



CHK Oil Limited 中港石油有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 632

** For identification purpose only*

INTERIM REPORT 2021



CONTENTS

	<i>Pages</i>
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	2
Condensed Consolidated Interim Statement of Financial Position	3
Condensed Consolidated Interim Statement of Changes in Equity	4
Condensed Consolidated Interim Statement of Cash Flows	5
Notes to the Unaudited Condensed Consolidated Interim Financial Statements	6
Management Discussion & Analysis	18
Other Information	25



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 2021 (“the Period”) as follows:

	Notes	Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	4	684,138	87,447
Cost of sales		(635,073)	(85,622)
Gross profit		49,065	1,825
Other income		1,069	76
Administrative expenses		(9,653)	(12,885)
Finance cost		(138)	(2,211)
Profit (loss) before taxation	5	40,343	(13,195)
Income tax expense	6	(9,834)	(180)
Profit (loss) for the period		30,509	(13,375)
Profit (loss) attributable to:			
Owners of the Company		30,509	(13,375)
Non-controlling interests		–	–
		30,509	(13,375)
Other comprehensive income (loss) for the period, net of tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		873	(454)
Total comprehensive income (loss) for the period		31,382	(13,829)
Total comprehensive income (loss) attributable to:			
Owners of the Company		31,382	(13,829)
Non-controlling interests		–	–
		31,382	(13,829)
Earnings (loss) per share (HK cents)			
Basic and diluted	8	3.62	(2.18)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	9	38,569	38,610
Right-of-use asset		1,754	2,567
Intangible assets		230,068	230,068
Statutory deposits and other assets		2,622	2,622
		273,013	273,867
Current assets			
Trade receivables	10	8,084	56,428
Prepayments, deposits and other receivables	11	209,195	184,375
Bank balances and cash		23,374	27,948
		240,653	268,751
Current liabilities			
Trade and other payables	12	10,338	76,722
Contract liabilities	13	110,932	104,960
Leases liabilities		1,409	1,459
Tax payable		11,975	11,007
		134,654	194,148
Net current assets		105,999	74,603
Total assets less current liabilities		379,012	348,470
Non-current liabilities			
Deferred tax liabilities		29,020	29,020
Lease liabilities		379	1,219
Asset retirement obligations		82	82
		29,481	30,321
Net assets		349,531	318,149
Equity			
Share capital	14	168,376	168,376
Reserves		180,140	148,758
		348,516	317,134
Equity attributable to owners of the Company		348,516	317,134
Non-controlling interests		1,015	1,015
		349,531	318,149
Total equity		349,531	318,149

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	
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 operation	-	-	-	-	-	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
At 31 December 2019 (Audited)	122,455	2,816,743	(10,556)	403,851	-	91	(3,072,140)	260,444	1,015	261,459
Loss for the period	-	-	-	-	-	-	(13,375)	(13,375)	-	(13,375)
Other comprehensive loss for the period										
Exchange difference arising from translation of foreign operation	-	-	-	-	-	(454)	-	(454)	-	(454)
Total comprehensive loss for the period	-	-	-	-	-	(454)	(13,375)	(13,829)	-	(13,829)
At 30 June 2020 (Unaudited)	122,455	2,816,743	(10,556)	403,851	-	(363)	(3,085,515)	246,615	1,015	247,630

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(4,042)	(26,304)
Net cash generated from (used in) investing activities	246	(8)
Net cash used in financing activities	<u>(1,031)</u>	<u>(13,082)</u>
Net decrease in cash and cash equivalents	(4,827)	(39,394)
Effect on exchange rate changes	253	(453)
Cash and cash equivalents at beginning of period	<u>27,948</u>	<u>53,889</u>
Cash and cash equivalents at end of period, represented by bank balances and cash	<u>23,374</u>	<u>14,042</u>





NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

CHK Oil Limited (the “Company”) 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 2021 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 2020.

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 2020, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2021 as described below.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions
beyond 30 June 2021*

The adoption of these amendments do not have any significant impact on the unaudited condensed consolidated interim financial statements.

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

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 asset, prepayment, deposits and other receivables and bank balances and cash.

Segment liabilities exclude deferred tax liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment. Corporate liabilities include certain other payables and accruals, 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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
Sales of oil and gas	–	–
Sales of oil, oil-related and other products	684,138	87,447
	684,138	87,447
Disaggregated by geographical location of customers		
United States of America (“USA”)	–	–
People’s Republic of China (“PRC”)	665,472	87,447
Hong Kong	18,666	–
	684,138	87,447

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (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 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 assets	263,794	233,102	496,896
Unallocated assets			16,770
Total assets			513,666
Segment liabilities	2,052	130,691	132,743
Deferred tax liabilities			29,020
Unallocated liabilities			2,372
Total liabilities			164,135

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

Six months ended 30 June 2020

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

At 31 December 2020

	Oil and gas sales (Audited) HK\$'000	Trading of oil, oil-related and other products (Audited) HK\$'000	Total (Audited) HK\$'000
Segment assets	263,707	251,609	515,316
Unallocated assets			27,302
Total assets			542,618
Segment liabilities	2,165	188,171	190,336
Deferred tax liabilities			29,020
Unallocated liabilities			5,113
Total liabilities			224,469

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

	Revenue from external customers		Non-current assets	
	As at Six months ended 30 June 2021 (Unaudited) HK\$'000	As at 2020 (Unaudited) HK\$'000	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Hong Kong (place of domicile)	18,666	–	2,031	2,918
PRC	665,472	87,447	32	–
USA	–	–	270,950	270,949
	684,138	87,447	273,013	273,867

5. PROFIT (LOSS) BEFORE TAXATION

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

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	88	993
Depreciation of right-of-use asset	770	1,689
Finance cost		
– Interest expenses on unsecured loans	–	2,063
– Interest on lease liabilities	138	148
Employee benefit expense, including director emoluments:		
– Salaries and allowances	3,975	4,943
– Termination benefits	–	3,200
– Retirement scheme contributions	125	93

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current income tax on profits for the period:		
– PRC Enterprise Income Tax	9,834	180

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% (2020: 25%).

7. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the Period (2020: Nil).

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Earnings (loss) for the period attributable to owners of the Company (HK\$'000)	30,509	(13,375)
Weight average number of ordinary shares in issue ('000)	841,636	612,276
Basic and diluted earnings (loss) per share (HK cents)	3.62	(2.18)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. EARNINGS (LOSS) PER SHARE (continued)

(a) Basic earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held as treasury shares.

(b) Diluted earnings (loss) per share

The calculation of diluted earnings (loss) per share is the same as basic earnings (loss) per share for the periods ended 30 June 2021 and 2020 as there were no dilutive potential ordinary shares during both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2021, additions to property, plant and equipment was approximately HK\$47,000 and depreciation of 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 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Trade receivables	<u>8,084</u>	<u>56,428</u>

As at 30 June 2021, 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 aged analysis of trade receivables net of allowance for credit losses presented based on the invoice dates.

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
0 to 30 days	7,466	1,413
31 to 60 days	–	55,015
61 to 90 days	–	–
Over 90 days	<u>618</u>	<u>–</u>
	<u>8,084</u>	<u>56,428</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		As at 30 June 2021 (Unaudited) HK\$'000		As at 31 December 2020 (Audited) HK\$'000
Prepayments		1,875		555
Rental and other deposits paid		610		1,730
Trade deposits paid	(a)	206,602		181,543
Deposit paid for acquiring Russia oil fields	(b(i))	69,929		69,929
Other receivables	(b(ii))	1,788		2,227
		280,804		255,984
Less: Impairment loss	(b)	(71,609)		(71,609)
		209,195		184,375

Notes:

- (a) These payments to suppliers are unsecured, interest free and will be used to offset against future payments of purchases to suppliers during the ordinary course of business.
- (b) Impairment losses on deposit paid and other receivables
- (i) On 7 June 2013, the Group, through a wholly-owned subsidiary, entered into a sales and purchases agreement (the "S & P Agreement") with Levant Energy Limited ("Levant"), an independent third party, to acquire 23.10% of the total share capital of Timan Oil & Gas plc ("Timan") which held two onshore oilfields in Russia and two offshore exploration blocks in the Caspian Sea of Russia. US\$10,000,000 (equivalent to approximately HK\$77,706,000) was paid in cash as deposit. Details please refer to the Company's announcement dated 28 June 2013.

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

As at 30 June 2021 and 31 December 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 of other receivables is a provision of HK\$1,680,000 was made for receivables from an individual that was in default on principal payments and the amount is not expected to be recovered in the foreseeable future.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. TRADE AND OTHER PAYABLES

		As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Trade payables to third party	(a)	—	67,944
Other payables			
Accruals		2,122	4,090
Accrued directors' fee and salaries		213	99
Value-added tax and other tax payable		7,504	4,125
Other payables		499	464
		10,338	8,778
		10,338	76,722

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 within one year or are repayable on demand.

Note:

- (a) The credit period of trade payables is normally within 90 (2020: 90) days. The ageing analysis of the trade payables, based on the invoice date is as follows:

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
0 to 30 days	—	—
31 to 60 days	—	67,944
61 to 90 days	—	—
Over 90 days	—	—
	—	67,944

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. 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 period) of the contract liabilities during the period are as follows:

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) 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	<u>110,932</u>	<u>104,960</u>
At end of the reporting period	<u>110,932</u>	<u>104,960</u>

At 30 June 2021 and 31 December 2020, the contract liabilities are expected to be settled within next 12 months.

14. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.20 each	
	<i>No. of shares '000</i>	<i>HK\$'000</i>
At 31 December 2020, at 1 January 2021 and at 30 June 2021	<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 '000</i>	<i>HK\$'000</i>
At 31 December 2020, at 1 January 2021 and at 30 June 2021	<u>841,879</u>	<u>168,376</u>



MANAGEMENT DISCUSSION & ANALYSIS

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2021 (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 consolidated revenue of approximately HK\$684,138,000 (2020 Interim: HK\$87,447,000), and profit (2020 Interim: loss) attributable to the owners of the Company amounted to approximately HK\$30,509,000 (2020 Interim: Loss of HK\$13,375,000). Basic earnings (2020 Interim: loss) per share for the Period was HK3.62 cents (2020 Interim: Basic loss per share HK2.18 cents).

The consolidated revenue was mainly contributed from the trading business. Gross profit for the Period amounted approximately HK\$49,065,000 (2020 Interim: HK\$1,825,000), which was mainly contributed by trading of oil and oil-related product in the Mainland China.

Profit for the Period was approximately HK\$30,509,000 (2020 Interim: Loss of HK\$13,375,000). The profit was mainly due to (i) the significant increase in the revenue and the gross profit of the Group for the period as compared to the results of the six months ended 30 June 2020 following the material increase in the sales of oil and oil related products; (ii) decrease in administrative expenses for the Period by strengthening measures in administrative cost control of the Group; and (iii) decrease in finance cost as the unsecured loan of HK\$25,000,000 with interests accrued on it was paid off last year.

BUSINESS REVIEW

Oil and Gas Field

Between 2020 and 2021, with the help of the development of vaccines and other measures that have been undertaken by countries and regions across the world, activities in various spheres of societies have resumed partially and COVID-19 has been contained to a certain degree. Despite such development, the challenges and uncertainties brought by the pandemic remain – e.g., the new strain of the virus, Delta variant, which appears to spread more easily, and the virus continues to pose challenges for such facets as personnel mobility, which is an important part in companies’ cross-border operation of oil and gas fields. Facing all these challenges, the Group has been actively adapting and putting various measures in place to support and smoothen the operation of its oil and gas businesses. In the past months, not only were daily operations of the Group’s existing wells effectively maintained, several workovers (including the fixing of a leaking pipe of an oil well in January 2021) were accomplished, and tests have been undertaken since October 2020 on the gas wells to better understand their conditions.

MANAGEMENT DISCUSSION & ANALYSIS

Trading Business

For the first half of 2021, with the increasing level of vaccination, relaxed travel restrictions, the decrease in the infected cases worldwide and the gradual recovery of the major economies, the oil price has continuously rise and reached an average US\$73/b in June 2021 (<https://www.eia.gov>).

Under the circumstances, the Group continued to expand its trading business domestically. For the Period, the operating subsidiary, Pearl Oriental (Daqing) Oil Limited has secured the downstream orders and achieve revenue of approximately HK\$665,472,000 (2020 Interim: HK\$87,447,000) which represents approximately 661% increase comparing to the revenue of the said subsidiary for the same period of the last year.

PROSPECTS

As China largely contained the virus since the end of the first quarter last year and it was the one of the major economy achieved positive growth in 2020, it is expected that its economy will be steadily growing back to its pre-pandemic levels soon. Meanwhile, as the rollout of the vaccine continues, more countries will be resuming back its economic activities. As a result, it is expected that the oil consumptions and the demand could be further increased. However, the international oil market still remains volatile. There are still uncertainties relating to the ongoing COVID-19 pandemic (e.g., emerging variants of the virus) and although the global economy is moving forward, the pace of the recovery varies across different countries.

Trading & Services Business

The Group will continue to aim at maintaining and developing its existing business as well as exploring 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 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.





MANAGEMENT DISCUSSION & ANALYSIS

Oil and Gas Field

The year 2021 has witnessed a strong rebound of both oil and gas prices. Specifically, the reopening of many businesses worldwide has greatly boosted consumer demand, which in turn stimulated overall economic growth. WTI and Brent (oil) both increased by about 48% year-to-date, while Henry Hub natural gas prices rose by around 51.6% since the beginning of 2021. In spite of the soar in prices, the Group remains cautious about the prospects of the third and fourth quarters of 2021. In particular, the Group is concerned about the impact that the Delta variant of COVID-19 can have on the global demand of oil and gas. As mentioned above, the Delta variant spreads more easily and can pose harsher challenges to economic and societal activities. Furthermore, the Group estimates that OPEC and the US are likely to maintain their oil production growth in the quarters yet to come; as such, the production growth could exceed the growth in demand, bringing a lot of uncertainties to the trend of oil prices.

Given these considerations, the Group expects the international oil and gas prices to show a downward trend in the near future, while long-term trend on oil and gas price remains uncertain and is subject to many factors related to the pandemic. As such, the Group will prioritize the continuous and stable operation of the oil and gas field, while keep a close eye on the development of various facets in the international market.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of new share, borrowings and internally generated resources. As at 30 June 2021, the Group had trade deposits of approximately HK\$206,602,000 (As at 31 December 2020: HK\$181,543,000). As of the date of this report, all of the trade deposits as of 31 December 2020 has been fully utilised. The Group's cash and bank balances as at 30 June 2021 decreased to approximately HK\$23,374,000 from HK\$27,948,000 as at 31 December 2020, mainly due to the net effect of cash outflow in operating activities. The current ratio (calculated on the basis of the Group's current assets over current liabilities) was approximately 1.79 as at 30 June 2021 (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 31.95% (As at 31 December 2020: 41.37%) .

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

MANAGEMENT DISCUSSION & ANALYSIS

UPDATE ON USE OF PROCEEDS ON 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 Period. The said remaining balance of the net proceeds from the Rights Issue at the beginning of the Period has been utilised in full during the Period 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 Period (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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the number of employees and directors of the Group was 24. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance; other employee benefits include meal and travelling allowances and discretionary bonuses.



MANAGEMENT DISCUSSION & ANALYSIS

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

As at 30 June 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 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 ³	0.59%

Notes:

1. The Company had 841,879,482 Shares in issue as at 30 June 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%.
3. These 5,000,000 Shares were beneficially owned by Ms. Zhong Bifeng.

MANAGEMENT DISCUSSION & ANALYSIS

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

Name of director	Name of associated corporation	Capacity	Number of issued ordinary shares held	Percentage in the associated corporation
Yu Zhibo	Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	4,628	46.28% ¹
Chen Junyan	Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	3,492	34.92% ¹

Notes:

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

Save as disclosed above, as at 30 June 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 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 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%



MANAGEMENT DISCUSSION & ANALYSIS

Notes:

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

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

SHARE OPTION SCHEME

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, for the six months ended 30 June 2021, the Company has complied throughout the Period with the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules.

CHANGES IN DIRECTORS' INFORMATION

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

1. Ms. Sun Xiaoze has been appointed as an executive Director with effect from 6 August 2021.
2. Ms. Yang Yuyan, an independent non-executive Director, has been re-designated as an executive Director and due to her re-designation, she has also resigned as a member of the Remuneration Committee, and the chairlady and a member of the Audit Committee with effect from 6 August 2021.
3. Mr. Zheng Ye has been appointed as a non-executive Director with effect from 6 August 2021.
4. Ms. Huang Qingwei has been appointed as an independent non-executive Director, the chairlady and a member of the Audit Committee with effect from 6 August 2021.
5. Mr. Shen Shigang has been appointed as an independent non-executive Director and a member of Remuneration Committee with effect from 6 August 2021.

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 consolidated interim condensed financial information for the six months ended 30 June 2021 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.





OTHER INFORMATION

DIRECTORS' RESPONSIBILITY OF FINANCIAL REPORTING

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

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

BOARD OF DIRECTORS

As at the date hereof, the Board comprises six executive Directors, namely 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 Executive Director

Hong Kong, 23 August 2021