-discrimination

The Group does not tolerate any form of discrimination within our operations, including but not limited to gender, disability, pregnancy, family status, race, religion, age, sexual orientation and other conditions as recognised 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 they also create a more friendly working environment of the Group, a more harmonious and peaceful social atmosphere, thus fulfilling social responsibility.

Team-building Activities

The Group is highly aware of the importance of teamwork in a corporate environment. Where opportunities arise, the Group organises 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.

B2. Health and Safety

The Group attaches importance to the health and safety of its employees. It has established “Health, Safety and Environment Management Approach” for each subsidiary in an effort to create a safe working environment for employees and to avoid any occupational hazards.

In the past three years (including the Reporting Period), there were zero reported incidents of work-related fatalities. During the Reporting Period, there were no lost days due to work injury. The Group was not aware of any material non-compliance with health and safety-related laws and regulations that would have a significant impact on the Group, including but not limited to the “Labour Law of the People’s Republic of China”, the “Law of the People’s Republic of China on the Prevention and Treatment of Occupational Diseases”, “Fire Control Law of the People’s Republic of China” of the PRC, and the “Occupational Safety and Health Ordinance” of Hong Kong, and “Occupational Health and Safety Act” of the US.

Occupational Health and Safety

Since oil mining is a high-risk activity, the Group has distributed safety instructions and training guidelines provided by the authorities to all parties involved in the exploitation. To ensure the safety of the operations, storage and transportation facilities, public works facilities and other auxiliary facilities should be strictly in accordance with national, industry and corporate standards to prevent any material leakage and accidents that could result in occupational hazards.

To prevent occupational hazards in our office operations, the Group displays warning signs on facilities and machines which are potentially hazardous or prone to accidents. We perform regular inspections in 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.

The Group complies with related working safety guidelines and constantly educates and reminds employees of the importance of occupational health and safety. The Group provides employees with relevant information on the emergency response through training, promotions, drills and regular safety inspections. We also participate in regular fire drills to raise employees' safety and fire prevention awareness.

Response to COVID-19 Pandemic

As part of the COVID-19 countermeasures and to prevent the spread of the virus, the Group strictly complies with the virus prevention regulations as required by the local governments and has distributed abundant information on the pandemic situation and relevant preventive measures to its employees. Employees were advised to get vaccinated, wear masks and avoid physical contact. Employees who travelled abroad or have a higher risk of exposure should have taken COVID-19 testing and seek medical advice promptly if feeling unwell.

The Group has implemented several infection preventive measures to protect its employees, including but not limited to increasing the frequency of cleaning and disinfection in the office areas, conducting stringent temperature checks, and providing sufficient surgical masks and alcohol-based hand sanitisers to its employees. The Group has also implemented work-from-home and shift work arrangements. Most physical meetings are replaced by virtual meetings to reduce the risk of spreading the virus.

B3. Development and Training

The Group attaches great importance to the working performance and development of employees during their employment periods. In order to stimulate the potential of our employees, we are endeavour to provide a diversified training development framework as per the requirements of different staff members working at different positions. Details on its training management procedures have been clearly stated in the Group's "Employee Handbook".

Provision of Training Opportunities

The Group provides a wide variety of training for its employees to equip themselves with work-related skills. New joiners will receive orientation training covering corporate culture, regulations and system, safety training, environmental health and safety training, job skills and work procedures. The Group evaluates and monitors its training programmes to ensure effective and quality execution.

Apart from internal training, the Group also highly encourages the directors and employees to attend industry conferences, seminars and workshops to enrich professional knowledge and to keep up with the latest development in the industry.

During the Reporting Period, the percentage of employees trained[10] by the Group was approximately 61%, and the average training hours per employee[11] was approximately 7.08 hours. The breakdown of the percentage of employee and the average number of training hours completed per employee by gender and employee category is as follows:

	Percentage of trained employees[12]	Average training hours[13]
By gender		
Male	50%	7.74
Female	50%	6.35
By employee category		
Senior Management	9%	2.14
Middle Management	36%	10.00
General Staff	55%	10.36

Notes:

10. This percentage is calculated by dividing the total number of employees who took part in training during the Reporting Period by the total number of employees at the end of the Reporting Period.

11. The average training hours completed per employee is calculated by dividing the total number of training hours during the Reporting Period by the total number of employees at the end of the Reporting Period.

12. The percentage of employees trained by category is calculated by dividing the number of employees in the specified category who took part in training during the Reporting Period by the total number of employees who took part in training during the Reporting Period.

13. The average training hours completed per employee by category is calculated by dividing the number of training hours for employees in the specified category during the Reporting Period by the number of employees in the specified category at the end of Reporting Period.

B4. Labour Standards

The Group strictly prohibits human rights abuses and has formulated the "Corporate Social Responsibility Policy" to ensure that all work that is performed on our behalf is in compliance with all relevant labour laws and regulations. During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to the prevention of forced labour and child labour that would have a significant impact on the Group, including but not limited to "Regulation on Labour Security Supervision", the "Labour Law of the People's Republic of China" and "Labour Contract Law of the People's Republic of China" of the PRC, the "Employment Ordinance" of Hong Kong, and the "Fair Labor Standards Act" of the US.

Prevention of Child and Forced Labour

To avoid illegal employment of child labour, applicants are required to submit copies of their identification documents for verification of their age and identity during the recruitment process. Personal data and credentials of job applicants are kept in a secure data system for human resource purposes, which is only accessible to authorised personnel.

To avoid any violation of the labour standards and protect employees' legal rights and interests, the Group's employees work overtime on a voluntary basis. Terms of leave entitlement, working hours, rest, labour protection and termination of employment are clearly laid out in the "Employee Handbook" and respective employment contracts of each employee.

The Group will conduct investigations, punishment or dismissal of relevant employees immediately when any non-compliance is being discovered. If necessary, the Group will further improve the labour mechanism against illegal behaviours.

B5. Supply Chain Management

The Group believes that effective supply chain management can serve to lower costs and improve quality as well as to mitigate social or environmental risks that an organisation may face. To manage potential environmental and social risks in its supply chain, the Group has established the "Suppliers Management Requirements" to manage its supplier selection process. In respect of supply management of our operation of gas and oil field, our main suppliers include service providers for on-site support. During the Reporting Period, the Group had a total of 15 suppliers, 14 were located in the PRC and 1 was located in the US.

Procurement Mechanism

We promote fair and open competition and aim to develop long-term relationships based on mutual trust. 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 not limited to their social responsibility and environmental protection efforts. The Group is concerned about the integrity of suppliers and partners and will only select those with a good business track record without any material non-compliance or unethical behaviours.

The Group has formulated "Anti-fraud and Anti-corruption Policy" and "Conflict of Interest Policy" to monitor the procurement activities and strictly prohibit any practices that are against business ethics. We closely communicate with our subsidiaries and require them to carefully manage the relationship with suppliers and business partners in avoidance of transfer of interests or exploitation of suppliers. During the Reporting Period, the Group has implemented the above practices relating to engaging suppliers to all suppliers.

Sustainable Supply Chain

The Group expects suppliers to meet its standards in terms of environment, society, corporate governance, business ethics, etc. The Group will evaluate the environmental and social risks of suppliers' operation and business regularly, to ensure suppliers' compliance with relevant environmental and social regulations as well as the other requirements, and to examine the supplier's awareness in each of these areas.

As stated in Aspect A1, we have formulated several environmental policies to involve suppliers in the implementation of our environmental objectives. In order to minimise the adverse effect of pollution and waste on the surrounding environment, and to ensure the health and safety of the operations, the Group's suppliers must follow the preventive measures specified in the policies. The Group regularly visits the site to inspect the quality, environment, health and safety conditions.

Furthermore, we promote environmentally responsible purchasing through the adoption of sustainable and responsible selection criteria whenever applicable. The Group will continue to review its supply chain periodically with regard to the suppliers' performance and environmental and social standards. Any material violation of laws and regulations may lead to the termination of supplier contracts. The Group will also regularly monitor the effectiveness of the above supply chain management mechanism.

B6. Product Responsibility

The Group is committed to providing quality products and services to its customers. The Group has formulated a set of stringent policies and procedures for its production and sales activities. As high-quality products and services can help build a strong corporate reputation, we are dedicated to maintaining high-level service and product quality through internal control. We maintain ongoing communication with our customers to ensure that we understand and meet their demands and expectations, as well as understand their level of satisfaction to improve our service quality.

During the Reporting Period, the Board was not aware of any material non-compliance with laws and regulations concerning health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress that would have a significant impact on the Group, including but not limited to "Law of the People's Republic of China on the Protection of Consumer Rights and Interests", "Advertising Law of the People's Republic of China", "Interim Measures for the Administration of Internet Advertising", "Product Quality Law of the People's Republic of China" of the PRC, the "Trade Descriptions Ordinance" of Hong Kong, and "US Consumer Protection Safety Act" of the US.

As the Group is principally engaged in the trading business, no recall of the Group's products due to health and safety reasons is required.

Quality Assurance

The Group strives to provide our customers with competitive products and services with standardised service quality, humanised service process and regulated service management. We stress the importance of understanding clients' needs, and regards them as the foundation for the continuous improvement of our business. Customers can submit their opinions or complaints via email, phone or in person. The process is confidential to protect all parties' interests and ensure fairness and proper documentation of the process.

The complaint handling procedures have been established by the Group to allow relevant departments to carry out a detailed investigation, actively monitor the handling process, coordinate and communicate with all involved parties, and properly respond to complaints. We strive to understand the truth and root causes of complaints made by our customers and identify responsible parties and areas for improvement in order to enhance the Group's service quality, as well as to retain customers by earning their loyalty towards the Group's service and to facilitate the Group's future development. During the Reporting Period, there were zero reported material complaints about products and services. Customer satisfaction has reached our expected level.

Customer Privacy Protection

The Group attaches high importance to safeguarding clients' interests and privacy and strives to maintain and protect personal data. All personal data collected from customers are kept confidential, and our computers and servers are protected by access passwords to prevent unauthorised access. As stipulated in the Group's Code of Conduct in the "Employee Handbook", employees are instructed to ensure data is collected, used, maintained, managed, stored and handled properly and secured appropriately. The Group will conduct regular inspection on the information system to monitor the execution of the said policy.

Intellectual Property Rights

Despite intellectual property rights are not considered a material ESG aspect to the Group due to the Group's business nature, the Group has established relevant policies in the "Employee Handbook" to govern the information technology management within the Group. Employees are not allowed to download software or uses any information that would infringe copyright. Furthermore, the Group closely monitors and prevents any infringement behaviour such as counterfeit trademarks in the market. The Group will continue to monitor such behaviour to ensure that its intellectual property rights are not being infringed upon.

Advertising and Labelling

Due to its business nature, the Group conducts limited advertising campaigns and therefore does not involve any significant advertising-related risks. Nevertheless, in terms of the advertisement of products and services, we strictly regulate and monitor products and services promotion to ensure that they comply with advertising and labelling related laws and regulations. Such marketing and promotion must accurately reflect the quality and performance of the Group's products and services in order to let clients "get what they see".

B7. Anti-corruption

The Group adheres to "Anti-fraud and Anti-corruption Policy" that describes 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 formulated its anti-corruption strategy based on Anti-Corruption Programme – A Guide for Listed Companies published by Independent Commission Against Corruption ("ICAC").

During the Reporting Period, there was no concluded legal case regarding corrupt practices brought against the Group or its employees. The Group was also not aware of any material non-compliance with related laws and regulations concerning bribery, extortion, fraud, and money laundering that would have a significant impact on the Group, including but not limited to the "Company Law of the People's Republic of China", "Bidding Law of the People's Republic of China" of the PRC, the "Prevention of Bribery Ordinance" of Hong Kong, and the "Foreign Corrupt Practices Act" of the US.

During the Reporting Period, the directors and employees of the Group have received approximately 3 and 13 hours of anti-corruption training respectively. Such training familiarises the Board and employees at various levels with their corresponding roles and responsibilities in anti-corruption and business ethics, and helps cultivate employee's awareness towards anti-corruption and a high standard of professional conduct to comply with the laws in the operating locations of the Group.

Whistle-blowing Mechanism

The Group strives to maintain a high level of ethical corporate culture and has established the "Whistle-blowing Management Requirements". Employees are encouraged to report occurrences of suspicious activities. Investigations 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 the 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. The Group will regularly evaluate the effectiveness of the mechanism to monitor the execution of the said policy.

B8. Community Investment

The Group is devoted to becoming a responsible corporate citizen and offering appropriate resources to the needy in the community. To fulfil our corporate social responsibility, the Group has formulated the "Social Welfare Policy" on community engagement which states our selection criteria of the suitable donation partners. Meanwhile, the Group also encourages our staff to donate to the recognised charitable institutions in order to help the grass-roots communities or those in need.

Corporate Social Responsibility

The Group actively looks for the opportunities and focuses on supporting our local communities, such as tree planting in the 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. During the Reporting Period, the Group has spent approximately 13 hours on the street snow removal activity. This activity demonstrates the Group's willingness to build a caring community. The Group will continue to embolden and support the public by various means of social participation and contribution as part of our strategic development.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE

Mandatory Disclosure Requirements	Section/Declaration
Governance Structure	ESG Governance Structure
Reporting Principles	About The Environmental, Social and Governance Report – Reporting Framework
Reporting Boundary	About The Environmental, Social and Governance Report – Reporting Scope

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions – Air Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions – GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable – explained
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions – Waste Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Emissions – Air Emissions, GHG Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emissions – Waste Management

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Use of Resources – Energy Management
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Use of Resources – Water Management
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources – Energy Management
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Resources – Water Management
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable – explained
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources – Green Working Environment
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change – Physical Risks Transition Risks

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment – Recruitment, Promotion, Remuneration and Dismissal
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety – Occupational Health and Safety, Response to COVID-19 Pandemic

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training – Provision of Training Opportunities
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training – Provision of Training Opportunities
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards – Prevention of Child and Forced Labour
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards – Prevention of Child and Forced Labour
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management – Procurement Mechanism
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management – Sustainable Supply Chain
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management – Sustainable Supply Chain

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable – explained
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility – Quality Assurance
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility – Intellectual Property Rights
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility – Quality Assurance
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility – Customer Privacy Protection

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Anti-corruption – Whistle-blowing Mechanism
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment – Corporate Social Responsibility
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment – Corporate Social Responsibility

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2021 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 32 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2021 (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 Chairman'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 in all material respects.

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 14 to 39.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 65.

The board of directors (the "Board" or the "Directors") do not recommend the payment of final dividend for the Year (2020: 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 68 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2021, 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' Report

DIRECTORS

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

Executive Directors:

Yu Jiyuan *(appointed as the Chairman on 03/06/2021 and the Chief Executive Officer)*
Liu Gui Feng *(resigned as the Chairlady and executive Director on 03/06/2021)*
Lin Qing Yu
Chen Junyan
Li Songtao
Yang Yuyan *(re-designated from an independent non-executive Director to an executive Director on 06/08/2021)*
Sun Xiaoze *(appointed on 06/08/2021)*

Non-Executive Directors:

Yu Zhibo *(appointed as the vice-chairman on 03/06/2021)*
Zheng Ye *(appointed on 06/08/2021)*

Independent Non-Executive Directors:

Zhong Bifeng
Pang Jun
Huang Qingwei *(appointed on 06/08/2021)*
Shen Shigang *(appointed on 06/08/2021)*

In accordance with Bye-law 86(2) of the Company, each of Ms. Sun Xiaoze, Mr. Zheng Ye, Ms. Huang Qingwei, and Mr. Shen Shigang, 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, Mr. Yu Jiyuan, Ms. Chen Junyan and Ms. Zhong Bifeng will retire at the forthcoming annual general meeting, who being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors of the Company are set out on pages 6 to 8 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

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

As at 31 December 2021, 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	580,172,014[2]	68.91%
Yu Zhibo	Interest in controlled corporation	580,172,014[2]	68.91%
Zhong Bifeng	Beneficial owner	5,000,000	0.59%

Notes:

1. The Company had 841,879,482 Shares in issue as at 31 December 2021.

2. These 580,172,014 Shares are held by Xin Hua Petroleum (Hong Kong) Limited, which, in turn, is owned by Mr. Yu Zhibo as to 46.28%, Ms. Chen Junyan 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
Yu Zhibo	Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	4,628	46.28%[1]
Chen Junyan	Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	3,492	34.92%[1]

Note:

1. In May 2021, Ms. Chen Junyan transferred 1,136 shares in Xin Hua Petroleum (Hong Kong) Limited to Mr. Yu Zhibo. As a result, Mr. Yu Zhibo's shareholding in Xin Hua Petroleum (Hong Kong) Limited increased from 34.92% to 46.28% and Ms. Chen Junyan's shareholding decreased from 46.28% to 34.92%.

Save as disclosed above, at 31 December 2021, 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 set out in Appendix 10 to the Listing Rules, 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 SFO shows that, as at 31 December 2021, 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	580,172,014[2]	68.91%

Notes:

1. The Company had 841,879,482 Shares in issue as at 31 December 2021.

2. These 580,172,014 Shares are held by Xin Hua Petroleum (Hong Kong) Limited which, in turn, is owned by Ms. Yu Zhibo as to 46.28%, Ms. Chen Junyan 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 approximately 7.27% of the issued Shares as at the date of this report;

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;

7. 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;

8. 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

9. 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.

PENSION SCHEME

The Group participates in a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

As stipulated by the regulations of the PRC, the Group participates in the defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at a range from 14% to 20% of the salaries, bonuses and certain allowances of the employees.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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.

UPDATE ON USE OF PROCEEDS FROM RIGHTS ISSUE

The remaining balance of the net proceeds from the rights issue completed on 10 December 2020 (the "Rights Issue") was approximately HK$16.7 million at the beginning of the Year. The said remaining balance of the net proceeds from the Rights Issue at the beginning of the Year has been utilised in full during the Year in accordance with the intentions previously disclosed by the Company as follows:

Use of Net Proceeds	**Intended allocation of the remaining Net Proceeds** *(HK$ million)*	**Actual allocation of the remaining Net Proceeds during the Year** *(HK$ million)*
Working capital of the Group's subsidiary namely Pearl Oriental (Daqing) Oil Limited	6.0	6.0
General working capital of the Group	10.7	10.7

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 2021.

RESIGNATION AND RE-DESIGNATION OF DIRECTORS DURING THE YEAR

Ms. Liu Gui Feng resigned from her position as the Chairlady and an executive Director of the Board due to her age and health reasons, with effect from 3 June 2021. Ms. Liu confirmed that she had no disagreement with the Board and there were no matters in relation to her resignation that needs to be brought to the attention of the shareholders of the Company or the Stock Exchange. Mr. Yu Jiyuan, an executive Director, the Vice Chairman of the Board and the CEO of the Company, was re-designated as the Chairman of the Board. For details, please refer to the announcement of the Company on 2 June 2021.

On 6 August 2021, Ms. Yang Yuyan was re-designated from an independent non-executive Director of the Board to an executive Director of the Board.

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.

EQUITY-LINKED AGREEMENT

No equity-linked agreement was entered into by the Company during the Year or subsisted at the end of the Year.

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, other than the contracts entered into with its Directors and employees, 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 27 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.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the year ended 31 December 2021 and up to the date of this annual report.

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 and oil-related products.

During the Year, the aggregate turnover attributable to the Group's largest customer and five largest customers accounted for approximately 19.9% (2020: 16.7%) and 56.9% (2020: 55.7%) 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 30.4% (2020: 39.6%) and 80.6% (2020: 80.0%) respectively of the total purchase of the Group.

At no time during the Year did a Director, a close 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.

CHANGES IN INFORMATION RELATING TO DIRECTORS

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 interim report. The change of Directors' information is set out below:

1. Ms. Sun Xiaoze has been appointed as the deputy general manager of Palm Energy (Hainan) Co. Ltd, a subsidiary of the Group and she has been entitled to an annual remuneration of approximately RMB120,000 for her role as the deputy general manager of Palm Energy (Hainan) Co. Ltd and director emoluments of HK$120,000.

2. Mr. Yang Yuyan was re-designated from an independent non-executive Director to an executive Director on 6 August 2021.

AUDITORS

Following the retirement of Cheng & Cheng Limited on 26 June 2020, Mazars CPA Limited was appointed as independent auditors of the Company by the shareholders of the Company at the annual general meeting held on 26 June 2020 to fill in the vacancy following the retirement of Cheng & Cheng Limited.

The Board also confirmed that there was no disagreement between Cheng & Cheng Limited and the Company. For details, please refer to the announcement of the Company on 27 May 2020.

Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The consolidated financial statements for the year ended 31 December 2021 have been audited by Mazars CPA Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board

Yu Jiyuan
Chairman and Executive Director

31 March 2022

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 is responsible for performing the corporate governance functions of the Company. 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, with the exception of code provision A.2.1 of the CG Code, the Company has complied throughout the Year with the CG Code as contained in Appendix 14 to the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision 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.

As disclosed in the announcement dated 2 June 2021, Ms. Liu Gui Feng resigned as the Chairlady of the Company on 3 June 2021; Mr. Yu Jiyuan, an executive Director, the Vice Chairman of the Board and the CEO of the Company, was re-designated as the Chairman of the Board on 3 June 2021. Mr. Yu Jiyuan who is the Chairman of the Board and the CEO of the Company is also responsible for overseeing the general operations of the Group. The Board meets regularly to consider major matters concerning the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to a strong and consistent leadership enabling the Group to make and implement decisions promptly and efficiently.

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 Directors, two non-executive Directors 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.

The Company has insured director's liability insurances for the directors, which provided protection to the directors for liabilities that might arise in the course of their performance of duties.

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 INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all INEDs to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

NON-EXECUTIVE DIRECTORS

All non-executive Director and INEDs have been appointed for a fixed term. Pursuant to the letters of appointment between the Company and the INEDs, the INEDs have been appointed for a term of one year which may be terminated by either party by giving one month's written notice. Pursuant to service contract between the Company and the non- executive Director, the non-executive Director has been appointed for a term of three years which may be terminated by either party by giving one month's 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 E.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 HK$)*	**Number of Individuals**
Nil to 1,000,000	5
1,000,001 to 2,000,000	1
Above 2,000,001	Nil

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

According to the code provision A.6.5 of the CG 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		
Yu Jiyuan	✓	✓
Lin Qing Yu	✓	✓
Chen Junyan	✓	✓
Li Songtao	✓	✓
Yang Yuyan	✓	✓
Sun Xiaoze	✓	✓
Non-Executive Directors		
Yu Zhibo	✓	✓
Zheng Ye	✓	✓
Independent Non-Executive Directors		
Zhong Bifeng	✓	✓
Pang Jun	✓	✓
Huang Qingwei	✓	✓
Shen Shigang	✓	✓

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 was appointed as the Company Secretary on 1 October 2019. Ms. Liu graduated with Bachelor of Commerce (Accounting) from The University of Sydney in October 2007 and a Master of Financial Analysis from University of New South Wales, Australia in August 2010. Ms. Liu is a member of both Hong Kong Institute of Certified Public Accountants and the CPA Australia. From July 2015 to May 2017, Ms. Liu was the company secretary of e-Kong Group Limited (stock code: 524), a company listed on the Stock Exchange. From September 2017 to May 2019, Ms. Liu was the company secretary, the financial controller and the chief assistant to the chairman of Man Wah Holdings Limited (stock code: 1999), a company listed on the Stock Exchange. From October 2010 to February 2015, Ms. Liu was working at PricewaterhouseCoopers. During the Year, Ms. Liu has undertaken over 15 hours of professional training pursuant to Rule 3.29 of the Listing Rules to update her 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 range of measurable objectives, 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. The Nomination Committee will from time to time discuss and agree on the measurable objective for achieving diversity of the Board. The existing Board members come from a variety of business and professional backgrounds: five out of twelve Board members are women; two of the Board members have a legal education background, two of the Board members have tax and accounting background one of the Board members has auditing experiences. With regard to age groups, five members of the Board are at the age below 40, three members of the Board are at the age between 41 to 50, and four members of the Board are at the age above 50.

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 CG 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, COMMITTEE MEETINGS AND SHAREHOLDERS' MEETING ATTENDANCE

During the Year, eight (8) board meetings have been held, the attendance of each director, on named basis and by category at Board meetings, committee meetings and shareholders' meeting is set out below:

	Meetings attended/held				
	Board Meetings	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**Annual General Meeting on 25 June 2021**
Executive Directors:					
Yu Jiyuan (re-designated as the Chairman on 3 June 2021)	8/8	N/A	2/2	3/3	1/1
Liu Gui Feng (resigned as the Chairlady and an executive Director on 3 June 2021)	4/5	N/A	N/A	N/A	N/A
Lin Qingyu	4/8	N/A	N/A	N/A	1/1
Chen Junyan	4/8	N/A	N/A	N/A	1/1
Li Songtao	6/8	N/A	N/A	N/A	1/1
Yang Yuyan (re-designated as an executive Director on 6 August 2021) *(Note 1)*	8/8	1/1	N/A	2/2	N/A
Sun Xiaoze (appointed on 6 August 2021)	2/2	N/A	N/A	N/A	N/A
Non-executive Directors:					
Yu Zhibo (appointed as the vice-chairman on 3 June 2021)	8/8	N/A	N/A	N/A	1/1
Zheng Ye (appointed on 6 August 2021)	2/2	N/A	N/A	N/A	N/A
Independent Non-executive Directors:					
Zhong Bifeng	6/8	3/3	2/2	2/3	1/1
Pang Jun	7/8	3/3	2/2	N/A	1/1
Huang Qingwei (appinted on 6 August 2021)	2/2	2/2	N/A	N/A	N/A
Shen Shigang (appointed on 6 August 2021)	1/2	N/A	N/A	1/1	N/A
Yang Yuyan (re-designated as an executive Director on 6 August 2021) *(Note 1)*	6/6	1/1	N/A	2/2	1/1

Note:

(1) Ms. Yang Yuyan was redesignated from an independent non-executive Director to an executive Director on 6 August 2021. Ms. Yang Yuyan also resigned as a member and the chairman of Audit Committee and a member of the Remuneration Committee on the same date. Prior to the re-designation, Ms. Yang Yuyan attended six Board Meetings, one Audit Committee meeting, two Remuneration Committee meetings in the capacity as an independent non-executive Director. After the re-designation, Ms. Yang attended two Board meetings in the capacity as an executive Director.

To the best knowledge of the Board, save as Mr. Yu Zhibo is the father of Mr. Yu Jiyuan, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 December 2021.

REMUNERATION COMMITTEE

As at 31 December 2021, the Remuneration Committee currently comprises three Directors, namely Ms. Zhong Bifeng (Chairlady), Mr. Yu Jiyuan and Mr. Shen Shigang.

The Remuneration Committee met three times in the Year. Individual attendance of each committee member at these meetings is shown in the section headed "Board Meetings, Committee Meetings and Shareholders' Meeting Attendance" in this annual report.

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 currently comprises three Directors, namely Mr. Pang Jun (Chairman), Mr. Yu Jiyuan and Ms. Zhong Bifeng.

The principal role of the Nomination 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 two times in the Year. Individual attendance of each committee member at these meetings is shown in the section headed "Board Meetings, Committee Meetings and Shareholders' Meeting Attendance" in this annual report.

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. The Nomination Committee will from time to time discuss and agree on measurable objective for achieving diversity of the Board. For details, please refer to the section headed "Board diversity policy" in this annual report. 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.

The nomination procedures of the Nomination Committee are set out below:

1. The secretary of the Nomination Committee or the Company Secretary shall call a meeting of the Nomination Committee, and invites nominations of candidates from Board member if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

2. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

3. Until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.

4. In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from shareholders, a circular will be sent to shareholders. The circular will set out the lodgment period for shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders.

5. A shareholder can serve a notice to the Company Secretary within the lodgement period of its intention to propose a resolution to elect a certain person as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular. The particulars of the candidates so proposed will be sent to all shareholders for information by a supplementary circular. A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the Company Secretary or Chairman.

6. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting. The Nomination Committee may obtain independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

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 the annual general meeting of the Company held on 25 June 2021;

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

(iii) reviewed and considered the qualification and the background in respect of appointment of the Directors.

AUDIT COMMITTEE

The Audit Committee currently comprises all three INEDs, namely Ms. Huang Qingwei (Chairlady), Ms. Zhong Bifeng and Mr. Pang Jun. During the Year, the Audit Committee held three meetings to review annual financial results and reports in respect of the year ended 31 December 2021, and interim financial results and reports in respect of the period ended on 30 June 2021. 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 appointment 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. The Group's internal control system is based on the Integrated Framework of the Committee of Sponsoring Organisations of the Treadway Commission on Internal Control. 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.

According to the established plan, a review of the risk management and internal control systems is conducted annually and the report of internal control assessment and the report of the risk management are submitted to the Audit Committee for their consideration. The Audit Committee will then report to the Board the key findings and recommendations for their consideration and implementation.

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 management conducted interviews with relevant staff members, reviewing relevant documentation of the internal control system, identifying and evaluating findings of any deficiencies in the design of the Company's internal control system, providing recommendations for improvement and following up on the effectiveness of implementation of such recommendations, where appropriate. Procedure manuals and operational guidelines are in place to safeguard the assets against unauthorised use or disposition, ensuring maintenance of proper accounting records in compliance with the applicable laws, rules and regulations for the provision of reliable financial information for internal use and/or external publication. The result and findings are reported to the Chairman 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 2021, the nature of the audit and non-audit services provided by the auditors of the Company, Mazars CPA Limited, and the relevant fee paid and payable by the Company for such services are as follows:

	HK$'000
Annual audit services	860
Non-assurance services	171
	1,031

The other non-assurance services mainly cover the interim results of the Group for the six months ended 30 June 2021.

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 statement of the external auditors of the Company, Mazars CPA 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 61 to 64.

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 Units 2617–18, 26/F, Mira Place Tower A, No. 132 Nathan Road, 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 Units 2617–18, 26/F, Mira Place Tower A, No. 132 Nathan Road, 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 Units 2617–18, 26/F, Mira Place Tower A, No. 132 Nathan Road, 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 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.

CONSTITUTIONAL DOCUMENT

There has not been amendments to the constitutional document of the Company during the Year.

Independent Auditor's Report

MAZARS CPA LIMITED
中審眾環（香港）會計師事務所有限公司
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18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
Tel 電話：(852) 2909 5555
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To the shareholders of
CHK Oil Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of CHK Oil Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 65 to 121, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 financial position of the Group as at 31 December 2021, and of its financial performance and 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 (the "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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of intangible assets and oil and gas properties	
Refer to notes 12 and 14 to the consolidated financial statements. As at 31 December 2021, the Group's intangible assets of HK$325,604,000 and property, plant and equipment of HK$54,146,000 were allocated to and monitored within the oil and gas sales segment. Any impairment of these non-current assets identified may have material impact on the consolidated financial statements. The carrying amounts of these non-current assets are subject to impairment assessments annually or when there is an indication of impairment or an impairment loss is reversed if there has been a favorable change in the estimates used to determine their recoverable amount. For the purpose of assessing impairment, these intangible assets and property, plant and equipment, being the oil and gas properties, were identified as a cash generating unit (the "Oil and Gas Sales CGU"), and the Group engaged an independent and qualified professional valuers to assess the recoverable amount of the Oil and Gas Sales CGU which is determined based on the higher of the fair value less costs of disposal and the value in use. The management estimated the recoverable amount of the Oil and Gas Sales CGU based on their fair value less costs of disposal and concluded that a reversal of impairment loss in aggregate of HK$111,423,000 in relation to the intangible assets and property, plant and equipment is recognised for the year ended 31 December 2021. Impairment assessment of the significant carrying amount of those assets is highly judgmental and involves a high degree of estimation uncertainty. We therefore identified the impairment assessment as a key audit matter.	In addressing this matter, we had performed the following key procedures: a) We evaluated the competence, capabilities and objectivity of the valuers; b) We performed procedures to understand the key processes and controls relating to the assessment of the recoverable amounts of the Oil and Gas Sales CGU; c) We evaluated the appropriateness of the methodology used for the determination of recoverable amount of the Oil and Gas Sales CGU; d) We evaluated the reasonableness of key assumptions applied in the fair value less costs of disposal calculations with reference to available market data; e) We performed sensitivity analysis over the key assumptions used in order to assess the potential impact of a range of possible outcomes; f) We checked with comparable data through internal or external sources, on a sample basis, the accuracy and relevancy of the input data used; and g) We considered the adequacy of the Group's disclosure in respect of the impairment assessment.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2021 annual report of the Company 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 THOSE CHARGED WITH GOVERNANCE 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 1981, 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 judgement 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, actions taken to eliminate threats or safeguards applied.

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.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2022

The engagement director on the audit resulting in this independent auditor's report is:
Chan Chi Wai
Practising Certificate number: P05708

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Revenue	4	**1,528,065**	736,762
Cost of sales		**(1,432,258)**	(694,483)
Gross profit		**95,807**	42,279
Other income	5	**1,900**	5,889
Administrative expenses		**(18,777)**	(24,804)
Reversal of impairment loss of property, plant and equipment	12	**15,887**	–
Reversal of impairment loss of intangible assets	14	**95,536**	–
Finance costs	6	**(228)**	(4,179)
Profit before tax	7	**190,125**	19,185
Income tax expense	8	**(42,305)**	(10,469)
Profit for the year		**147,820**	8,716
Other comprehensive income for the year, net of tax			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**5,936**	3,119
Total comprehensive income for the year		**153,756**	11,835
Profit attributable to:			
Owners of the Company		**147,820**	8,716
Non-controlling interests		**–**	–
		147,820	8,716
Total comprehensive income attributable to:			
Owners of the Company		**153,756**	11,835
Non-controlling interests		**–**	–
		153,756	11,835
Earnings per share			
– Basic and diluted	10	**HK17.56 cents**	HK1.38 cents

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**54,374**	38,610
Intangible assets	*14*	**325,604**	230,068
Right-of-use assets	*13*	**1,052**	2,567
Statutory deposits and other assets	*15*	**2,622**	2,622
		383,652	273,867
Current assets			
Trade receivables	*16*	**74,534**	56,428
Prepayments, deposits and other receivables	*17*	**150,285**	184,375
Bank balances and cash	*18*	**9,069**	27,948
		233,888	268,751
Current liabilities			
Trade and other payables	*19*	**74,262**	76,722
Contract liabilities	*20*	**–**	104,960
Loan from a substantial shareholder	*21*	**2,000**	–
Lease liabilities	*22*	**1,105**	1,459
Tax payable		**18,053**	11,007
		95,420	194,148
Net current assets		**138,468**	74,603
Total assets less current liabilities		**522,120**	348,470
Non-current liabilities			
Deferred tax liabilities	*23*	**50,133**	29,020
Lease liabilities	*22*	**–**	1,219
Asset retirement obligations	*24*	**82**	82
		50,215	30,321
Net assets		**471,905**	318,149

As at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Equity			
Share capital	*25*	**168,376**	168,376
Reserves		**302,514**	148,758
Equity attributable to owners of the Company		**470,890**	317,134
Non-controlling interests		**1,015**	1,015
Total equity		**471,905**	318,149

These consolidated financial statements on pages 65 to 121 were approved and authorised for issue by the Board of Directors on 31 March 2022 and signed on its behalf by:

Yu Jiyuan
Executive Director

Chen Junyan
Executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Equity attributable to owners of the Company									
	Share capital *HK$'000*	**Share premium** *HK$'000* *Note 26(e)*	**Treasury shares reserve** *HK$'000* *Note 26(b)*	**Capital reserve** *HK$'000* *Note 26(a)*	**Statutory reserve** *HK$'000* *Note 26(c)*	**Translation reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Sub-total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
At 1 January 2020	122,455	2,816,743	(10,556)	403,851	–	91	(3,072,140)	260,444	1,015	261,459
Profit for the year	–	–	–	–	–	–	8,716	8,716	–	8,716
Other comprehensive income for the year	–	–	–	–	–	3,119	–	3,119	–	3,119
Total comprehensive income for the year	–	–	–	–	–	3,119	8,716	11,835	–	11,835
Transactions with owners:										
Contributions and distributions										
Transfer to statutory reserve	–	–	–	–	3,484	–	(3,484)	–	–	–
Issue of new shares upon rights issue *(note 25(a))*	45,921	(1,066)	–	–	–	–	–	44,855	–	44,855
Total transactions with owners	45,921	(1,066)	–	–	3,484	–	(3,484)	44,855	–	44,855
At 31 December 2020 and 1 January 2021	**168,376**	**2,815,677**	**(10,556)**	**403,851**	**3,484**	**3,210**	**(3,066,908)**	**317,134**	**1,015**	**318,149**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**147,820**	**147,820**	**–**	**147,820**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**5,936**	**–**	**5,936**	**–**	**5,936**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**5,936**	**147,820**	**153,756**	**–**	**153,756**
Transactions with owners:										
Contributions and distributions										
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**7,306**	**–**	**(7,306)**	**–**	**–**	**–**
Total transactions with owners	**–**	**–**	**–**	**–**	**7,306**	**–**	**(7,306)**	**–**	**–**	**–**
At 31 December 2021	**168,376**	**2,815,677**	**(10,556)**	**403,851**	**10,790**	**9,146**	**(2,926,394)**	**470,890**	**1,015**	**471,905**

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Cash flows from operating activities			
Profit before tax		**190,125**	19,185
Adjustments for:			
Finance costs		**228**	4,179
Depreciation of property, plant and equipment		**180**	1,588
Depreciation of right-of-use assets		**1,472**	3,463
Interest income		**(20)**	–
Reversal of impairment loss of property, plant and equipment		**(15,887)**	–
Reversal of impairment loss of intangible assets		**(95,536)**	–
Write-back of interest payables		**–**	(4,854)
Loss on disposal of property, plant and equipment		**–**	293
Gain on disposal of right-of-use assets		**(251)**	–
Operating profit before working capital changes		**80,311**	23,854
Increase in trade receivables		**(16,239)**	(52,417)
Decrease (increase) in prepayments, deposits and other receivables		**40,098**	(175,614)
(Decrease) increase in trade and other payables		**(4,708)**	64,764
(Decrease) increase in contract liabilities		**(108,433)**	104,960
Cash used in operations		**(8,971)**	(34,453)
Interest received		**20**	–
Tax (paid) refunded		**(14,146)**	388
Net cash used in operating activities		**(23,097)**	(34,065)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(57)**	(151)
Proceeds from disposal of right-of-use assets		**294**	–
Net cash from (used in) investing activities		**237**	(151)
Cash flows from financing activities			
Net proceeds from subscription of shares		**–**	44,855
Loan from a substantial shareholder	30	**2,000**	–
Repayment of unsecured loans	30	**–**	(36,186)
Interest paid	30	**(228)**	(264)
Repayment of lease liabilities	30	**(1,573)**	(3,090)
Net cash from financing activities		**199**	5,315
Net decrease in cash and cash equivalents		**(22,661)**	(28,901)
Effect on exchange rate changes		**3,782**	2,960
Cash and cash equivalents at beginning of the reporting period		**27,948**	53,889
Cash and cash equivalents at end of the reporting period, represented by bank balances and cash		**9,069**	27,948

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2020 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year, or which the Group has elected to early adopt in the current year. A summary of the principal accounting policies adopted by the Group is out below.

Adoption of new/revised HKFRSs

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

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2
Amendments to HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16: Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to:

- changes to contractual cash flows – a company will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting – a company will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and
- disclosures – a company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

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

Amendments to HKFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2021

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

These amendments shall be applied for annual periods beginning on or after 1 April 2021 with earlier application permitted. The Group has elected to early adopt the amendments in the current year. In accordance with the transition provisions therein, the amendments have been applied retrospectively by the Group recognising the cumulative effect of initially applying the amendments as an adjustment to the opening balance of accumulated losses (or other component of equity, as appropriate) and therefore the comparative information has not been restated.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

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.

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

Allocation of total comprehensive income

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.

Change in ownership interest

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

Change in ownership interest *(Continued)*

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 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 on the same basis as would be required 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.

(c) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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.

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%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Other property, plant and equipment *(Continued)*

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.

(e) 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 life 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.

(f) Financial assets

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.

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, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on its financial assets measured at amortised cost (including cash and cash equivalents, deposits 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Credit-impaired financial assets

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) 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.

(h) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial liabilities

The Group's financial liabilities include trade and other payables, loan from a substantial shareholder and lease liabilities.

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.

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Group's financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

(j) 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.

(k) Leases

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, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leases *(Continued)*

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.

Short term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leases *(Continued)*

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;
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) 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.

(m) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition

(i) Revenue from contracts with customers within HKFRS 15

Nature of goods

The Group engages in oil and gas sales; and trading of oil and oil-related and other products.

Identification of performance obligations

At contract inception, the Group assesses the goods promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(i) a good (or a bundle of goods or services) that is distinct; or

(ii) a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

A good that is promised to a customer is distinct if both of the following criteria are met:

(i) the customer can benefit from the good either on its own or together with other resources that are readily available to the customer (i.e. the good is capable of being distinct); and

(ii) the Group's promise to transfer the good to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(ii) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(iii) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

(i) Revenue from contracts with customers within HKFRS 15 *(Continued)*

Timing of revenue recognition (Continued)

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Revenue from trading of oil and oil-related and other products is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Oil and gas sales are recognised at a point in time at which 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) Interest income

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 asset (see Note 2(g)(i)).

(o) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) 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 ("MPF") 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) 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, prepayments, 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, loan from a substantial shareholder, lease liabilities and tax payable.

(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.

(s) Government grants

Government grants are recognised at their fair value where is reasonable assurance that the grant will be received and all attaching conditions will be complied with when the grant relates to an expenses item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) 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, provides 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 and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

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 or there has been a favourable change in the estimates used to determine the recoverable amount. Determination as to whether and how much an asset is impaired or impairment loss is reversed 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.

4. REVENUE AND SEGMENT INFORMATION

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

	2021		
	Oil and gas sales *HK$'000*	**Trading of oil, oil-related and other products** *HK$'000*	**Total** *HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– United States of America ("USA")	79	–	79
– Sales of oil, oil-related and other products:			
recognised at a point in time			
– Hong Kong	–	18,591	18,591
– People's Republic of China ("PRC")	–	1,509,395	1,509,395
	79	1,527,986	1,528,065
Segment profit	110,038	93,506	203,544
Unallocated income			764
Unallocated expenses			(13,955)
Finance costs			(228)
Profit before tax			190,125
Income tax expenses			(42,305)
Profit for the year			147,820

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

	2021			
	Oil and gas sales *HK$'000*	Trading of oil, oil-related and other products *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Segment assets	383,005	223,677	–	606,682
Unallocated assets	–	–	10,858	10,858
Total assets				617,540
Segment liabilities	2,010	88,454	–	90,464
Deferred tax liabilities	–	–	50,133	50,133
Unallocated liabilities	–	–	5,038	5,038
Total liabilities				145,635
Other information				
Interest income	–	–	20	20
Finance costs	–	–	228	228
Depreciation				
– Property, plant and equipment	–	10	170	180
– Right-of-use assets	–	–	1,472	1,472
Reversal of impairment loss				
– Property, plant and equipment	15,887	–	–	15,887
– Intangible assets	95,536	–	–	95,536

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

	2020		
	Oil and gas sales *HK$'000*	Trading of oil, oil-related and other products *HK$'000*	Total *HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– USA	–	–	–
– Sales of oil, oil-related and other products:			
recognised at a point in time			
– Hong Kong	–	30,351	30,351
– PRC	–	706,411	706,411
	–	736,762	736,762
Segment (loss) profit	(1,831)	42,559	40,728
Unallocated income			5,868
Unallocated expenses			(23,232)
Finance costs			(4,179)
Profit before tax			19,185
Income tax expenses			(10,469)
Profit for the year			8,716

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

	2020			
	Oil and gas sales *HK$'000*	Trading of oil, oil-related and other products *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Segment assets	263,707	251,609	–	515,316
Unallocated assets	–	–	27,302	27,302
Total assets				542,618
Segment liabilities	2,165	188,171	–	190,336
Deferred tax liabilities	–	–	29,020	29,020
Unallocated liabilities	–	–	5,113	5,113
Total liabilities				224,469
Other information				
Interest income	–	–	8	8
Finance costs	–	–	4,179	4,179
Depreciation				
– Property, plant and equipment	–	–	1,588	1,588
– Right-of-use assets	–	–	3,463	3,463

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		Non-current assets	
	2021	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**18,591**	30,351	**1,248**	2,918
USA	**79**	–	**382,372**	270,949
PRC	**1,509,395**	706,411	**32**	–
	1,528,065	736,762	**383,652**	273,867

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

The Group's customer base includes two (2020: two) customers with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers were amounted to approximately HK$304,761,000 and HK$168,940,000 respectively (2020: HK$122,704,000 and HK$105,986,000 respectively) and were related to trading of oil, oil-related and other products segment.

5. OTHER INCOME

	2021	2020
	HK$'000	*HK$'000*
Interest income	**20**	8
Write-back of interest payables	**–**	4,854
Sundry income	**1,629**	595
Gain on disposal of right-of-use assets	**251**	–
Government subsidies *(note (i))*	**–**	432
	1,900	5,889

Note:

(i) The government subsidies were granted from the Employment Support Scheme, under the Anti-epidemic Fund of the Government of the Hong Kong Special Administration Region which aims to retain employment and combat COVID-19 epidemics.

6. FINANCE COSTS

	2021 HK$'000	2020 HK$'000
Interest expenses on unsecured loans *(note (i))*	–	3,915
Interest on lease liabilities	228	264
	228	4,179

Note:

(i) Interest expenses on unsecured loans were related to overdue unsecured loans which were fully settled during the year ended 31 December 2020.

7. PROFIT BEFORE TAX

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

	2021 HK$'000	2020 HK$'000
Employee benefit expense, including directors' emoluments:		
– Salaries and allowances	8,596	13,300
– Retirement scheme contributions	314	178
	8,910	13,478
Cost of inventories	1,432,258	694,483
Depreciation		
– Property, plant and equipment	180	1,588
– Right-of-use assets	1,472	3,463
Auditor's remuneration:		
– Annual audit	860	820
– Non-assurance services	171	270
Reversal of impairment loss		
– Property, plant and equipment	(15,887)	–
– Intangible assets	(95,536)	–
Short-term lease payments	2,689	–
Legal and professional fees	2,069	1,014

8. INCOME TAX EXPENSE

Hong Kong Profits tax

The two-tiered profits tax rates regime has been implemented in Hong Kong since 1 April 2018.

For the year ended 31 December 2021, the assessable profits of a Hong Kong incorporated subsidiary of the Group (as elected by the management of the Group) is subject to the two-tiered profits tax rates regime that the first HK$2 million of assessable profits will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. No provision for Hong Kong profits tax has been made for other Hong Kong incorporated subsidiaries of the Group as they incurred a loss for taxation purposes. For the year ended 31 December 2020, no provision for Hong Kong profits tax has been made as the Group incurred a loss for taxation purposes. 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.

PRC Enterprise Income tax ("EIT")

EIT has been provided on the estimated assessable profits of subsidiaries operating in the PRC at a statutory rate of 25% (2020: 25%), while a subsidiary incorporated during the year and located in Hainan Province is entitled to an income tax rate of 15%.

PRC withholding tax

In addition, according to the EIT law, dividends, interests, rent, royalties and gains on transfers of property received by a foreign enterprise, i.e. a non-Chinese tax resident enterprise, will be subject to PRC withholding tax at 10% or a reduced treaty rate depending on provisions of tax treaty entered between the PRC and the jurisdiction where the foreign enterprise incorporated. The withholding tax rate is 5% for the holding company in Hong Kong if the holding company is the beneficial owner of the dividend received from the invested enterprises in the PRC and obtained the approval of enjoying the treaty rate from the PRC tax authorities. The withholding tax imposed on the dividend income received from the Group's PRC entities will reduce the Company's net income.

Withholding income tax is provided on the dividends to be distributed by the PRC subsidiaries and associates of the Group. The relevant group companies have successfully obtained endorsement from various PRC tax bureaus to enjoy the treaty benefit of 5% EIT rate on dividends received from the PRC subsidiaries and associates of the Group. Accordingly, withholding income tax has been provided at 5% of the dividends to be distributed by the PRC subsidiaries and associates of the Group. As at 31 December 2021 and 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Groups' subsidiaries established in the PRC of HK$93,259,000 (2020: HK$30,196,000). In the opinion of the directors, these accumulated profits, at the present time, are required for financing the continuing operations of the entities and no distribution would be made in the foreseeable future.

8. INCOME TAX EXPENSE *(Continued)*

US tax

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.

	2021	2020
	HK\$'000	*HK\$'000*
Current income tax on profit for the year		
Hong Kong Profits Tax	**46**	(2)
PRC EIT	**21,146**	10,471
Deferred tax	**21,113**	–
	42,305	10,469

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2021	2020
	HK\$'000	*HK\$'000*
Profit before tax	**190,125**	19,185
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**40,865**	6,588
Tax effect of non-taxable revenue	**–**	(56)
Tax effect of non-deductible expenses	**2,360**	3,326
Tax effect of tax losses not recognised	**–**	1,066
Tax effect of unrecognised temporary differences	**–**	(455)
Others	**(920)**	–
Income tax expense	**42,305**	10,469

9. DIVIDENDS

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

10. EARNINGS PER SHARE

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

	2021	2020
Profit for the year attributable to owners of the Company *(HK$'000)*	**147,820**	8,716
Weighted average number of ordinary shares *('000)*	**841,636**	630,365
Basic and diluted earnings per share *(HK cents)*	**17.56**	1.38

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2021 and 2020, excluding ordinary shares held as treasury shares.

(b) Diluted earnings per share

The calculation of diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares during the years ended 31 December 2021 and 2020.

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

2021

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Lin Qing Yu	–	260	–	260
Chen Junyan	–	260	–	260
Yu Jiyuan	–	1,038	18	1,056
Li Songtao	–	260	–	260
Yang Yuyan (re-designated on 6 August 2021)	70	151	–	221
Sun Xiaoze (appointed on 6 August 2021)	–	88	–	88
Liu Gui Feng (resigned on 3 June 2021)	–	101	–	101
Non-executive directors:				
Yu Zhibo	–	930	18	948
Zheng Ye (appointed on 6 August 2021)	–	52	–	52
Independent non-executive directors:				
Pang Jun	120	–	–	120
Zhong Bifeng	240	–	–	240
Huang Qingwei (appointed on 6 August 2021)	48	–	–	48
Shen Shigang (appointed on 6 August 2021)	48	–	–	48
	526	3,140	36	3,702

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

(a) Directors' emoluments *(Continued)*

2020

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Liu Gui Feng	–	1,083	–	1,083
Lin Qing Yu	–	634	–	634
Chen Junyan	–	260	–	260
Yu Jiyuan	–	819	19	838
Yun Guangrui (resigned on 1 June 2020)	–	100	–	100
Chen Bin (resigned on 21 September 2020)	–	173	–	173
Li Songtao (re-designated on 21 September 2020)	174	72	–	246
Non-executive director:				
Yu Zhibo (appointed as executive director on 29 June 2020 and re-designated on 21 September 2020)	–	467	11	478
Independent non-executive directors:				
Cao Wei (resigned on 21 September 2020)	173	–	–	173
Xu Guoqiang (resigned on 1 June 2020)	100	–	–	100
Yang Yuyan (appointed on 21 September 2020)	33	–	–	33
Pang Jun (appointed on 21 September 2020)	33	–	–	33
Zhong Bifeng	240	–	–	240
	753	3,608	30	4,391

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

(a) Directors' emoluments *(Continued)*

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 directors and five highest paid individuals have waived emoluments in respect of the years ended 31 December 2021 and 2020.

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 2021 and 2020.

(b) Five highest paid individuals

During the year ended 31 December 2021, out of the five individuals with the highest emoluments in the Group, two (2020: three) were directors of the Company, details of whose emoluments are set out in note 11(a) above. The emoluments of the remaining three (2020: two) individuals for the year ended 31 December 2021 were as follows:

	2021	2020
	HK$'000	*HK$'000*
Salaries and other benefits	**2,323**	1,040
Retirement benefits scheme contributions	**36**	20
Compensation for loss of office:		
– contractual payment	**–**	3,100
	2,359	4,160

	Number of Individual	
	2021	2020
Emoluments band:		
Nil – HK$1,000,000	**2**	–
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**–**	1
	3	2

No emoluments were paid by the Group to any five highest paid individuals as inducement to join or upon joining the Group during the years ended 31 December 2021 and 2020.

12. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2020	90,108	5,257	1,124	96,489
Additions	8	89	54	151
Disposals	–	(5,257)	(8)	(5,265)
At 31 December 2020 and 1 January 2021	90,116	89	1,170	91,375
Additions	–	–	57	57
At 31 December 2021	**90,116**	**89**	**1,227**	**91,432**
Accumulated depreciation and impairment losses				
At 1 January 2020	51,857	3,498	794	56,149
Charge for the year	–	1,473	115	1,588
Disposals	–	(4,964)	(8)	(4,972)
At 31 December 2020 and 1 January 2021	51,857	7	901	52,765
Charge for the year	–	44	136	180
Impairment loss reversed	(15,887)	–	–	(15,887)
At 31 December 2021	**35,970**	**51**	**1,037**	**37,058**
Net book value				
At 31 December 2021	**54,146**	**38**	**190**	**54,374**
At 31 December 2020	38,259	82	269	38,610

13. RIGHT-OF-USE ASSETS

	Motor vehicles *HK$'000*	Leased properties *HK$'000*	Total *HK$'000*
Reconciliation of carrying amount			
For the year ended 31 December 2020			
At beginning of the reporting period	303	2,921	3,224
Addition	–	2,806	2,806
Depreciation	(191)	(3,272)	(3,463)
At end of the reporting period	112	2,455	2,567
For the year ended 31 December 2021			
At beginning of the reporting period	**112**	**2,455**	**2,567**
Disposals	**(43)**	**–**	**(43)**
Depreciation	**(69)**	**(1,403)**	**(1,472)**
At end of the reporting period	**–**	**1,052**	**1,052**
As at 31 December 2020			
Cost	494	2,806	3,300
Accumulated depreciation	(382)	(351)	(733)
Net carrying amount	112	2,455	2,567
As at 31 December 2021			
Cost	**–**	**2,806**	**2,806**
Accumulated depreciation	**–**	**(1,754)**	**(1,754)**
Net carrying amount	**–**	**1,052**	**1,052**

The Group's right-of-use assets represent the lease of motor vehicles and office premises located in Hong Kong for its daily operations and with original lease term of 3 and 2 years respectively. Lease terms are negotiated on an individual basis. The lease agreements do not impose any covenants.

The total cash outflow for leases was HK$4,490,000 (2020: HK$3,354,000) for the year ended 31 December 2021.

Commitments under leases

At 31 December 2021, the Group was committed to HK$261,800 (2020: HK$261,800) for short-term leases.

14. INTANGIBLE ASSETS

	Oil and gas processing rights *HK$'000*
Costs	
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	2,818,920
Accumulated amortisation and impairment	
At 1 January 2020, 31 December 2020 and 1 January 2021	2,588,852
Impairment loss reversed	(95,536)
At 31 December 2021	2,493,316
Net carrying amounts	
At 31 December 2021	**325,604**
At 31 December 2020	230,068

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

For the purpose of impairment testing, the oil and gas properties included in property, plant and equipment set out in Note 12 to the consolidated financial statements and intangible assets set out in this note have been allocated to the oil and gas sales segment of the Group, which is an individual cash-generating unit ("Oil and Gas Sales CGU").

The recoverable amount for this Oil and Gas Sales CGU was determined based on fair value, reflecting market conditions less cost of disposal 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 65 years (2020: 36 years) in which substantial reserves expected to be extracted within 39 years (2020: 32 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 10.89% (2020: 10.15%). 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. The significant unobservable input including the future price of oil and gas, gross margin, growth rate and discount rate, where the higher the price of oil and gas, gross margin and growth rate and the lower of the discount rate, the higher the fair value of the Oil and Gas Sales CGU would be.

After assessing the information, in view of the significant increase in forecast future prices of oil and natural gas and increase in reserves estimates, the recoverable amount of Oil and Gas Sales CGU at the end of the reporting period was increased to HK$379,750,000 which is higher than its carrying amount. As a result, a reversal of impairment loss on oil and gas properties of HK$15,887,000 (2020: Nil) and oil and gas processing rights of HK$95,536,000 (2020: Nil) was recognised during the year.

15. STATUTORY DEPOSITS AND OTHER ASSETS

	2021 HK$'000	2020 HK$'000
Oil and gas or geothermal lease bond	**507**	507
Right of way surety bond	**516**	516
Certificate of deposit	**1,599**	1,599
	2,622	2,622

16. TRADE RECEIVABLES

	2021 HK$'000	2020 HK$'000
Trade receivables from third parties	**74,534**	56,428

The following is an aged analysis of trade receivables presented based on the invoice dates.

	2021 HK$'000	2020 HK$'000
0–30 days	**72,312**	1,413
31–60 days	**2,222**	55,015
	74,534	56,428

Information about the Group's exposure to credit risks for trade receivables is included in Note 28(c) to the consolidated financial statements.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2021 HK$'000	2020 HK$'000
Prepayments		**1,211**	555
Rental and other deposits paid		**605**	1,730
Trade deposits paid	*(a)*	**148,210**	181,543
Deposit paid for acquiring Russia oil fields, net	*(b)(i)*	**69,929**	69,929
Other receivables	*(b)(ii)*	**1,939**	2,227
		221,894	255,984
Less: Impairment losses	*(b)*	**(71,609)**	(71,609)
		150,285	184,375

Notes:

(a) Trade deposits paid

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

In respect of prepayments made to suppliers, individual credit evaluations are performed on all suppliers requiring prepayments over a certain amount. These evaluations focus on the supplier's past history and take into account information specific to the supplier as well as pertaining to the economic environment in which the supplier operates.

The directors have reassessed the recoverability of the unutilised prepayments based on all relevant information available to the Group. The directors consider that there is no significant uncertainty on the recovery of prepayments. Therefore, no impairment loss has been recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2021 (2020: Nil).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each supplier. The default risk of the industry and country in which suppliers operate also has an influence on credit risk but to a lesser extent. At the end of each reporting period, the Group has a certain concentrations of credit risk as 52.5% (2020: 70%) and 100% (2020: 98%) of the total prepayments made to the Group's largest supplier and the five largest suppliers respectively.

(b) Impairment losses on deposits paid and other receivables

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

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

As at 31 December 2021 and 2020, approximately US$9,000,000 (equivalent to approximately HK$69,929,000) remained outstanding which was fully impaired. The Company considers the cost and benefits in chasing for the return of the remaining balance and is not expected to recover the amount in the foreseeable future.

(ii) The provision for impairment loss on other receivables of HK$1,680,000 (2020: HK$1,680,000) was made for receivables due from an individual that was in default on principal payments and the amount is not expected to be recovered in the foreseeable future.

18. BANK BALANCES AND CASH

At end of reporting period, the bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$831,000 (2020: HK$7,610,000). The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of PRC.

19. TRADE AND OTHER PAYABLES

	Note	**2021** ***HK$'000***	2020 *HK$'000*
Trade payables to third parties	*(a)*	**44,877**	67,944
Other payables			
Accruals		**2,819**	4,090
Accrued directors' fee and salaries		**881**	99
Deposits received from customers		**14,408**	–
Value-added tax and other tax payables		**10,928**	4,125
Other payables		**349**	464
		29,385	8,778
		74,262	76,722

Note:

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

	2021 ***HK$'000***	2020 *HK$'000*
0–30 days	**44,877**	–
31–60 days	**–**	67,944
	44,877	67,944

20. CONTRACT LIABILITIES

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

	2021	2020
	HK$'000	*HK$'000*
At beginning of the reporting period	**104,960**	–
Recognised as revenue	**(78,185)**	–
Refunded for cancellation of contracts	**(26,775)**	–
Receipt of advances	**–**	104,960
At end of the reporting period	**–**	104,960

21. LOAN FROM A SUBSTANTIAL SHAREHOLDER

The loan from a substantial shareholder is unsecured, interest-free and repayable on demand.

22. LEASE LIABILITIES

	2021	2020
	HK$'000	*HK$'000*
Current portion	**1,105**	1,459
Non-current portion	**–**	1,219
	1,105	2,678

23. DEFERRED TAX

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

	Fair value adjustment on intangible assets	Impairment losses	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2020, 31 December 2020 and 1 January 2021	48,126	(8,235)	(10,871)	29,020
Charge to profit or loss	19,985	1,128	–	21,113
At 31 December 2021	68,111	(7,107)	(10,871)	50,133

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

	2021	2020
	HK$'000	*HK$'000*
Deferred tax assets	**(17,978)**	(19,106)
Deferred tax liabilities	**68,111**	48,126
Net deferred tax liabilities	**50,133**	29,020

At end of the reporting period, the Group has unrecognised unused tax losses of approximately HK$55,316,000 (2020: HK$55,316,000) 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 though those tax losses may be carried forward indefinitely.

24. ASSET RETIREMENT OBLIGATIONS

	2021	2020
	HK$'000	*HK$'000*
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	**82**	82

Asset retirement obligations 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 estimated based on the opinion of the directors and expected to be occurred since 2051 (2020: 2034).

25. SHARE CAPITAL

		2021		2020	
	Note	**Number of shares *’000***	***HK$’000***	Number of shares *’000*	*HK$’000*
Authorised:					
At beginning of the reporting period and at end of the reporting period, ordinary shares of HK$0.2 each		**100,000,000**	**20,000,000**	100,000,000	20,000,000
Issued and fully paid:					
At beginning of the reporting period, ordinary shares of HK$0.2 each		**841,879**	**168,376**	612,276	122,455
Issue of new shares upon rights issue on 10 December 2020	*(a)*	–	–	229,603	45,921
At end of the reporting period, ordinary shares of HK$0.2 each		**841,879**	**168,376**	841,879	168,376

Note:

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

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

26. RESERVES

(a) 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.

(b) Treasury shares reserve

The reserve for the Company's own shares comprises the cost of the Company's shares held by a subsidiary of the Group. At 31 December 2021 the Group held 243,600 ordinary shares of the Company (31 December 2020: 243,600 ordinary shares).

(c) Statutory reserves

Statutory reserves were established in accordance with the relevant rules and regulations in the PRC and the articles of association of the PRC subsidiaries. Those PRC subsidiaries which are domestic enterprises in the PRC are required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. Appropriations to the reserves were approved by the respective boards of directors. These reserves may be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital. These reserves are non-distributable other than upon liquidation. Transfers to these reserves must be made before distributing dividends.

(d) 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:

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

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

(e) 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.

27. 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

Remuneration for key management personnel of the Group, including amounts paid/payable to the Company's directors, as disclosed in Note 11(a) to the consolidated financial statements, is as follows:

	2021	2020
	HK$'000	*HK$'000*
Key management personnel:		
– Short term employee benefits	**3,666**	4,361
– Pension scheme contribution	**36**	30
	3,702	4,391

(ii) Directors' material interests in transactions and arrangement

	2021	2020
	HK$'000	*HK$'000*
Rental expenses charged by a related company#	**800**	–

Pan SongBo, who was appointed on 11 August 2021 as a director of a subsidiary of the Group, has beneficial interest in the related company. The related party transaction also constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules, however they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

28. 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 risks and takes actions to mitigate such risks. The board of directors reviews and agrees policies for managing each of these risks.

(a) Foreign currency risk

The Group's transaction are mainly denominated in HK$, RMB and United States dollars ("US$").

Since the exchange rate of HK$ is pegged with US$, the Group does not expect any significant movements in the US$/HK$ exchange rates.

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

(a) Foreign currency risk *(Continued)*

The following table details the Group's exposure as at 31 December 2021 and 2020 to currency risk arising from recognised financial assets and financial liabilities denominated in RMB. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the end of the reporting period.

	2021 ***HK$'000***	2020 *HK$'000*
Trade receivables	**74,534**	56,428
Prepayments, deposits and other receivables	**148,255**	181,543
Bank balances and cash	**831**	7,610
Trade and other payables	**(70,441)**	(72,201)
	153,179	173,380

The foreign currency sensitivity analysis is calculated based on the major net foreign currency exposure of the Group as at the end of the reporting period, assuming 5% shift of RMB against HK$. Results from a 5% strengthening of the RMB against HK$ would increase the Group's profit before tax for the year ended 31 December 2021 by approximately HK$7,659,000 (2020: HK$8,669,000). A 5% weakening of the RMB against HK$ as at the same date would have had the equal but opposite effect.

The sensitivity analysis has been determined assuming the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes in foreign currency represent management's assessment of reasonably possible changes in foreign exchanges rates over the year until the end of the next annual reporting period.

(b) Interest rate risk

The Group's interest-earning financial assets comprise bank balances. The Group has no significant exposure to interest rate risk.

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The carrying amount of financial assets recognised on the consolidated statement of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements. The credit risk of the Group is primarily attributable to trade receivables, prepayment and other receivables and bank balances and cash.

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

(c) Credit risk *(Continued)*

Trade receivables

The Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The Group does not obtain collateral in respect of trade receivables. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of three months.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Credit evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

At the end of the reporting period, the Group had a concentration of credit risk as 65% (2020: 61%) and 92% (2020: 100%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The ageing analysis of trade receivables that were not considered to be impaired was as follows:

	2021	2020
	HK$'000	*HK$'000*
Neither past due nor impaired	**74,534**	56,428

Deposits and other receivables

The management considers the credit risk on deposits and other receivables, net of impairment losses 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.

Bank balances

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

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

(d) Liquidity risk

In the opinion of the directors, the Group should have adequate resources to meet its obligation in the forthcoming year.

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 Group can be required to pay.

	2021				
	On demand or within 1 year *HK$'000*	**1 to 2 year** *HK$'000*	**2 to 5 year** *HK$'000*	**Total contractual undiscounted cash flow** *HK$'000*	**Total carrying amount** *HK$'000*
Trade and other payables (excluded deposits received from customers, value-added tax and other tax payables)	**48,926**	**–**	**–**	**48,926**	**48,926**
Loan from a substantial shareholder	**2,000**	**–**	**–**	**2,000**	**2,000**
Lease liabilities	**1,160**	**–**	**–**	**1,160**	**1,105**
	52,086	**–**	**–**	**52,086**	**52,031**

	2020				
	On demand or within 1 year *HK$'000*	1 to 2 year *HK$'000*	2 to 5 year *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Total carrying amount *HK$'000*
Trade and other payables (excluded value-added tax and other tax payables)	72,597	–	–	72,597	72,597
Lease liabilities	1,547	1,160	–	2,707	2,678
	74,144	1,160	–	75,304	75,275

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.

29. 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 total 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.

	2021	2020
	HK$'000	*HK$'000*
Loan from a substantial shareholder	**2,000**	–
Cash and cash equivalent	**(9,069)**	(27,948)
Net debt	**(7,069)**	(27,948)
Equity	**471,905**	318,149
Net debt to equity ratio	**N/A**	N/A

30. 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$'000*	Loan from a substantial shareholder *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 1 January 2021	**–**	**–**	**2,678**	**2,678**
Changes from financing cash flows				
Loan from a substantial shareholder	**–**	**2,000**	**–**	**2,000**
Interest paid on lease liabilities	**–**	**–**	**(228)**	**(228)**
Repayment of lease liabilities	**–**	**–**	**(1,573)**	**(1,573)**
Total changes from financing cash flows	**–**	**2,000**	**(1,801)**	**199**
Other changes				
Interest expenses on lease liabilities	**–**	**–**	**228**	**228**
Total other changes	**–**	**–**	**228**	**228**
At 31 December 2021	**–**	**2,000**	**1,105**	**3,105**

	Unsecured loans *HK$'000*	Loan from a substantial shareholder *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 1 January 2020	36,186	–	3,392	39,578
Changes from financing cash flows				
Repayment of unsecured loans	(36,186)	–	–	(36,186)
Interest paid on lease liabilities	–	–	(264)	(264)
Repayment of lease liabilities	–	–	(3,090)	(3,090)
Total changes from financing cash flows	(36,186)	–	(3,354)	(39,540)
Other changes				
New leases	–	–	2,376	2,376
Interest expenses on lease liabilities	–	–	264	264
Total other changes	–	–	2,640	2,640
At 31 December 2020	–	–	2,678	2,678

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Interest in subsidiaries		**317,185**	312,773
Current assets			
Prepayments, deposits and other receivables		**557**	1,468
Bank balances and cash		**1,783**	13,968
		2,340	15,436
Current liabilities			
Amount due to subsidiaries		**45,978**	45,993
Other payables and accruals		**1,575**	2,161
Loan from a substantial shareholder		**2,000**	–
		49,553	48,154
Net current liabilities		**(47,213)**	(32,718)
Total assets less current liabilities		**269,972**	280,055
Net assets		**269,972**	280,055
Equity			
Share capital	*25*	**168,376**	168,376
Reserves	*31(a)*	**101,596**	111,679
Total equity		**269,972**	280,055

This statement of financial position was approved and authorised for issue by Board of Directors on 31 March 2022 and signed on its behalf by:

Yu Jiyuan
Executive Director

Chen Junyan
Executive Director

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(a) Reserves

	Share premium *HK$'000* *Note 26(e)*	**Contributed surplus** *HK$'000* *Note 26(d)*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2020	2,817,643	45,348	(2,732,509)	130,482
Total comprehensive loss for the year	–	–	(17,737)	(17,737)
Transactions with owners				
Contributions and distributions				
Issue of new shares upon rights issue *(Note 25(a))*	(1,066)	–	–	(1,066)
Total transactions with owners	(1,066)	–	–	(1,066)
At 31 December 2020 and 1 January 2021	2,816,577	45,348	(2,750,246)	111,679
Total comprehensive loss for the year	–	–	(10,083)	(10,083)
At 31 December 2021	2,816,577	45,348	(2,760,329)	101,596

32. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2021 are as follows:

Name of company	Place of incorporation/ operation	Issued ordinary share capital/ Paid-up share capital	Percentage of equity interests held by the Company Directly	Indirectly	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
Pearl Oriental (Daqing) Oil Limited* 東方明珠石油（大慶）有限公司	PRC	RMB20,000,000	–	100%	Trading of oil
Palm Energy (Hainan) Co., Limited* 棕櫚能源（海南）有限公司	PRC	N/A	–	100%	Trading of oil

* The official names are in Chinese and the English names are translated for identification purpose only.

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.

33. FUTURE CHANGES IN HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 16	Proceeds before Intended Use[1]
Amendments to HKAS 37	Cost of Fulfilling a Contract[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Annual Improvements to HKFRSs	2018–2020 Cycle[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to HKAS 1	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
HKFRS 17	Insurance Contracts[2]
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 The effective date to be determined

The directors of the Company do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Group's financial information.

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

	2021	2020	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,528,065**	736,762	175,467	74,036	35,594
Profit (loss) before tax	**190,125**	19,185	(274,905)	(59,562)	(447,259)
Income tax (expense) credit	**(42,305)**	(10,469)	5,936	860	95,590
Profit (loss) for the year	**147,820**	8,716	(268,969)	(58,702)	(351,669)
Profit (loss) for the year attributable to:					
Owners of the Company	**147,820**	8,716	(268,841)	(58,415)	(351,633)
Non-controlling interests	**–**	–	(128)	(287)	(36)
	147,820	8,716	(268,969)	(58,702)	(351,669)
Total assets	**617,540**	542,618	342,872	319,015	307,748
Total liabilities	**(145,635)**	(224,469)	(81,413)	(180,738)	(110,769)
Net assets	**471,905**	318,149	261,459	138,277	196,979