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**中港石油有限公司\***

**CHK OIL LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2021**

The board of directors (the “**Board**”) of CHK Oil Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the year ended 31 December 2021*

	<i>Notes</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Revenue</b>	5	<b>1,528,065</b>	736,762
Cost of sales		<u>(1,432,258)</u>	<u>(694,483)</u>
Gross profit		<b>95,807</b>	42,279
Other income		<b>1,900</b>	5,889
Administrative expenses		<b>(18,777)</b>	(24,804)
Reversal of impairment loss of property, plant and equipment	11	<b>15,887</b>	–
Reversal of impairment loss of intangible assets	12	<b>95,536</b>	–
Finance costs	6	<u>(228)</u>	<u>(4,179)</u>
<b>Profit before tax</b>	7	<b>190,125</b>	19,185
Income tax expense	8	<u>(42,305)</u>	<u>(10,469)</u>
<b>Profit for the year</b>		<b>147,820</b>	8,716

\* For identification purpose only

	<i>Notes</i>	<b>2021</b> <b>HK\$'000</b>	2020 <i>HK\$'000</i>
<b>Other comprehensive income for the year, net of tax</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences arising on translation of foreign operations		<u>5,936</u>	<u>3,119</u>
<b>Total comprehensive income for the year</b>		<b><u>153,756</u></b>	<b><u>11,835</u></b>
<b>Profit attributable to:</b>			
Owners of the Company		147,820	8,716
Non-controlling interests		<u>–</u>	<u>–</u>
		<b><u>147,820</u></b>	<b><u>8,716</u></b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		153,756	11,835
Non-controlling interests		<u>–</u>	<u>–</u>
		<b><u>153,756</u></b>	<b><u>11,835</u></b>
<b>Earnings per share (<i>HK cents</i>)</b>			
– Basic and diluted	10	<b><u>17.56</u></b>	<b><u>1.38</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

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

	<i>Notes</i>	<b>2021</b> <b><i>HK\$'000</i></b>	2020 <i>HK\$'000</i>
<b>Equity</b>			
Share capital	18	<b>168,376</b>	168,376
Reserves		<b>302,514</b>	148,758
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>470,890</b>	317,134
Non-controlling interests		<b>1,015</b>	1,015
		<hr/>	<hr/>
<b>Total equity</b>		<b>471,905</b>	318,149
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## NOTES

For the year ended 31 December 2021

### 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 Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

In the opinion of the directors of the Company, the Company’s parent and ultimate holding company is Xin Hua Petroleum (Hong Kong) Limited (“**Xin Hua**”), a company incorporated in Hong Kong.

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

### 2. BASIS OF PREPARATION

The 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 the consolidated financial statements is the historical cost basis.

The 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.

### 3. 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

#### **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.

#### **4. 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.

## 5. REVENUE AND SEGMENT INFORMATION

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

	<b>2021</b>		
	<b>Oil and gas sales <i>HK\$'000</i></b>	<b>Trading of oil, oil-related and other products <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>Revenue</b>			
– 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
	<u>79</u>	<u>1,527,986</u>	<u>1,528,065</u>
<b>Segment profit</b>	<b>110,038</b>	<b>93,506</b>	<b>203,544</b>
Unallocated income			764
Unallocated expenses			(13,955)
Finance costs			<u>(228)</u>
Profit before tax			<b>190,125</b>
Income tax expenses			<u>(42,305)</u>
Profit for the year			<u><b>147,820</b></u>

## 2021

	Trading of oil, oil-related and other		Unallocated	Total
	Oil and gas sales <i>HK\$'000</i>	products <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Segment assets</b>	<b>383,005</b>	<b>223,677</b>	–	<b>606,682</b>
Unallocated assets	–	–	10,858	10,858
Total assets				<b>617,540</b>
<b>Segment liabilities</b>	<b>2,010</b>	<b>88,454</b>	–	<b>90,464</b>
Deferred tax liabilities	–	–	50,133	50,133
Unallocated liabilities	–	–	5,038	5,038
Total liabilities				<b>145,635</b>
<b>Other information</b>				
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

	2020		
	Oil and gas sales <i>HK\$'000</i>	Trading of oil, oil-related and other products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>			
– 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
	<u>–</u>	<u>736,762</u>	<u>736,762</u>
<b>Segment (loss) profit</b>	(1,831)	42,559	40,728
Unallocated income			5,868
Unallocated expenses			(23,232)
Finance costs			<u>(4,179)</u>
Profit before tax			19,185
Income tax expenses			<u>(10,469)</u>
Profit for the year			<u><u>8,716</u></u>

2020

	Oil and gas sales <i>HK\$'000</i>	Trading of oil, oil-related and other products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment assets</b>	263,707	251,609	–	515,316
Unallocated assets	–	–	27,302	<u>27,302</u>
Total assets				<u><u>542,618</u></u>
<b>Segment liabilities</b>	2,165	188,171	–	190,336
Deferred tax liabilities	–	–	29,020	29,020
Unallocated liabilities	–	–	5,113	<u>5,113</u>
Total liabilities				<u><u>224,469</u></u>
<b>Other information</b>				
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
	<u>–</u>	<u>–</u>	<u>3,463</u>	<u>3,463</u>

## 6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest expenses on unsecured loans	–	3,915
Interest on lease liabilities	<u>228</u>	<u>264</u>
	<u><u>228</u></u>	<u><u>4,179</u></u>

## 7. PROFIT BEFORE TAX

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Employee benefit expense, including director emoluments:		
– Salaries and allowances	8,596	13,300
– Retirement scheme contributions	314	178
	<u>8,910</u>	<u>13,478</u>
Cost of inventories	1,432,258	694,483
Depreciation		
– property, plant and equipment	180	1,588
– right-of-use assets	1,472	3,463
	<u>1,474</u>	<u>5,051</u>

## 8. INCOME TAX EXPENSE

### PRC Enterprise Income Tax (“EIT”)

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

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

## 9. DIVIDENDS

The Board 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 ( <i>HK\$'000</i> )	<u>147,820</u>	<u>8,716</u>
Weighted average number of ordinary shares ('000)	<u>841,636</u>	<u>630,365</u>
Basic and diluted earnings per share ( <i>HK cents</i> )	<u>17.56</u>	<u>1.38</u>

(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 for the years ended 31 December 2021 and 2020 as there were no dilutive potential ordinary shares during both years.

**11. PROPERTY, PLANT AND EQUIPMENT**

	<b>Oil and gas properties</b>	<b>Leasehold improvements</b>	<b>Furniture, fixtures and equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>				
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
<b>At 31 December 2021</b>	<b>90,116</b>	<b>89</b>	<b>1,227</b>	<b>91,432</b>
<b>Accumulated depreciation and impairment losses</b>				
At 1 January 2020	51,857	3,498	794	56,149
Change 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
Change for the year	–	44	136	180
Impairment loss reversed	(15,887)	–	–	(15,887)
<b>At 31 December 2021</b>	<b>35,970</b>	<b>51</b>	<b>1,037</b>	<b>37,058</b>
<b>Net book value</b>				
<b>At 31 December 2021</b>	<b>54,146</b>	<b>38</b>	<b>190</b>	<b>54,374</b>
At 31 December 2020	38,259	82	269	38,610

## 12. INTANGIBLE ASSETS

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

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.

## 13. TRADE RECEIVABLES

	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	<b>74,534</b>	56,428

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

	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	<b>72,312</b>	1,413
31–60 days	<b>2,222</b>	55,015
	<b>74,534</b>	56,428

#### 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
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		69,929	69,929
Other receivables		1,939	2,227
		<u>221,894</u>	<u>255,984</u>
Less: Impairment losses		<u>(71,609)</u>	<u>(71,609)</u>
		<u><u>150,285</u></u>	<u><u>184,375</u></u>

##### (a) Trade deposits paid

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

#### 15. TRADE AND OTHER PAYABLES

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Trade payables to third parties</b>	(a)	<u>44,877</u>	<u>67,944</u>
<b>Other payables</b>			
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
		<u>29,385</u>	<u>8,778</u>
		<u><u>74,262</u></u>	<u><u>76,722</u></u>

*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 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	44,877	–
31–60 days	–	67,944
	<u>44,877</u>	<u>67,944</u>

## 16. 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 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	104,960	–
Recognised as revenue	(78,185)	–
Refunded for cancellation of contracts	(26,775)	–
Receipt of advances	–	104,960
	<u>–</u>	<u>104,960</u>
At 31 December	<u>–</u>	<u>104,960</u>

## 17. LOAN FROM A SUBSTANTIAL SHAREHOLDER

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

## 18. SHARE CAPITAL

	<i>Note</i>	2021		2020	
		Number of shares '000	<i>HK\$'000</i>	Number of shares '000	<i>HK\$'000</i>
<b>Authorised:</b>					
At beginning of the reporting period and at end of the reporting period, ordinary shares of HK\$0.2 each		<u>100,000,000</u>	<u>20,000,000</u>	<u>100,000,000</u>	<u>20,000,000</u>
<b>Issued and fully paid:</b>					
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)	<u>–</u>	<u>–</u>	<u>229,603</u>	<u>45,921</u>
At end of the reporting period, ordinary shares of HK\$0.2 each		<u>841,879</u>	<u>168,376</u>	<u>841,879</u>	<u>168,376</u>

*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.

## 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 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 the owners of the Company of approximately HK\$8,716,000 for the year ended 31 December 2020. The increase in the 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 those of the financial 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 \$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 due to tight supplies and increasing demand for electricity. (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.

## **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 (USD 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%). During the Year, 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.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

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

## **SIGNIFICANT INVESTMENT**

Save as those disclosed under the section headed “Management Discussion and Analysis”, the Group did not have any significant investment during the Year.

## **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.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transaction by the Directors. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the required standards set out in the Model Code during the Year.

## **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 announcement.

## **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 3 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.

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

#### **AUDIT COMMITTEE**

The Audit Committee has reviewed the draft audited consolidated financial statements for the Year. The Audit Committee has also discussed the auditing, financial reporting matters, risk management and internal control systems of the Company.

#### **SCOPE OF WORK OF MAZARS CPA LIMITED**

The figures contained in this results announcement in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the Year have been agreed by the Group's auditor, Mazars CPA Limited ("**Mazars**"), to the amounts set out in the Group's draft audited consolidated financial statements for the Year. The work performed by Mazars in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Mazars on the preliminary announcement.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND 2021 ANNUAL REPORT**

This annual results announcement is published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.chkoilltd.com](http://www.chkoilltd.com)). The annual report of the Company for the year ended 31 December 2021 containing all information required by the Listing Rules will be despatched to the Shareholders and will also be available on websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chkoilltd.com](http://www.chkoilltd.com)) in due course.

By Order of the Board  
**CHK Oil Limited**  
**Yu Jiyuan**  
*Chairman and Executive Director*

Hong Kong, 31 March 2022

*As at the date of this announcement, 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.*