



CHK Oil Limited 中港石油有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 632

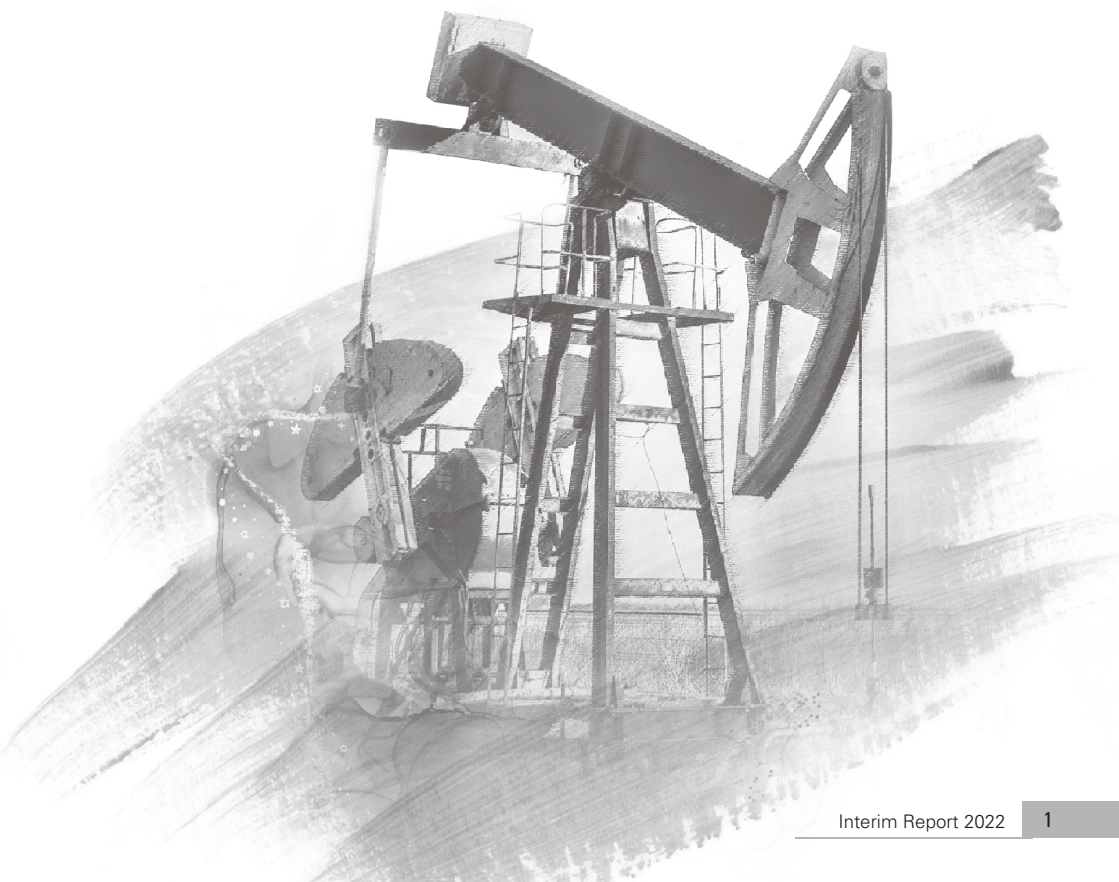
Interim Report 2022



* For identification purpose only

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

The board of directors (the “Board”) of CHK Oil Limited (the “Company”) reports the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2022 (the “Period”) as follows:

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	368,222	684,138
Cost of sales		(342,434)	(635,073)
Gross profit		25,788	49,065
Other income		93	1,069
Administrative expenses		(9,878)	(9,653)
Finance costs		(48)	(138)
Profit before tax	5	15,955	40,343
Income tax expense	6	(4,973)	(9,834)
Profit for the period		10,982	30,509
Profit attributable to:			
Owners of the Company		10,982	30,509
Non-controlling interests		-	-
		10,982	30,509
Other comprehensive (loss) income for the period, net of tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(6,415)	873
Total comprehensive income for the period		4,567	31,382
Total comprehensive income attributable to:			
Owners of the Company		4,567	31,382
Non-controlling interests		-	-
		4,567	31,382
Earnings per share			
Basic and diluted	7	HK1.30 cents	HK3.62 cents

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	9	54,345	54,374
Intangible assets		325,604	325,604
Right-of-use assets		351	1,052
Statutory deposits and other assets		2,622	2,622
		382,922	383,652
Current assets			
Trade receivables	10	25,282	74,534
Prepayments, deposits and other receivables	11	133,438	150,285
Bank balances and cash		24,708	9,069
		183,428	233,888
Current liabilities			
Trade and other payables	12	26,339	74,262
Loan from a substantial shareholder		–	2,000
Leases liabilities		379	1,105
Tax payable		12,945	18,053
		39,663	95,420
Net current assets		143,765	138,468
Total assets less current liabilities		526,687	522,120
Non-current liabilities			
Deferred tax liabilities		50,133	50,133
Asset retirement obligations		82	82
		50,215	50,215
Net assets		476,472	471,905
Equity			
Share capital	13	168,376	168,376
Reserves		307,081	302,514
		475,457	470,890
Equity attributable to owners of the Company		475,457	470,890
Non-controlling interests		1,015	1,015
Total equity		476,472	471,905

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares reserve	Capital reserve	Statutory reserve	Translation reserve	Accumulated losses	Sub-total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2021 (Audited)	168,376	2,815,677	(10,556)	403,851	10,790	9,146	(2,926,394)	470,890	1,015	471,905
Profit for the period	-	-	-	-	-	-	10,982	10,982	-	10,982
Other comprehensive loss for the period										
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(6,415)	-	(6,415)	-	(6,415)
Total comprehensive income for the period	-	-	-	-	-	(6,415)	10,982	4,567	-	4,567
At 30 June 2022 (Unaudited)	168,376	2,815,677	(10,556)	403,851	10,790	2,731	(2,915,412)	475,457	1,015	476,472
At 31 December 2020 (Audited)	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 period	-	-	-	-	-	-	30,509	30,509	-	30,509
Other comprehensive income for the period										
Exchange difference arising from translation of foreign operations	-	-	-	-	-	873	-	873	-	873
Total comprehensive income for the period	-	-	-	-	-	873	30,509	31,382	-	31,382
At 30 June 2021 (Unaudited)	168,376	2,815,677	(10,556)	403,851	3,484	4,083	(3,036,399)	348,516	1,015	349,531

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Net cash from (used in) operating activities	18,521	(4,042)
Net cash (used in) from investing activities	(69)	246
Net cash used in financing activities	<u>(2,774)</u>	<u>(1,031)</u>
Net increase (decrease) in cash and cash equivalents	15,678	(4,827)
Effect on exchange rate changes	(39)	253
Cash and cash equivalents at beginning of period	<u>9,069</u>	<u>27,948</u>
Cash and cash equivalents at end of period, represented by bank balances and cash	<u>24,708</u>	<u>23,374</u>



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM 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 Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The principal activities of the Group are investment holding, exploring, exploiting and sale of oil and natural gas (“Oil and gas sales”) and trading of oil, oil-related and other products.

The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”) which is same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

2. BASIS OF PREPARATION

The Group’s unaudited condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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

These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2021.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in preparing these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 December 2021. The adoption of the new/ revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are relevant to the Group's operation and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior periods.

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

4. REVENUE AND SEGMENT INFORMATION

Segment reporting

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

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

The 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (continued)

Segment reporting (continued)

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, right-of-use assets, 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.

Disaggregation of revenue

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

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
Sales of oil and gas	4	–
Sales of oil, oil-related and other products	368,218	684,138
	368,222	684,138
Disaggregated by geographical location of customers		
United States of America ("USA")	4	–
People's Republic of China ("PRC")	368,218	665,472
Hong Kong	–	18,666
	368,222	684,138

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (continued)

Operating segment information

	Six months ended 30 June 2022		
	Oil and gas sales (Unaudited) <i>HK\$'000</i>	Trading of oil, oil-related and other products (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	4	368,218	368,222
Segment (loss) profit	(717)	23,582	22,865
Unallocated income			74
Unallocated expenses			(6,936)
Finance costs			(48)
Profit before tax			15,955
Income tax expense			(4,973)
Profit for the period			10,982
	At 30 June 2022		
	Oil and gas sales (Unaudited) <i>HK\$'000</i>	Trading of oil, oil-related and other products (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	382,975	159,703	542,678
Unallocated assets			23,672
Total assets			566,350
Segment liabilities	2,065	36,030	38,095
Deferred tax liabilities			50,133
Unallocated liabilities			1,650
Total liabilities			89,878

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (continued)

Operating segment information (continued)

	Six months ended 30 June 2021		
	Oil and gas sales (Unaudited) <i>HK\$'000</i>	Trading of oil, oil-related and other products (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	–	684,138	684,138
Segment (loss) profit	(771)	48,460	47,689
Unallocated income			258
Unallocated expenses			(7,466)
Finance costs			(138)
Profit before tax			40,343
Income tax expense			(9,834)
Profit for the period			30,509
	At 31 December 2021		
	Oil and gas sales (Audited) <i>HK\$'000</i>	Trading of oil, oil-related and other products (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	383,005	223,677	606,682
Unallocated assets			10,858
Total assets			617,540
Segment liabilities	2,010	88,454	90,464
Deferred tax liabilities			50,133
Unallocated liabilities			5,038
Total liabilities			145,635

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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	
	Six months ended 30 June 2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Hong Kong (place of domicile)	–	18,666	526	1,248
PRC	368,218	665,472	24	32
USA	4	–	382,372	382,372
	368,222	684,138	382,922	383,652

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Depreciation		
– Property, plant and equipment	97	88
– Right-of-use assets	701	770
Finance costs		
– Interest on lease liabilities	48	138
Employee benefit expense, including directors' emoluments:		
– Salaries and allowances	4,901	3,975
– Retirement scheme contributions	357	125

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

Hong Kong Profits tax

The two-tiered profits tax rates regime has been implemented in Hong Kong since 1 April 2018. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

PRC Enterprise Income tax (“EIT”)

EIT has been provided on the estimated assessable profits of subsidiaries operating in the PRC at 25% (2021: 25%), while a subsidiary located in Hainan Province is entitled to an income tax rate of 15% (2021: 15%).

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current Tax		
– EIT		
Current period	3,762	9,834
Under provision in prior year	1,211	–
	4,973	9,834

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Profit for the period attributable to owners of the Company (HK\$'000)	<u>10,982</u>	<u>30,509</u>
Weight average number of ordinary shares in issue ('000)	<u>841,636</u>	<u>841,636</u>
Basic and diluted earnings per share (HK cents)	<u>1.30</u>	<u>3.62</u>

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the periods ended 30 June 2022 and 2021, 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 for the periods ended 30 June 2022 and 2021 as there were no dilutive potential ordinary shares during both periods.

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the Period (2021: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2022, additions to property, plant and equipment was approximately HK\$69,000 (2021: approximately HK\$47,000) and depreciation of approximately HK\$97,000 (2021: approximately HK\$88,000) was charged to the profit or loss for the Period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. TRADE RECEIVABLES

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Trade receivables from third parties	<u>25,282</u>	<u>74,534</u>

As at 30 June 2022, all trade receivables were from trading of oil, oil-related and other products segment. These receivables were expected to be recovered within one year. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
0 to 30 days	1,448	72,312
31 to 60 days	9,937	2,222
61 to 90 days	-	-
91 to 365 days	<u>13,897</u>	<u>-</u>
	<u>25,282</u>	<u>74,534</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Prepayments		676	1,211
Rental and other deposits paid		605	605
Trade deposits paid	(a)	131,849	148,210
Deposit paid for acquiring Russia oil fields	(b)	69,929	69,929
Other receivables	(b)	1,988	1,939
		205,047	221,894
Less: Impairment loss	(b)	(71,609)	(71,609)
		133,438	150,285

Notes:

- (a) These payments to suppliers are unsecured, interest-free and will be used to offset against future payments of purchases during the ordinary course of business.
- (b) As at 30 June 2022, impairment losses on deposit paid for acquiring Russia oil fields of HK\$69,929,000 (As at 31 December 2021: HK\$69,929,000) and other receivables from an individual of HK\$1,680,000 (As at 31 December 2021: HK\$1,680,000) was recognised respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. TRADE AND OTHER PAYABLES

	<i>Notes</i>	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Trade payables to third party	(a)	10,529	44,877
Other payables			
Accruals		2,435	2,819
Accrued directors' fee and salaries		968	881
Deposits received from customers		1,492	14,408
Value-added tax and other tax payable		10,445	10,928
Other payables		470	349
		15,810	29,385
		26,339	74,262

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

- (a) The credit period of trade payables is normally within 90 (2021: 90) days. The ageing analysis of the trade payables, based on the invoice date is as follows:

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
0 to 30 days	4,511	44,877
31 to 60 days	-	-
61 to 90 days	-	-
91 to 365 days	6,018	-
	10,529	44,877

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.20 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
	<i>'000</i>	<i>HK\$'000</i>
At beginning of the period/year and at end of the period/year	<u>100,000,000</u>	<u>20,000,000</u>
	Issued and fully paid ordinary shares of HK\$0.20 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
	<i>'000</i>	<i>HK\$'000</i>
At beginning of the period/year and at end of the period/year	<u>841,879</u>	<u>168,376</u>



MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2022 (the “Period”), the Group focused on its principal business of (i) trading of oil, and oil-related products (the “Trading Business”) and (ii) exploring, exploiting, maintenance and sales of oil and natural gas (the “Oil and Gas Business”).

For the Period, the Group recorded a revenue of approximately HK\$368,222,000 (2021 Interim: HK\$684,138,000), and profit attributable to owners of the Company amounted to approximately HK\$10,982,000 (2021 Interim: HK\$30,509,000). Basic earnings per share for the Period was HK1.30 cents (2021 Interim: HK3.62 cents).

The revenue was mainly contributed from the trading business. Gross profit for the Period amounted to approximately HK\$25,788,000 (2021 Interim: HK\$49,065,000), which was mainly contributed by trading of oil and oil-related products in the Mainland China.

Profit for the Period was approximately HK\$10,982,000 (2021 Interim: HK\$30,509,000). The decrease in profit was mainly due to a significant decrease of approximately HK\$315,916,000 in revenue for the Period compared with that of the corresponding period of 2021. The significant decrease in revenue for the Period was mainly due to a new wave of COVID-19 pandemic outbreaks in Mainland China since the first quarter of 2022. As such, various strict measures and travel restrictions were imposed against the epidemic, resulting in city-wide lockdowns in the western and northern parts of China (where the Group’s main customers are located). Given trading of oil and oil-related products in the PRC was the major business segment of the Group, the relevant measures have caused significant disruptions to the transportation of oil and oil-related products in these regions, leading to a significant decrease in revenue from this business segment.

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 the first half of 2022 overall. At the beginning of 2022, the price of Brent crude oil started at US\$79.0 per barrel, surged to a high of US\$139.1 in early March 2022 after the Russia-Ukraine war broke out in late February 2022, and closed at US\$114.8 at the end of June 2022. From July to early August 2022, the oil price still closed high at above US\$94.1.

Since the first quarter of 2022, a new wave of COVID-19 pandemic has flared up in Mainland China. A variety of strict pandemic prevention measures and travel restrictions have been implemented, causing significant disruption to transportation in the western and northern parts of China. During the Period, the Group recorded revenue of approximately HK\$368,222,000 (2021 Interim: HK\$684,138,000).

MANAGEMENT DISCUSSION AND ANALYSIS



Oil and Gas Business

During the Period, the Group maintained stable daily operations and maintenance of the oil and gas field in Utah, the USA. Due to uncertainties (such as turnover of workers, tight construction schedule, and increased difficulties in purchase and transportation of equipment) in relation to local oil and gas service providers in Utah, our well overhaul schedule for the oil and gas field is expected to be prolonged. However, the Group will retain close attention and continuously follow up on the repairment works. In addition, the COVID-19 continued to ravage the globe during the Period, imposing new challenges and difficulties for the energy industry. 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. The Group will continue to evaluate the situation in the Utah Oil and Gas Field, steadily push forward works, and promptly adjust our development direction and strategy in line with changes in the situation.

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.

At the beginning of 2022, the price of Brent crude oil started at US\$79.0 per barrel, spiked to a high of US\$139.1 in early March 2022 with the outbreak of the Russia-Ukraine war in late February 2022, and closed at US\$114.8 per barrel in June 2022. From July to early August 2022, oil prices still closed high at above US\$94.1 per barrel.

The world saw a new wave of COVID-19 outbreaks starting from the first quarter of 2022, and the Russia-Ukraine war broke out in late February 2022. In this context, from the beginning of 2022 to early August 2022, natural gas prices continued to fluctuate dramatically, rising from US\$ 3.8 per MMBtu at the beginning of 2022 to over US\$9.6 in early June 2022, then falling to US\$5.4 at the end of June 2022, and rising again to US\$8.8 in early August 2022. (Source: <http://markets.businessinsider.com>, <https://www.worldbank.org/>).

Oil and natural gas prices are both expected to fluctuate wildly in the foreseeable future due to uncertain factors related to the supply and demand of these commodities in the market resulted from the high degree of uncertainty in the growth of the global economy and geopolitical tensions. 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.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Utah Gas and Oil Field

From the beginning of 2022 to early August 2022, oil and natural gas prices continued to fluctuate greatly and showed an obvious upward trend. During this Period, Brent and WTI crude oil prices rose by approximately 26.1% and 24% respectively, while Henry Hub natural gas price increased by approximately 132.6%. Specifically, the price of Brent crude oil rose from US\$79.0 per barrel at the beginning of 2022 to US\$99.6 per barrel in early August 2022. Likewise, the price of WTI crude oil rose from US\$76.1 per barrel at the beginning of 2022 to US\$94.3 in early August 2022. Henry Hub natural gas price showed an upward trend, rising from US\$3.8 per MMBtu at the beginning of 2022 to over US\$9.6 in early June 2022, then falling to US\$5.4 at the end of June 2022, and rising again to US\$8.8 in early August 2022.

The Russia-Ukraine crisis breaking out in late February 2022 has led to further increase in the prices of oil and gas. Based on its most recent monthly report released on 9 August 2022, the U.S. Energy Information Administration (EIA) again raised its forecasts for the future benchmark oil prices, under which the Brent price is expected to average US\$105 per barrel in 2022 and US\$95 per barrel in 2023.

Given the expected continuous wild fluctuation of the oil and gas prices in the short run, the persistent COVID-19 pandemic, and the uncertainties arising from the lasting international geopolitical tension, we must prudently re-evaluate our investment in the project to better manage the operating risks.

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: (i) international trade on oil and oil-related products; and (ii) 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2022, the Group had no outstanding loan balance (as at 31 December 2021: HK\$2,000,000), and the loan balance as at the end of 2021 represented a loan of HK\$2,000,000 from a substantial shareholder, which was unsecured, interest-free and repaid in January 2022. The Group's cash and bank balances as at 30 June 2022 amounted to approximately HK\$24,708,000 (as at 31 December 2021: approximately HK\$9,069,000), mainly from the net cash from operating activities during the Period of approximately HK\$18,521,000. As at 30 June 2022, the current ratio (calculated by dividing the Group's current assets by current liabilities) was approximately 4.62 (as at 31 December 2021: 2.45), and the gearing ratio (asset-liability ratio) (calculated as total liabilities divided by total assets) was approximately 15.87% (as at 31 December 2021: 23.58%). The Group maintained a healthy financial position and relatively low gearing level.

During the Period, the Group conducted its business transactions principally in RMB and US dollars. The management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group had no material contingent liabilities (31 December 2021: Nil).

CHARGES ON GROUP ASSETS

As at 30 June 2022, the Group did not have any charges on assets (31 December 2021: Nil).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

The Group had no material acquisition and disposal of subsidiaries, associates and joint venture during the Period.

SIGNIFICANT INVESTMENT

During the Period, the Group had no significant investment.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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



OTHER INFORMATION

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

As at 30 June 2022, the interests of the Directors, chief executive, and their associates in the Shares, underlying Shares, and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code set out in Appendix 10 to the Rules (the “Listing Rules”) Listing of Securities on the Stock Exchange were as follows:

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

Name of director	Capacity	Number of issued ordinary shares held	Approximately percentage of the issued share capital of the Company ¹
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 30 June 2022.
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%
Chen Junyan	Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	3,492	34.92%

Save as disclosed above, as at 30 June 2022, none of the Directors or chief executives had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDER

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 30 June 2022, 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%



OTHER INFORMATION

Notes:

1. The Company had 841,879,482 Shares in issue as at 30 June 2022.
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%.

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

SHARE OPTION SCHEME

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

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the number of employees of the Group was about 36 (31 December 2021: 36). 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.

ACTIVITIES ON UTAH GAS AND OIL FIELD

The Group has not undertaken any further exploration and development on the oil and gas fields in Utah this Period. During the Period, there has been production activities on the oil and gas fields in Utah and the expenditure incurred on such production activities and its associated cost was approximately HK\$634,000.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

CORPORATE GOVERNANCE PRACTICES

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

Paragraph A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As disclosed in the announcement of the Company dated 2 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.

Save for the above deviation, in the opinion of the Board, the Company has complied throughout the Period with the CG Code as contained in Appendix 14 to the Listing Rules.

CHANGES IN DIRECTORS' INFORMATION

Upon specific enquiry by the Company and following confirmations from the Directors, save as disclosed hereunder, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules since the Company's last published annual report. The change of Directors' information is set out below:

1. Mr. Li Songtao's annual remuneration has been adjusted to HK\$120,000 and shall be entitled to receive a discretionary bonus at each financial year end, with effect from 1 August 2022.



OTHER INFORMATION

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company has reviewed and confirmed with management the accounting principles and practices adopted by the Group and is of the opinion that the condensed consolidated interim financial information for the six months ended 30 June 2022 contains adequate disclosure as required by the Listing Rules. The Audit Committee also discussed financial reporting matters including a general review of the unaudited interim financial report for the Period.

The Audit Committee consists of three independent non-executive Directors, namely Ms. Huang Qingwei (Chairlady), Ms. Zhong Bifeng and Mr. Pang Jun.

DIRECTORS' RESPONSIBILITY OF FINANCIAL REPORTING

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

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

BOARD OF DIRECTORS

As at the date hereof, the Board comprises six executive Directors, namely Mr. Yu Jiyuan, Mr. Lin Qing Yu, Ms. Chen Junyan, Mr. Li Songtao, Ms. Yang Yuyan and Ms. Sun Xiaoze, two non-executive Directors, Mr. Yu Zhibo and Mr. Zheng Ye and four independent non-executive Directors, namely Ms. Zhong Bifeng, Mr. Pang Jun, Ms. Huang Qingwei and Mr. Shen Shigang.

By Order of the Board
CHK Oil Limited
Yu Jiyuan

Chairman and Chief Executive Officer

Hong Kong, 26 August 2022