CHK Oil Limited
中港石油有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 632

ANNUAL REPORT

2020

** For identification purpose only*

Contents

Corporate Information

DIRECTORS

Executive Directors:

Liu Gui Feng *(Chairlady)*
Chen Bin *(resigned on 21/09/2020)*
Yu Jiyuan *(appointed as Chief Executive Officer and the vice chairman on 21/09/2020)*
Lin Qing Yu
Chen Junyan
Yun Guangrui *(resigned on 01/06/2020)*
Li Songtao *(re-designated from an independent non-executive Director to an executive Director on 21/09/2020)*

Non-Executive Director:

Yu Zhibo *(appointed as an executive Director and the vice chairman on 29/06/2020, re-designated as a non-executive Director and resigned as the vice chairman on 21/09/2020)*

Independent Non-Executive Directors:

Cao Wei *(resigned on 21/09/2020)*
Xu Guoqiang *(resigned on 01/06/2020)*
Zhong Bifeng
Yang Yuyan *(appointed on 21/09/2020)*
Pang Jun *(appointed on 21/09/2020)*

LEGAL ADVISERS

YC Solicitors

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.

COMPANY SECRETARY

Liu Xiaoting

AUDITOR

Mazars CPA Limited

AUTHORISED REPRESENTATIVES

Yu Jiyuan
Liu Xiaoting

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Units 2617-18, 26/F, Mira Place Tower A
No. 132 Nathan Road
Kowloon, Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

Conyers Corporate Services (Bermuda) Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

https://www.chkoilltd.com/

STOCK CODE

632

Financial Highlights

	Notes	2020 HK$'000	2019 HK$'000
For the year ended 31 December			
Revenue		**736,762**	175,467
Profit (loss) for the year		**8,716**	(268,969)
Profit (loss) attributable to owners		**8,716**	(268,841)
Earnings (loss) per share			
Basic (HK cents)			(Restated)
— For earnings (loss) for the year		**1.38**	(70.00)
Diluted (HK cents)			(Restated)
— For earnings (loss) for the year		**1.38**	(70.00)
Average shareholders' equity		**288,789**	198,789
Average capital employed		**319,639**	234,010
At 31 December			
Total indebtedness	1	**2,678**	39,578
Shareholders' equity		**317,134**	260,444
Capital employed	2	**348,470**	290,807
Ratio			
Return on average capital employed (%)	3	**2.7%**	(114.9%)
Return on average equity (%)	4	**3.0%**	(135.2%)
Total debt to total capital (%)	5	**0.8%**	13.2%

Notes:

1. Total indebtedness = total interest bearing borrowings

2. Capital employed = shareholders' funds + non-controlling interests + non-current liabilities

3. Return on average capital employed = profit/(loss) for the year/average capital employed

4. Return on average equity = net profit/(loss) attributable to owners/average shareholders' equity

5. Total debt to total capital = debt/(shareholders' funds + non-controlling interests + debt)

Chairlady's Statement

Dear Shareholders,

On behalf of the board of directors, I am pleased to present the annual report of CHK Oil Limited and its subsidiaries for the year ending 31 December 2020.

The outbreak and continuous spread of the coronavirus worldwide during the year 2020 had a significant negative impact on the oil industry overall. The global demand for oil dropped rapidly as governments imposed strict quarantines and lock down restrictions, banned travelling and closed the business. The reduced economic activity led to an oversupply in the market and price plunged accordingly. Furthermore, the oil price war between Saudi Arabia and Russia initiated in March 2020 contributed to a further decline in the oil price. On April 20, the May 2020 contract futures price for West Texas Intermediate (WTI) plummeted to around -US$37 a barrel and the Brent oil price has dropped to US$21.44. The market uncertainties induced by the pandemic also caused a decline in the natural gas demand and reached the lowest level of monthly average price in decades by June 2020. (https://www.eia.gov)

With the coronavirus contained and the oil demand recovery in China, the production cuts by Organisation of the Petroleum Exporting Countries (OPEC) and introducing vaccine program gradually to the public, the oil price has steadily recovered since April 2020. According to U.S. Energy Information Administration (EIA), Natural gas prices increased in the second half of the year because of lower natural gas production and an increase in liquefied natural gas (LNG) exports.

Although the operating environment remained tough in 2020, the Group has managed to resume its business operation as soon as the coronavirus was under control in local areas. After a careful assessment of the demand in global market and the consideration of the great uncertainty over the course of the global pandemic by the management, the Group has mainly focused on increasing in trading volumes of oil and oil-related products in China's domestic market. Meanwhile for the Utah Oil & Gas field, because of the low levels of oil and gas prices, increased in drilling cost, labor costs and other production costs caused by the pandemic, the Group shifted its focus on regular maintenance of our current oil and gas and other facilities in the field. In addition, the Group has continued to expand the business to other industries, such as electronic products. With the combined efforts, The Group was able to achieve a total revenue of approximately HK$737 million which was more than 400% increase as compared to it in 2019 and gross profit of approximately HK$42 million as compared to approximately HK$28,000 in 2019.

During the year 2020, the Group has also been actively seeking fundraising methods to pay off long-term debts and enhance financial positions for the Group. The Company has completed the rights issue on 10 December 2020 and paid off long-term debts successfully.

Looking forward, although economy has been showing positive signs for a rebound, the outlook for the oil market will still largely depend on how quickly the coronavirus can be contained worldwide. The Group will be closely monitoring the situation and adapt our business strategies to the new realities in 2021. The Group will continue to focus on the cost controls on the operations, trading oil and oil-related products in China and carrying regular inspections of our gas and oil fields in Utah, USA, to ensure smooth operation of existing businesses. Furthermore, the Group will also explore opportunities of international trade on our core business. Moreover, the Group will consider to expand business lines to provide oilfield maintenance and development services to oil field owners. In addition, the Group will continuously seek high-quality assets and business and new co-operators and/or investors with solid financial strength to expand the Group's gas and oil business and achieve business optimization when opportunities arise.

Lastly, on behalf of the board of directors of the Company, I would like to take this opportunity to express my appreciation to our customers, suppliers, business associates, shareholders and other stakeholders for their support. I would also like to express our gratitude to our staff for their invaluable service and contributions throughout the year.

Liu Gui Feng
Chairlady

Hong Kong, 22 March 2021

Profiles of Directors

PROFILES OF DIRECTORS

Executive Directors

MS. LIU GUI FENG

Ms. Liu, aged 70, was appointed as an executive Director and the Chairlady of the Board on 28 November 2018. She graduated from the Corporate CEO Modern Project Management Advanced Course (企業CEO現代項目管理高級研修班) organized by Tsinghua University in July 2005. She has served as the chairlady of Changchun Xinda Petroleum Group Co., Ltd.* (長春新大石油集團有限公司) since 1996.

MR. YU JIYUAN

Mr. Yu, aged 28, the son of Mr. Yu Zhibo who is a non-executive Director and a substantial shareholder of the Company, was appointed as an executive Director on 15 July 2019 and appointed as the vice chairman of the Board and the chief executive officer of the Company on 21 September 2020. Mr. Yu Jiyuan obtained Bachelor of Science (Applied Mathematics & Statistics, Economics) from State University of New York (Stony Brook) in December 2012 and a Master in Public Administration in International Development from Harvard University in May 2017. From October 2013 to August 2015, Mr. Yu Jiyuan was a consultant to the International Department (國際部) of Heilongjiang province Longyou Group Company Limited* (黑龍江龍油集團有限公司) ("Heilongjiang Longyou") where he assisted the development of the international sales and marketing strategies and liaison with overseas business partners. From June 2017 to October 2018, Mr. Yu Jiyuan became the Head of International Department (國際部部長) of Heilongjiang Longyou and he was responsible for the overseas business development. Since November 2018, Mr. Yu Jiyuan has been working as the general manager of Heilongjiang Longyou. Since January 2018, Mr. Yu Jiyuan has been the chairman of Tianjin Yingde Coldchain Technology Co., Ltd* (天津瀛德冷鏈技術有限公司). Since November 2018, Mr. Yu Jiyuan has been working as the chairman of Tianjin Binglixuleng Technology Co., Ltd.* (天津冰利蓄冷科技有限公司).

MR. LIN QING YU

Mr. Lin, aged 46, was appointed as an Executive Director on 3 October 2018. He served as the General Manager of Jilin Xinda Petroleum and Chemical Industry Co., Ltd.* (吉林新大石油化工有限公司) from 2008 to 2011, and has been the Chairman and legal representative of Jilin Shengde Industrial Group Co., Ltd.* (吉林聖德實業集團有限公司) since December 2011. He graduated from Economics and Management professional studies (大專班經濟管理事業) in the Open College of the Central Communist Party School (中共中央黨校函授學院) in 1996.

MS. CHEN JUNYAN

Ms. Chen (formerly know as Ms. Chen Jinging), aged 32, was appointed as an executive Director on 15 July 2019. She was a business manager and promoted to business director (業務總監) and the general manager assistant at Shanghai Dahua Nationalization Business Management Co. Ltd.* (上海大華國化企業管理有限公司), from September 2011 to September 2018 and Ms. Chen was responsible for the sales and marketing of the fuel oil business.

MR. LI SONGTAO

Mr. Li, aged 50, was appointed as an independent non-executive Director on 24 September 2019 and was re-designated as an executive Director on 21 September 2020. Mr. Li has served as financial controller of Daqing Jinsanyuan Co., Ltd* (大慶金三元有限公司) since September 2012. He has also worked in Daqing Branch of Heilongjiang Anlian Accounting Firm Co., Ltd* (黑龍江安聯會計師事務所有限公司大慶分公司) since December 2007, and is currently taking the position of vice director of the Branch. He was working for the accounting department in Heilongjiang Dairy Machinery Factory* (黑龍江省乳品機械總廠) for the period from August 1991 to June 2004. Mr. Li currently holds the qualification of certified public accountant in the PRC and he also has been a Registered Tax Agent since 2010 in the PRC.

Non-executive Director

MR. YU ZHIBO

Mr. Yu, aged 58, was appointed as an executive Director on 29 June 2020 and was re-designated as a non-executive Director on 21 September 2020. Mr. Yu is the father of Mr. Yu Jiyuan, an executive Director. Mr. Yu is a director and shareholder of Xin Hua Petroleum (Hong Kong) Limited, a substantial shareholder of the Company. Mr. Yu finished his legal professional studies (法律專科) in July 1989 and law studies (法律本科) in January 1998 at Heilongjiang Administrative Cadre Institute of Politics and Law* (黑龍江省政法管理幹部學院). Mr. Yu obtained his master in Executive MBA (高級管理人員工商管理碩士) at Tsinghua University (清華大學) in January 2019. Mr. Yu has more than 10 years of experience in the petrochemical industry. From January 2007 to January 2009, Mr. Yu was the chairman and the general manager of Daqing Jinlian Petrochemical Co., Ltd* (大慶錦聯石油化工有限公司). From October 2009 to March 2019, Mr. Yu was the director of Daqing Lianyi Petrochemical Co., Ltd* (大慶聯誼石化股份有限公司) ("Daqing Lianyi") and from August 2012 to October 2016, Mr. Yu was also acting as the chairman of Daqing Lianyi. From October 2016 to March 2019, Mr. Yu was the vice general manager of Daqing Lianyi. Daqing Lianyi is a petrochemical company engaging in, among others, sale of crude oil, petroleum processing and distribution of oil-related products business. Mr. Yu joined the Group in August 2019 and has been the vice president in the business trading department of the Company since then.

Independent Non-executive Directors ("INEDs")

MS. ZHONG BIFENG

Ms. Zhong, aged 36, was appointed as an independent non-executive Director on 14 August 2019. She holds a bachelor's degree in law from Shijiazhuang Army Command College* (石家莊陸軍指揮學院) in Hebei Province, China in June 2007. Ms. Zhong worked in Meizhou Culture, Radio, Television and the Tourism Bureau of Guangdong Province* (廣東省梅州市文化廣電旅遊局) during the years from November 2007 to October 2013; she served as manager of sales department of Jilin Province Li'an Petrochemical Co., Limited*(吉林省利安石油化工有限公司) from April 2013 to March 2014; she was working as the supervisor of trade department and then promoted as deputy director of operation department in Liaoning Dingyuan New Energy Trading Co., Ltd* (遼寧鼎元新能源貿易有限公司) during the years from 2014 to 2018.

Profiles of Directors

MS. YANG YUYAN

Ms. Yang, aged 38, was appointed as an independent non-executive Director on 21 September 2020. Ms. Yang finished her bachelor of accounting at Jilin University of Finance and Economics* (吉林財經大學) through passing self-taught higher education examinations in 2013. Ms. Yang has been qualified as a mid-level accountant in the PRC since 2009. Ms. Yang served as a financial manager of Heilongjiang Longyou from January 2017 to June 2018. Ms. Yang has served as financial controller of Daqing Direction Software Technology Co., Ltd* (大慶正方軟件科技股份有限公司), a company quoted on National Equities Exchange and Quotations (Code: 832911), since August 2018. She is a tax advisor as certified by The China Certified Tax Agent Association since November 2020. She obtained the qualification of the Certified Public Accountant in the PRC in April 2021.

MR. PANG JUN

Mr. Pang, aged 56, was appointed as an independent non-executive Director on 21 September 2020. Mr. Pang graduated from Heilongjiang People's Police School* (黑龍江省人民警察學校) in 1983; served as a policeman at section staff level in Qiqihar Railway Reeducation Center* (齊齊哈爾鐵路勞教所) from 1983 to 1992. Mr. Pang is currently a qualified lawyer in the PRC. Mr. Pang was a senior partner at Heilongjiang Benhe Law Firm* (黑龍江奔河律師事務所) from 2000 to 2002, a senior partner and the chief lawyer (主任律師) at Heilongjiang Baixing Law Firm* (黑龍江佰行律師事務所) from 2005 to 2008. He has been served as a senior partner and practicing lawyer at Heilongjiang Zeyan Law Firm* (黑龍江澤言律師事務所) since 2008.

* *English translation for identification purpose only*

Management Discussion and Analysis

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2020 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of approximately HK$736,762,000 (2019: approximately HK$175,467,000) mainly contributed from the trading of oil, oil-related products and electronic products business. Basic and diluted earnings per share for the Year was HK$1.38 cents (2019 Restated: Basic and diluted loss per share was HK$70.00 cents). Basic and diluted earnings per share was based on the weighted average of approximately 630 million shares (2019 Restated: approximately 384 million shares) in issue for the Year. Gross profit for the Year amounted approximately HK$42,279,000 (2019: approximately HK$28,000), 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$8,716,000 because: (i) there was a significant increase in the revenue and the gross profit for the Group as a result of the improvement in the trading business of the oil and oil-related products; (ii) there was a decrease in the finance cost of unsecured loans, since the unsecured loan of HK$25,000,000 with interests accrued on it was paid off during the Year; (iii) strengthening measures in administrative cost control of the Group; (iv) no impairment loss on intangible assets was recorded for the Year; and (v) the absence of an one-off expenditure on settlement of indebtedness of approximately HK$210,572,000 resulting from the difference in the fair value of the new shares issued on 8 July 2019 of HK$296,000,000 and the amount of settlement of unsecured loan due from the Company of HK$80,000,000 and the waived interest payables of HK$5,428,000 (the "Expenditure on Settlement of Indebtedness"). The comparable loss attributable to owners of the Company for the year ended 31 December 2019 was approximately HK$268,841,000 because (i) the Expenditure on Settlement of Indebtedness was recognised; and (ii) the impairment losses of approximately HK$25,739,000 of the Group's intangible assets was recognised.

BUSINESS REVIEW

Trading Business

Due to the spread of COVID-19 worldwide and the 2020 Russia-Saudi Arabia oil price war, the prices of oil have undergone significant fluctuations including its historical plunge of prices in early 2020 and the Brent oil price has dropped to US$21.44 on 20 April 2020.

By the end of first quarter, the virus was brought under control in China and the business activities resumed back to normal domestically. With the recovery of Chinese economy, production cut by OPEC, and the rollout of the vaccine schemes in many countries, the oil price has steadily recovered since April 2020. Meanwhile, governments in many other countries still imposed strict containment measures including limiting business activities and travel restrictions, as the number of confirmed cases continued to rise in these countries.

Under the circumstances, the Group quickly adapted the business into this new reality by continuing to expand its core trading business in China's domestic market. In January 2020, the Group has completed the capital injection to its wholly owned subsidiary, Pearl Oriental (Daqing) Oil Limited, 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 subsidiary was able to secure the downstream orders and achieved revenue of approximately HK$706,411,000 (2019: approximately HK$48,136,000). Meanwhile, the Group has also expanded business in trading of electronic products in the second half of the Year.

Utah Gas and Oil Field

Due to the spread of COVID-19 across the globe, in particular the significant effects and shocks following the wide spread of the pandemic in the United States, the Group has adjusted, in a timely fashion, the development plans for the gas and oil field previously made in the year before. Specifically, after careful cost and benefit analysis, the Group has decided to postpone the task to further exploit the reserves tentatively until 2021. This is mainly because the continuance of the COVID-19 pandemic has made it most difficult for the Group to send internal staff to oversee the operation at the gas and oil field. The same applies to the external partners contracted by the Group, such as field exploitation workers as well as other personnel from service companies, who were faced with increasing difficulty to travel and operate at the gas and oil field. Despite these difficulties, the Group continued to improve the conditions of the field within the year, the Group managed to finish the workover operations on several wells that were of low productivity or out of service so as to restore the production at the gas and oil field. In the middle of 2020, the Group has finished repairing one of the wells. At present, the Group is reviewing workover operations on other wells and setting up schedules for repairment. As COVID-19 gets gradually contained across the world, we are expecting a steady increase in the volume of production in 2021.

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.

Since October 2018, the crude oil price has been decreasing. On April 20, 2020, the price of Brent crude oil dropped to a record low of US$21.44 per barrel. Oil price has fallen to unprecedented levels since 2002 because of the sharp drop in demand for crude oil amid the coronavirus pandemic and the price war launched between Saudi Arabia and Russia. Since October 2020, crude oil prices have ushered in a new wave of increases and reached US$62.91 per barrel on February 15, 2021. Although the price increase is gratifying, we remain cautious to the strong volatility of the market. With regards to natural gas, its price has been declining since the end of November 2018, and fell to US$1.5 per MMBtu in June 2020. Since 2021, the price of natural gas has been fluctuating slightly below US$3 per MMBtu (Source: http://markets.businessinsider.com).

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. 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 parties.

OPERATIONAL REVIEW AND UPDATE ON RESERVES

The Group has undertaken workovers on the existing wells, and maintenance and repairment of one of the oil wells has been completed. The Group is also exploring the possibility of drilling, the decision of which is to be made after further evaluation of related costs and benefits.

To the best of the Group's knowledge, as of 31 December 2020, there was no material difference in the reserves of the Utah Gas and Oil Field with that in 2019.

The chart below shows what the Group's total net proved and probable reserve would be under the hypothesis that the gas price rebounds to USD4/MCF.

SENSITIVITY TABLE TO GAS PRICE FOR WASATCH MESAVERDE LOCATIONS

	Reserves at this Price		Total NPV10, MM$	
Wellhead Price, $/MCF	Gas, BCF	Condensate, Mbbl	144 Wells	Total of Positive Only
$1.98	–	–	(42.13)	$0.00
$2.73	82.3	397.0	($13.72)	$1.02
$3.25	85.2	410.0	$6.46	$14.77
$3.51	86.4	415.0	$16.42	$21.55
$4.05	130.0	1,282.0	$37.23	$37.23

Note: Mbbl = Thousand Barrels
BCF = Billion cubic feet

PROSPECTS

Utah Gas and Oil Field

In February 2021, the U.S. Energy Information Administration (EIA) estimated that the natural gas price would rise to around US$3.11/MCF by the third quarter of 2021 and continue to grow to approximately US$3.2/MCF in the remainder of 2021. EIA also predicted that the global crude oil prices would increase and average at around US$41.69 per barrel for 2020 and US$53.2 per barrel in 2021. Although the outbreak of COVID-19 presents further uncertainties to the market, given the decline in the natural gas production in the States and increasing demand for natural gas power generation and other factors, there is still a good chance that the prices of natural gas will continue to increase in 2021 as predicted. There is also a great chance that oil prices will stabilize in 2021 as expected.

In order to improve profitability and financial stability, the Group has taken concrete actions at the Utah Gas and Oil Field, which includes stepping up our efforts to regularly and timely inspect and repair drilling and storage equipment to sustain continuous operations and ensure smooth operations of existing businesses. Currently, we are continuing to carry out well workover operations on the basis of what has been accomplished last year and compiling health reports for each well. These measures can improve the conditions of our gas and oil wells and help boost the volume of production. In addition, we are exploring the possibility of drilling new wells, and will make a decision after careful cost-benefit analysis and we may invite new investors or partners to share the costs of drilling.

Trading & Service Business

The outlook for the oil market in 2021 will still largely depend on how quickly the coronavirus can be contained worldwide. Given the market volatility with the outbreaks of coronavirus over the past year, it still remains difficult to assess the full economic impacts arising from the pandemic in 2021. 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: 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; international trade on oil and oil-related products; 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 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

The Group generally finances its operations with issue of new shares, borrowings and internally generated resources. On 10 December 2020, the Company completed a rights issue at a price of HK$0.2 per rights share (the "Right Shares") on the basis of three (3) Rights Shares for every eight (8) existing Shares held by the qualifying shareholders on the record date (ie. 11 November 2020) (the "Rights Issue") Details of the Rights Issue are set out in the Company's announcements dated 19 October 2020 and 9 December 2020, and the Company's prospectus dated 18 November 2020. The net proceeds from the Rights Issue was approximately HK$44.9 million, HK$28.2 million of which was used for the repayment of unsecured loans and related interest payable by the Group.

As at 31 December 2020, the Group had nil balance of unsecured loans repayable within one year (As at 31 December 2019: approximately HK$36,186,000). The decrease of the Group's cash and bank balances as at 31 December 2020 to approximately HK$27,948,000 from approximately HK$53,889,000 as at 31 December 2019 was mainly due to the net effect of (i) increase in cash out flows for repayment of unsecured loans; (ii) increase in cash inflows from the proceeds of Rights Issue; and (iii) decrease in cash inflows from the subscription of shares when compared with last year; (iv) decrease in the net cash used in operating activities. As at 31 December 2020, the current ratio (calculated on the basis of the Group's current assets over current liabilities) was 1.38 (As at 31 December 2019: 1.28) and the gearing ratio (debt-to-asset ratio) (calculated as total liabilities divided by total assets) was approximately 41.37% (As at 31 December 2019: 23.74%). 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.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

CHARGES ON GROUP ASSETS

As at 31 December 2020, the Group did not have any charges on assets (31 December 2019: Nil).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group had no material acquisition and disposal of subsidiaries and associated companies during the Year.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

SIGNIFICANT INVESTMENT

Save as those disclosed under the section headed "Management Discussion and Analysis" in this annual report, the Group did not have any significant investment during the Year.

FOREIGN EXCHANGE EXPOSURE

The operating revenue of the Group is mainly denominated in US Dollars and RMB. The results of operations and the financial position of the Group may be affected by any changes in the exchange rates. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. During the Year, the Group conducted its business transactions principally in US dollars and RMB or in the local currencies of the operating subsidiaries. Having considered (i) the historical trend of the exchange rates between the RMB and HK$ and (ii) the operation of the Group which does not involve significant volume of cross-border remittances, the Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, the management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

GEARING RATIO

As at 31 December 2020, the gearing ratio (debt-to-asset ratio) of the Group, calculated as total liabilities divided by total assets, was approximately 41.37% (31 December 2019: 23.74%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the number of employees of the Group was about 22 (2019: 31). 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 meal and travelling allowances and discretionary bonuses.

Environmental, Social and Governance Report

ABOUT THE GROUP

CHK Oil Limited and its subsidiaries (the "Group") is principally engaged in trading of oil and oil-related products, and in the exploration, exploitation, development, production and sale of oil and natural gas. The Group holds exploitation interest in the Utah Gas and Oil Field Project located in Utah.

REPORTING SCOPE AND STANDARD

This Environmental, Social and Governance ("ESG") Report is prepared in accordance with the ESG Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. This report aims to provide a balanced representation of the efforts made by the Group on environmental protection and social responsibility and covers the Group's business operations in Hong Kong, the Peoples' Republic of China and the United States of America for the financial year ended 31 December 2020, but excludes any business operations which have been outsourced or subcontracted, where the related ESG information are not made available to the Group. There are no significant changes in the scope of this report from that of ESG report for the year ended 31 December 2019.

This ESG report also discloses information on the Group's ESG management approach, strategy, priorities, objectives, compliance with the relevant laws and regulations and our ESG performance.

The Board has overall responsibility for the Group's ESG strategy and reporting and has determined to integrate the ideas of environmental and social responsibility into the Group's operation and management activities. The Board has reviewed and approved this ESG report.

STAKEHOLDER ENGAGEMENT

We believe that stakeholder engagement is crucial to the sustainable growth of our business, as it supports our understanding of emerging risks and opportunities, and also facilitates the mitigation of these risks as well as the realisation of opportunities. Our stakeholder engagement covers all aspects of our business, from project development to operation, management and decommissioning.

Throughout the course of the reporting year, we communicated with our stakeholders through various channels. These include visits to our offices, general meetings and our social community services, so that all stakeholders have a better understanding of our operations. We also actively participate in industry and professional organizations, both locally and internationally, to ensure that we keep track of emerging market trends and business drivers, such as the adoption of new technological developments and latest industry best practices.

The following table presents the key stakeholders identified for the Group, as well as the engagement channels used for communication with them:

Internal Stakeholders	External Stakeholders
• The Board • Management • General Staff	• Shareholders • Investors • Customers • Local Community Groups • Suppliers • Government Regulatory Authorities

Engagement methods:

Meetings, interviews, direct mails, staff performance appraisal interviews, internal publications, Annual General Meeting ("AGM") and announcements.

ENVIRONMENTAL

The Group is committed to protecting natural resources and the global environment. Our commitment to emission reduction, energy and resources conservation encompasses every aspect of our operation. The Group manages and minimizes the impact that it may cause to the environment and natural resources directly or indirectly, through policies to ensure our business operations comply with the environmental laws of the countries in which it operates in and strengthen the awareness of employees on environmental protection through trainings and internal communications.

In light of our business nature, our business of operating the Gas and Oil Field in Utah is thoroughly governed by the relevant laws and regulations, including location and drilling of oil wells, oil production and well plugging, storage of products, disposal of waste and reclamation. In addition to the compliance of our internal operation standards, our operations are subjected to routine investigation from the government body. The Group is pleased to report that during the reporting period, the Group has been compliant with the applicable laws and regulations and there has not been violation of the relevant laws and regulations in any material respect.

Use of Resources

The Group is aware of the importance of efficient consumption of resources, including electricity, water and energy, which are crucial to the protection of the environment.

As part of our initiative to conserve resources and reduce our environmental impact, we have developed various internal policies in our operations to promote good resource-consumption habits. Policies relating to reduction of waste and emissions, and efficient use of resources include:

- encourage employees to use their best endeavours to take public transport during business trip;
- encourage employees to reduce unnecessary overseas business trip, thus reducing indirect carbon emissions;
- consider energy efficient products when procuring and replacing equipment, e.g. replacing incandescent lighting with LED lighting;
- turn off electrical appliances or switch them to standby mode when they are not in use, thus reducing the amount of electricity used;
- use duplex printing, recycle papers and use electronic means to reduce paper usage;
- reuse office stationaries (e.g. envelopes and folders);
- turn off all unnecessary lighting, air conditioning and electrical appliances before leaving the office; and
- encourage employees to recycle paper, plastic bottle and tin can

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

Energy Consumption

The major sources of energy consumption by the Group are fuel used for its motor vehicles and consumption of electricity for its office operations. The Group has therefore, directed efforts to monitor and minimise its mobile fuel and electricity usage in its workplace by the use of environmentally friendly public transportation and office equipment as well as by encouraging our employees to share rides where possible.

At our offices and workspaces, the Group has adopted energy-saving measures, which includes the setting of energy-efficient temperatures for offices to create a comfortable working environment for our employees as well as limiting energy loss due to excessive cooling/heating.

Electronic appliances with high energy efficiency ratings are given higher priority when purchasing office electronics. It is also mandatory for non-essential electronics and unnecessary lighting to be turned off outside of office hours. For electrical equipment that are not frequently used, our employees are instructed to ensure that the power supplies are switched off when the devices are not in use.

Notices on energy-saving policies are posted in common areas to remind our staff to maintain power-saving practices where possible.

During the reporting period, total energy consumption of the Group amounted to 47,640 kWh, representing a decrease of 19% as compared to last year.

Water

In addition to conservation of electricity, the Group also encourages employees to reduce water consumption. Employees are reminded to turn off water after use and avoid unnecessary flushes.

The principal activities of the Group are not in production, hence water is used mainly for domestic purpose at our offices and the Group does not have any concern in sourcing water that is fit for such purpose.

The Group will continue to promote energy and water-saving behavior under its overall environmental management agenda.

Atmospheric Emissions

The Group recognizes that our emission performance, in terms of greenhouse gases and air pollutants, are vital metrics for assessing our ecological footprint on Earth. It is our goal to continuously limit the level of greenhouse gas and air emissions associated with our operations.

We have estimated our greenhouse gas emissions through the use of data associated with electricity and fossil fuel consumption. To associate energy consumption data with their corresponding greenhouse gas emissions, emission factors obtained from utility invoices, along with references to reputable third-party references were used during the calculation. In addition to the quantity of carbon dioxide (CO_2) emissions, greenhouse gas emission calculations also took into consideration the global warming contribution associated with other greenhouse gases emitted into the atmosphere, including methane (CH_4) and nitrous oxide (N_2O). The cumulative impact of the Group's operations to the greenhouse effect is ultimately consolidated and expressed in terms of equivalent quantities of carbon dioxide (CO_2e).

The total greenhouse gas emissions associate with the Group's operations during the reporting period was estimated to be 21.6 tonnes CO_2e, representing a decrease of 57% from last year, such reduction was mainly as a result of a significant drop in business travels during the reporting period, due to the outbreak of COVID-19 pandemic.

In addition to the emission of greenhouse gases, consumption of fossil fuels is also associated with the emission of a number of air pollutants, namely nitrogen oxides (NOx), sulphur oxides (SOx) and particulate matter (PM). Similar to the estimation of greenhouse gas emissions, air emissions associated with the Group's operations have been evaluated based on fuel consumption and vehicle usage data. The total amount of air emissions produced by the Group during the reporting period included 2.3 kg of NOx, 0.03 kg of SOx and 0.19 kg of particulate matter.

The Group is committed to promote a sustainable working and living environment through continuous efforts in emissions reduction and will continue to encourages staff to use e-communication channels, such as video conference for business meetings whenever possible, in order to minimize greenhouse gas emissions caused by business trips.

Waste Management

The Group's business operations under the scope of this report do no result in the creation of hazardous wastes.

The Group took the initiative to limit non-hazardous waste generation by promoting recycling of paper and other wastes generated during daily operations. During the reporting period, total non-hazardous waste intensity per 1 million Hong Kong dollar of revenue is estimated to be 0.41kg, which represents a decrease of 64% from last year..

The Group encourages employees to maximize the usage of soft and electronic copies instead of hardcopies to create a paperless environment and setting duplex printing as default setting in printers for printing internal documents.

As a result of our recycling efforts, the Group recycled 8.8 kg of paper during the reporting period.

Regulatory Compliance

The Group is not aware of any incidents of non-compliance with laws and regulations relating to air and GHG emission, discharges into water and land and generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

Summary

The consolidated data with respect to key performance indicators (KPIs) regarding emissions and resource consumption associated with the Group during the reporting period is summarized below:

Environmental KPIs

Category	Unit	2020	2019	Variance Increase/ (Decrease)
Energy Consumption				
Total Energy Consumption	kWh	47,640	58,895	(19%)
Petrol Consumption	kWh	21,491	36,667	(41%)
	l	*2,239*	*3,829*	*(42%)*
Electricity Consumption	kWh	26,149	22,228	18%
Total Consumption Intensity	kWh/1000 HKD revenue	0.06	0.3	(80%)
Greenhouse Gas Emissions				
Total Greenhouse Gas (GHG) Emissions	t CO_2e	21.6	50.7	(57%)
Scope 1 – Direct Emissions	t CO_2e	6.1	11.9	(49%)
Carbon Dioxide (CO_2) Emissions	t CO_2	5.3	10.6	(50%)
Methane (CH_4) Emissions	t CO_2e	0.0	0.0	(0%)
Nitrous Oxide (N_2O) Emissions	t CO_2e	0.8	1.3	(38%)
Scope 2 – Energy Indirect Emissions	t CO_2e	13.1	14.3	(8%)
Scope 3 – Other Indirect Emissions	t CO_2e	2.4	24.5	(90%)
Paper Waste Disposed at Landfills	t CO_2e	1.1	7.0	(84%)
Employee Business Travel	t CO_2e	1.3	17.5	(93%)
Total Greenhouse Gas (GHG) Emissions Intensity	t CO_2e/1 million HKD revenue	0.03	0.29	(90%)
Air Emissions				
Nitrogen Oxides (NOx) Emissions	kg	2.3	7.3	(68%)
Sulphur Oxides (SOx) Emissions	kg	0.03	0.06	(50%)
Particulate Matter Emissions	kg	0.19	0.57	(67%)
Waste Management				
Total Hazardous Waste Produced	t	N/A	N/A	
Total Non-Hazardous Waste Produced	t	0.30	0.19	58%
Total Hazardous Waste Intensity	kg/1 million HKD revenue	N/A	N/A	
Total Non-Hazardous Waste Intensity	kg/1 million HKD revenue	0.41	1.14	(64%)
Use of Resources				
Total Water Consumption	m^3	316	43	635%
Total Water Consumption Intensity	m^3/1 million HKD revenue	0.43	0.25	72%

SOCIAL

Employment

As a socially-responsible enterprise, we are not only responsible to consumers, but also responsible to our employees. When pursuing economic goals, we also bear social and environmental responsibilities in order to achieve sustainable development together with the local community. The Group places considerable emphasis on staff management and has developed a set of human resources management procedures, striving to create a favorable working environment for employees and reduce labour and employment risks for the Company.

The Group is committed to comply with all relevant labour legislations, providing employees with appropriate holidays and paid leave pursuant to various labour legislations stipulated by the national and local governments. The specific days of leave varies with reference to the individual years of experience of employees. Every year, the Board of the Group reviews and discusses the development of improvement measures and implementation of human resources management procedures.

The Group places considerable value on the career development of employees and has taken measures to enhance employee retention. Employee development has two aspects in accordance with their abilities, one is the promotion to management position, and the other is the enhancement of professional and technical expertise. During the reporting period, we have complied with the relevant laws and regulations relating to the rights and benefits of our Group's employees. For example, for our operations in Hong Kong, we are in strict compliance with the Employment Ordinance, Mandatory Provident Fund Scheme Ordinance, Employees' Compensation Ordinance and Minimum Wage Ordinance.

The Group shall continue to monitor its compliance with relevant Ordinances and regulations pertaining to employment and renew its employment policies accordingly.

Remuneration Committee

The Group has established a remuneration committee, which is responsible for establishing a formal and transparent procedure for determining remuneration packages for the Group's employees, including for directors and senior management. Also, the committee is responsible for making recommendations to the Board on the remuneration of non-executive Directors.

The Remuneration Committee holds regular meetings during the year to review the remuneration policy according to the Group's financial performance and individual performance of staff members, with reference to prevailing market conditions.

Health and Safety

The Group attaches importance to the health and safety of its employees. Each subsidiary has established occupational safety and health guidelines to create a safe working environment for employees and protect them from occupational hazards. The Group reviews the health and safety management system for its employees every year, and displays warning signs on facilities and machines which are potentially hazardous or prone to accidents. We perform regular inspections to our offices to ensure that a safe working environment is provided to our employees. Our offices are equipped with first-aid kits for providing basic treatment in case of minor office injuries.

In addition, the Group actively strengthens the occupational safety awareness of employees to reduce the occurrence of workplace accidents. During the year, we have complied with the Occupational Safety and Health Ordinance. The Group did not have any reportable accidents regarding safety production, and the condition of production is stable and safe.

As part of the COVID-19 countermeasures and to prevent the spread of the virus, the Group complied strictly with the virus prevention regulations as required by the local governments, reduced group activities, cancelled certain meetings and employee birthday parties, and stringent infection preventive measures were implemented to protect its employees. The Group's human resources department provided abundant information to its employees so that they understood the pandemic and the related prevention methods. The Group closely monitored the health of its employees by checking their body temperature, providing sufficient surgical masks and alcohol-based hand rub in workplace. The Group also arranged some of its employees to work from home and to conduct business meetings online to minimise the spread of the pandemic. Employees were advised to wear masks and avoid physical contact (such as shaking hands, hugging) and crowded places when they were required to meet people or work outside in their local community.

Labour Standards

The Group complies with all relevant laws and regulations relating to prevention of forced labour and child labour in our business operations. The Group aims not to be directly or indirectly complicit in human rights abuses and to ensure that all work that is performed on our behalf is in compliance with all relevant labour laws and regulations.

During the recruitment process, applicants are required to submit copies of their identification documents for verification of their age and identity. Personal data and credentials of job applicants are kept in a secure data system for human resource purposes, which is only accessible to authorized personnel.

In compliance with local labour laws and regulations, the Group's employees are entitled to statutory holidays and various types of paid leaves, where applicable, including annual leave, sick leave, maternity leave, paternity leave, marital leave and bereavement leave. Terms of leave entitlement, working hours, rest, labour protection and termination of employment are clearly laid out in the respective employment contracts of each employee, in compliance with local labour regulations.

During the reporting period, the Group was unaware of any material breaches of employment labour laws and regulations related to child and forced labour in its operations, and other benefits and welfares concerning its employees.

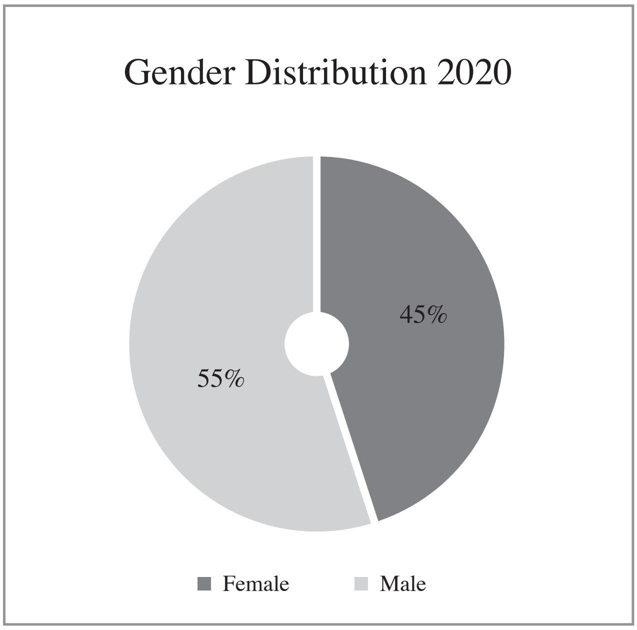
Equal Opportunities and Anti-Discrimination

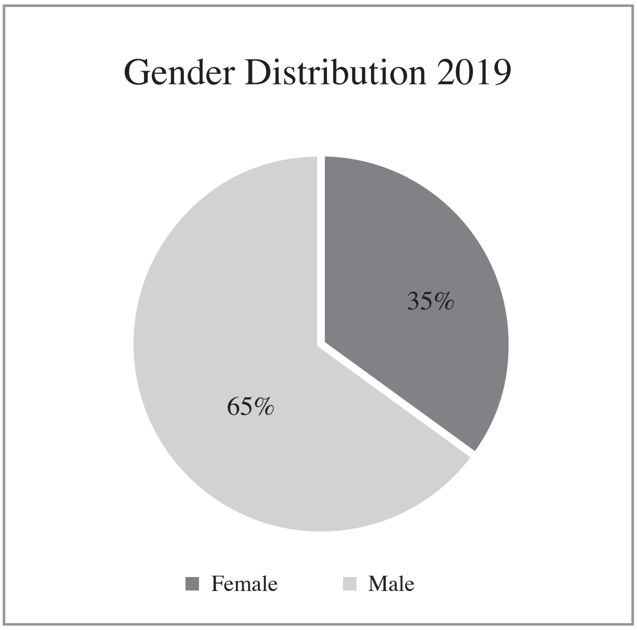
The Group is committed to instilling anti-discrimination in its employees, and we do not tolerate any form of discrimination within our operations, including but not limited to: gender, disability, pregnancy, family status, race, religion, age, sexual orientation and or other conditions as recognized by relevant anti-discriminatory regulations. All of our staff members enjoy equal opportunities for recruitment, work, training, remuneration and promotion.

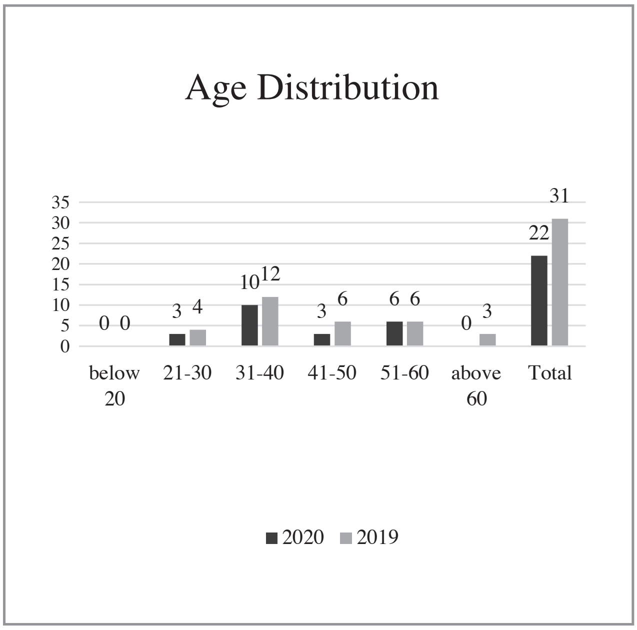
Not only do our efforts against discrimination help develop the professionalism and professional ethics among employees, but it also creates a more friendly working environment of the Group, a more harmonious and peaceful social atmosphere, thus fulfilling social responsibility.

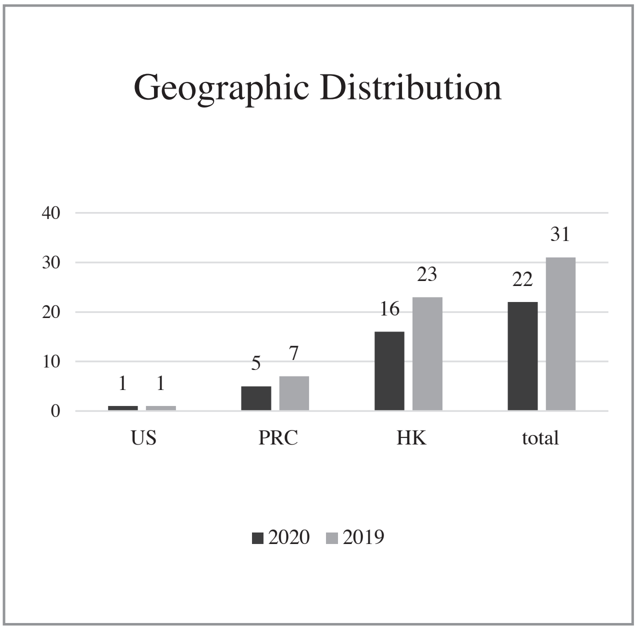
Staff Demographics

As of 31 December 2020, the Group employed a total of 22 employees. The total numbers of employees in this year decreases by 29% from 31 employees in 2019. The distribution of staff with respect to gender, age and geographic distribution are presented as follows:


Gender Distribution 2020
45%
55%
Female
Male


Gender Distribution 2019
35%
65%
Female
Male


Age Distribution
35
30
25
20
15
10
5
0
0 0
3 4
10 12
3 6
6 6
0 3
22 31
below 20
21-30
31-40
41-50
51-60
above 60
Total
2020
2019


Geographic Distribution
40
30
20
10
0
1 1
5 7
16 23
22 31
US
PRC
HK
total
2020
2019

Development and Training

The Group attaches great importance to the working performance and development of employees during their employment periods.

A vigorous and appropriate training development framework was developed as per the requirements of different staff members working at different positions. New joiners will receive orientation training covering corporate culture, regulations and system, safety training, environmental health and safety training, job skills and work procedures.

During the reporting period, we have provided trainings to 11 employees. Moreover, the Group continuously monitors the implementation of development and training measures to ensure effective execution, as well as regularly review and update such measures.

Team Building Activities

The Group is highly aware of the importance of teamwork in a corporate environment. Where opportunities arise, the Group organizes team building events and staff gatherings to enhance the level of interaction amongst its staff members. Team events set outside the regular working environment provides our staff with an opportunity to have an enjoyable time in a relaxing environment.

As part of the COVID-19 countermeasures and to prevent the spread of the virus, the Group reduced the group activities to comply strictly with the virus prevention regulations as required by the local governments.

Supply Chain Management

The Group believes that effective supply chain management can serve to lower costs and improve quality as well as to mitigate social or environmental risks that an organization may face. In respect of supply management of our operation of Gas and Oil Field, our main suppliers include service providers for on-site support. In view of the complexity of the supply chain, during the supplier selection process by our operating units, conditions that must be considered includes price, quality of service, location, productivity (service capacity) and legal procedures. In addition, the Group also pays attention to the corporate responsibility performance of suppliers, including but limited to their social responsibility and environmental protection efforts.

Product Responsibility

As a diversified enterprise, the Group is committed to providing quality products and services to customers. The Group has formulated a set of stringent policies and procedures for its production and sales activities. During the reporting period, the Group's products did not require any recall due to safety and health reasons. The Group complies with the Personal Data Privacy Ordinance. All personal data collected from employees, customers and suppliers are kept confidential and our computers and servers are protected by access passwords to prevent unauthorized access. As stipulated in the Group's Code of Conduct on ethical policy, employees are instructed to ensure data is collected, used, maintained, managed, stored and handled properly and secured appropriately.

Anti-Corruption

The Group adheres to stringent anti-corruption policies as stated in the Group's Office Manual that includes Integrity of Business Practices, ethical standard, conflicts of interest, breach of conduct, handling of confidential information and legal requirement on prevention of bribery and against corruption. The Group has adopted best practices with respect to whistle-blowing and anti-corruption, and has carefully formulated its anti-corruption strategy based on *Anti-Corruption Programme – A Guide for Listed Companies* published by Independent Commission Against Corruption (ICAC).

Employees are encouraged to report occurrences of suspicious activities. Investigation will be performed on the suspicious activities, and if required, a detailed investigation will be performed and a formal investigation report will be issued to management for review. Regardless of whether the reported cases are found to require further investigation, all reported cases are confidential and are kept on record. No cases of corruption were reported within the Group during the financial year ended 31 December 2020.

The Group has complied with relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance". During the reporting period, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

COMMUNITY

As a responsible enterprise, the Group is well aware of its essential role in resource optimization throughout its business operation and promotion of environmental protection in areas where we may affect. As a result, the Group is committed to integrating environmental conservation into its daily operation, and encouraging our employees, customers, business partners and the community to reduce our impact on the environment. Additionally, the Group actively looks for opportunities to participate in charitable activities, such as tree planting in countryside, cleaning up garbage, and donating food to local communities. Such activities help raise the environmental awareness of our employees, at the same time providing opportunities for team building and work-life balance. In addition to raising the awareness of environmental protection, the Group encourages our staff to donate to the recognized charitable institutions in order to help grass-roots community or those in need.

During the reporting year, the Group participated in the "Southern District Warm Winter Gold Ribbon Campaign 2020" organized by a local Non-Government Organization in Hong Kong, in which the Group donated new quilts and bed sheets amounted to approximately HK$32,000. This activity demonstrates the Group's willingness to send warmth to the elderly and to build a caring community.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2020 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

CHANGE OF COMPANY NAME

The change of English name of the Company from "Pearl Oriental Oil Limited" to "CHK Oil Limited", and adoption of "中港石油有限公司" to replace "東方明珠石油有限公司" as the Chinese name of the Company (the "Change of Company Name") was approved by the shareholders at the special general meeting held on 12 December 2019. The Certificate of Incorporation on Change of Name of the Company was issued by the Registrar of Companies in Bermuda on 20 December 2019 and the Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 21 January 2020. The stock short names of the Company for trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were changed from "PEARLORIENT OIL" to "CHK OIL" in English and from "東方明珠石油" to "中港石油" in Chinese on 10 February 2020. The stock code of the Company remains unchanged as "632".

The Board considers that the new name will provide the Company with a new corporate image which will benefit the future business development of the Group.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2020 (including discussions on the principal risks and uncertainties that the Group may be facing) is set out in the section headed "Management Discussion and Analysis" of this annual report. In addition, an indication of likely future development in the Group's business is set out in the Chairlady's Statement and the sub-section "Prospects" in the section headed "Management Discussion and Analysis" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE AND COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group is committed to protecting the environment and effective consumption of natural resources. Although the Group does not directly produce significant quantities of atmospheric emissions, we encourage our employees and business partners to be aware of their impact to the environment and develop strategies to minimize their ecological footprint. The environmental policies of the Group include minimising consumption of paper and electricity, and reducing waste.

During the reporting period, the Group's operations were in compliance with relevant environmental regulations and standards, including but not limited to regulations governing oil exploration activities, oil production, storage, and waste disposal.

During the year, we have maintained positive relationships with various stakeholders, including employees, suppliers, and customers. Through the use of a variety of engagement channels, we were able to regularly exchange feedbacks with our stakeholders and continuously improve on our strategies to better address their priorities and concerns.

Further information on the Group's environmental issues also detailed in the "Environmental, Social and Governance Report" on pages 14 to 23.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 49.

The board of directors (the "Board" or the "Directors") do not recommend the payment of final dividend for the Year (2019: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the Year in the property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

RIGHT-OF-USE ASSETS

Details of the movements during the Year in the right-of-use assets of the Group are set out in note 13 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 52 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2020, no distributable reserves were available for distribution to the equity shareholders of the Company.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year together with the reason therefor are set out in note 25 to the consolidated financial statements.

Directors' Report

DIRECTORS

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

Executive Directors:

Liu Gui Feng *(Chairlady)*
Chen Bin *(resigned on 21/09/2020)*
Yu Jiyuan *(appointed as Chief Executive Officer and the vice chairman on 21/09/2020)*
Lin Qing Yu
Chen Junyan
Yun Guangrui *(resigned on 01/06/2020)*
Li Songtao *(re-designated from an independent non-executive Director to an executive Director on 21/09/2020)*

Non-Executive Director:

Yu Zhibo *(appointed as an executive Director and the vice chairman on 29/06/2020, re-designated as a non-executive Director and resigned as the vice chairman on 21/09/2020)*

Independent Non-Executive Directors:

Cao Wei *(resigned on 21/09/2020)*
Xu Guoqiang *(resigned on 01/06/2020)*
Zhong Bifeng
Yang Yuyan *(appointed on 21/09/2020)*
Pang Jun *(appointed on 21/09/2020)*

In accordance with Bye-law 86(2) of the Company, each of Mr. Yu Zhibo, Ms. Yang Yuyan, Mr. Pang Jun, so appointed by the Board to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting.

In accordance with Bye-law 87(1) of the Company, one-third of the Directors for the time being will retire as Directors by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election as Directors, provided that Directors appointed pursuant to Bye-law 86(2) shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. Accordingly, Mr. Lin Qing Yu and Mr. Li Songtao will retire at the forthcoming annual general meeting, who being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors of the Company are set out on pages 6 to 8 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Rights Issue in 2020" in this Directors' Report, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

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

As at 31 December 2020, the interests of the Directors, chief executive, and their associates in the Shares, underlying Shares, and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

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

Name of director	Capacity	Number of issued ordinary shares held	Approximately percentage of the issued share capital of the Company[1]
Chen Junyan	Interest in controlled corporation	580,172,014[2]	68.91%
Yu Zhibo	Interest in controlled corporation	580,172,014[2]	68.91%
Zhong Bifeng	Beneficial owner	5,000,000	0.59%

Notes:

1. The Company had 841,879,482 Shares in issue as at 31 December 2020.
2. These 580,172,014 Shares are held by Xin Hua Petroleum (Hong Kong) Limited, which, in turn, is owned by Ms. Chen Junyan as to 46.28%, Mr. Yu Zhibo as to 34.92% and Mr. Chen Yaxin as to 18.80%.

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

Save as disclosed above, at 31 December 2020, none of the Directors or chief executives had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDER

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2020, so far as known to the Directors and other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long Positions

Name of substantial shareholders	Capacity	Number of shares/ underlying shares held	Approximate percentage to the issued share capital of the Company[1]
Xin Hua Petroleum (Hong Kong) Limited	Beneficial owner	580,172,014[2]	68.91%

Note:

1. The Company had 841,879,482 Shares in issue as at 31 December 2020.
2. These 580,172,014 Shares are held by Xin Hua Petroleum (Hong Kong) Limited which, in turn, is owned by Ms. Chen Junyan as to 46.28%, Mr. Yu Zhibo as to 34.92% and Mr. Chen Yaxin as to 18.80%.

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

SHARE OPTION SCHEME

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

The major terms of the Share Option Scheme are as follows:

1. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions to those who had made, may have made or will make contributions to the Group. The Share Option Scheme will provide those who are eligible an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivate them to optimize their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain an ongoing business relationship with those whose contributions are or will be beneficial to the long-term growth of the Group;

2. The participants of the Share Option Scheme include (i) any full-time employee, Director, chief executives or part-time employee of the Group; (ii) any substantial shareholder of any member of the Group or any holder of any securities issued or proposed to be issued by any member of the Group, who on its own or in aggregate holding or will be holding (as a result of the proposed issue, if applicable) 10% or more of the shares or securities in the respective member of the Group; or (iii) any adviser or, consultant, distributors, suppliers, agents, customers, joint venture partners, service provider to the Group who the Board of Directors considers, in its sole discretion, has contributed or will contribute to the Group;

3. The total number of Shares available for issue under the Share Option Scheme was 61,227,598 Shares, representing approximately 7.27% of the issued Shares as at the date of this report;

4. The total number of Shares issued and to be issued upon the exercise of options granted under the Share Option Scheme (including exercised, cancelled and outstanding options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant;

5. The exercise period of any options granted under the Share Option Scheme shall be determined by the Board in its absolute discretion at the time of grant, save that such period shall not exceed ten (10) years from the date of grant and the Board may impose restrictions on the exercise of an option during the period an option may be exercised;

6. The Share Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the rules of the Share Option Scheme provide that the Board may determine, at its sole discretion, such term(s) on the grant of an option; and

7. The acceptance of an offer of the grant of the options must be made within 21 days from (and including) the date of offer with a non-refundable payment of HK$1.00 from each participant;

8. The subscription price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any event shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business day immediately preceding the date of grant; and

9. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date of the Share Option Scheme on 12 December 2019.

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

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a Share Option Scheme as an incentive to Directors and eligible employees. There have been no share options granted in accordance to the Share Option Scheme as at the date of this report.

PENSION SCHEME

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

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

RIGHTS ISSUE IN 2020

To reduce the financial indebtedness of the Group and improve the gearing level, the Company has completed the Rights Issue and issued 229,603,495 new shares at the subscription price of HK$0.20 per Rights Share on the basis of three (3) Rights Shares for every eight (8) existing Shares of the Company during the Year. On 19 October 2020, the Company received from Xin Hua Petroleum (Hong Kong) Limited ("Xin Hua") the irrevocable undertaking, pursuant to which, Xin Hua has irrevocably undertaken to the Company, among other things, to: (i) subscribe for 137,109,411 Rights Shares which will be provisionally allotted to it nil-paid in respect of the 365,625,096 Shares legally and beneficially owned by it; (ii) ensure that the 365,625,096 Shares currently legally and beneficially owned by it will remain legally and beneficially owned by it on the relevant record date; and (iii) to apply, by way of excess application, for an additional 92,494,084 Rights Shares.

Xin Hua is owned as to 46.28% by Ms. Chen Junyan, 34.92% by Mr. Yu Zhibo and 18.80% by Mr. Chen Yaxin, among whom Ms. Chen Junyan and Mr. Yu Zhibo are directors of the Company. Upon the completion of the Rights Issue, Xin Hua has accepted and subscribed for 137,109,411 Rights Shares provisionally allotted to it under the provisional allotment letter. It also applied for 92,494,084 excess Rights Shares under the excess application, and was then allocated with 77,437,507 Rights Shares under excess application.

Details of the Rights Issue are set out in the Company's prospectus dated 18 November 2020 and in note 25 to the consolidated financial statements of this annual report.

The Rights Issue constituted a connected transaction under Chapter 14A of the Listing Rules.

Use of Proceeds from Rights Issue

Upon completion of the Rights Issue on 10 December 2020, the Company received net cash proceeds of approximately HK$44.9 million (the "Net Proceeds").The intended use of the net proceeds and the actual use of the proceeds under the Rights Issue as of 31 December 2020 are set out below:

Intended use of proceeds	Actual use of the proceeds	Proposed timetable for use of proceeds
(i) As to approximately HK$28.2 million for the repayment of the loan owed by the Company to NPCC (Hong Kong) Limited (the "Lender"), comprising a principal amount of HK$25 million plus interest	Approximately HK$28.2 million was used for the repayment of the loan owed by the Company to the Lender, comprising a principal amount of HK$25 million plus interest	N/A
(ii) As to approximately HK$6 million for the working capital of the Group's subsidiary, namely Pearl Oriental (Daqing) Oil Limited	N/A	Approximately HK$6 million will be used as the working capital of the Group's subsidiary, namely Pearl Oriental (Daqing) Oil Limited, and will be expected to fully utilized in 2021.
(iii) As to approximately HK$10.7 million for general working capital.	N/A	Approximately HK$10.7 million will be used for general working capital and will be expected to fully utilized in 2021.

UPDATE ON USE OF PROCEEDS FROM THE SHARE SUBSCRIPTION 2019

The remaining balance of the net proceeds from the share subscription by Xin Hua Petroleum (Hong Kong) Limited and Noble Pioneer Limited completed on 8 July 2019 (the "Share Subscriptions") was approximately HK$22.2 million at the beginning of the Year. The breakdowns of the actual use of the remaining net proceeds of the Share Subscriptions during the year ended on 31 December 2020 are set out below: HK$10.2 million was used trading of electronic products; HK$1.2 million was applied on the development and maintenance of the Group's oil and gas field; approximately HK$0.7 million was injected into an wholly-owned subsidiary of the Company which is principally engaged in trading of oil-related products; approximately HK$10.1 million was fully utilized on general working capital including payment of remuneration to the employees and directors of the Group and the payment of office rental.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Rights Issue as disclosed in the section "Rights Issue in 2020" in this Directors' Report, no transaction, arrangement or contract of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the subscription of Rights Shares through Xin Hua (which is in turn held by Mr. Yu Zhibo as to 46.28% and Ms. Chen Junyan as to 34.92%, both of whom have been directors of the Company), none of the Directors or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right during the year ended 31 December 2020.

RESIGNATION OF DIRECTORS DURING THE YEAR

Each of Mr. Yun Guangrui and Mr. Xu Guoqiang resigned from their position as the executive Director and independent non-executive Director, respectively, of the Company with effect from 1 June 2020. For details, please refer to the announcement of the Company on 1 June 2020.

On 21 September 2020, Mr. Chen Bin resigned as an executive Director and the chief executive officer of the Company, and Mr. Cao Wei resigned as an independent non-executive Director. For details, please refer to the announcement of the Company on 21 September 2020.

On 21 September 2020, Mr. Yu Zhibo was re-designated as a non-executive Director and resigned as the vice chairman of the Board.

COMPETING INTERESTS

During the Year, the Directors were not aware of any business or interest of the Directors, the controlling Shareholders and their respective close associates (as defined under the Listing Rules) that competes or may compete with the business of the Group and any other conflict of interest, which any such person has or may have with the Group.

EQUITY-LINKED AGREEMENT

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

PERMITTED INDEMNITY PROVISION

The Directors, secretary and other officers Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts.

The Company has maintained director's liability insurance which provides appropriate cover for the Directors and the directors of the subsidiaries of the Company for indemnifying their liabilities arising out of corporate activities.

MANAGEMENT CONTRACTS

During the Year, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year are detailed in note 28 to the consolidated financial statements.

During the Year, none of these related party transactions are connected transaction or continuing connected transaction which are subject to disclosure requirement under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights, under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

Save as the Rights Issue as disclosed in the section "Rights Issue in 2020" in this Directors' Report, 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 2020 and up to the date of this annual report.

TAX RELIEF

The Company is not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's principal businesses are (i) exploring, exploiting and sale of oil and natural gas; and (ii) trading of oil and oil-related products.

During the Year, the aggregate turnover attributable to the Group's largest customer and five largest customers accounted for approximately 16.7% (2019: 27.7%) and 55.7% (2019: 82.1%) respectively of the total revenue of the Group.

During the Year, the aggregate purchase attributable to the Group's largest supplier and five largest suppliers accounted for approximately 39.6% (2019: 27.6%) and 80.0% (2019: 89.3%) respectively of the total purchase of the Group. Due to the nature of the business, the Company has no major supplier.

At no time during the Year did a Director, a close associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as at the date of this annual report.

CHANGES IN INFORMATION RELATING TO DIRECTORS

Since the last publication of the interim report, the changes of information relating to the Director are set out below:

1. Mr. Yu Zhibo was appointed as an executive Director and the vice chairman on 29 June 2020 and re-designated as a non-executive Director and resigned as the vice chairman on 21 September 2020;

2. Mr. Chen Bin resigned as an executive Director, the Chief Executive Officer (the "CEO") and a member of Remuneration Committee on 21 September 2020;

3. Mr. Yu Jiyuan was appointed as the CEO, the vice chairman and a member of Remuneration Committee on 21 September 2020;

4. Mr. Li Songtao was re-designated from an independent non-executive Director to an executive Director on 21 September 2020. He was resigned as the chairman and a member of the Audit Committee on 21 September 2020;

5. Mr. Pang Jun was appointed as an independent non-executive Director, a member of the Audit Committee, and the chairman and a member of the Nomination Committee on 21 September 2020;

6. Ms. Yang Yuyan was appointed as an independent non-executive Director, a member of Remuneration Committee, and the chairlady and a member of the Audit Committee on 21 September 2020. Ms. Yang Yuyan becomes a tax advisor as certified by The China Certified Tax Agent Association since November 2020; Ms. Yang Yuyan obtained the qualification of the Certified Public Accountant in the PRC in April 2021.

7. Both of Ms. Liu Gui Feng's and Mr. Lin Qing Yu's annual salary have been adjusted to HK$240,000 respectively.

8. Mr. Yu Jiyuan's annual salary has been adjusted to HK$900,000.

CHANGE OF AUDITORS

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

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

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

The consolidated financial statements for the year ended 31 December 2020 have been audited by Mazars CPA Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board

Yu Jiyuan
Executive Director

22 March 2021

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

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

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

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.

Ms. Liu Gui Feng is the Chairlady of the Company. Mr. Chen Bin was the Chief Executive Officer of the Company. As disclosed in the announcement dated 21 September 2020, Mr. Chen Bin resigned as the Chief Executive Officer of the Company and Mr. Yu Jiyuan, an executive Director, has been appointed as the Chief Executive Officer of the Company with effect from 21 September 2020. The roles of Chairlady and the Chief Executive are separate and exercised by different individuals. The division of responsibilities between the Chairlady and the Chief Executive have been clearly established and set out in writing.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the Model code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the Year.

BOARD OF DIRECTORS

As at the date of this report, the Board comprised five executive Director, one non-executive Director and three independent non-executive Directors (the "INED"). The list of Directors is set out headed "Directors' Report" of this annual report.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

The Board met regularly during the Year on an regular basis as required by business needs. The Board's primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance Shareholders' value. The Board is responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value. The Board is responsible for the leadership and the overall development of the Group. The Board focuses on determining the business strategies, approving the development and investment plan and annual budget of the Group; approving the annual financial statements of the Group; supervising the effectiveness of the internal control system and risk management system of the Group; and monitoring the financial and operating performances of the Group.

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

Daily operational decisions are delegated to the executive Directors. The Executive Directors and the senior management are responsible for the day-to-day management, administration and operation and the implementation of policies of the Group. The management should report to the Board before any significant decisions and commitments are to be made and approval has to be obtained from the Board prior to any significant transactions entered into by the Executive Director(s) and senior management. The delegated functions are periodically reviewed by the Board to ensure that these are appropriate and effective.

In addition, the Board has also delegated various responsibilities to each of the Company's audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"). Further details of these committees are set out in the sections headed "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

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

NON-EXECUTIVE DIRECTORS

All non-executive Director and INEDs have been appointed for a fixed term. Pursuant to the letters of appointment between the Company and the INEDs, the INEDs have been appointed for a term of one year which may be terminated by either party by giving one month's written notice. Pursuant to service contract between the Company and the non-executive Director, the non-executive Director has been appointed for a term of three years which may be terminated by either party by giving one month's written notice. Every Director is subject to re-election on retirement by rotation in accordance with the Bye-Laws.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars of the Directors' remuneration for the Year are set out in Note 11 to the consolidated financial statement.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) for the Year by band is set out below:

Remuneration band (in HKD)	Number of Individuals
Nil to 1,000,000	5
1,000,001 to 2,000,000	1
Above 2,000,001	1

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

According to the code provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company provides to the newly appointed directors tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

During the Year, all Directors have participated in appropriate continuous professional development activities by attending seminars, reading materials including seminar handouts or reviewing the papers and circulars sent by the Company. Details of those continuous professional development activities participated by the Directors are as follows:

Directors	Reading Relevant Material	Attending Seminar(s)
Executive Directors		
Liu Gui Feng	✓	✓
Lin Qing Yu	✓	✓
Chen Junyan	✓	✓
Yu Jiyuan	✓	✓
Li Songtao		
Non-Executive Director		
Yu Zhibo	✓	✓
Independent Non-Executive Directors		
Zhong Bifeng	✓	✓
Pang Jun	✓	✓
Yang Yuyan	✓	✓

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organized by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

All Directors are required to provide the Company with their training records on an annual basis.

COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Chairman of the Board on governance matters and also facilitates induction and professional development of Directors. The Company Secretary reports to the Chairman of the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, all applicable law, rules and regulations are followed.

Ms. Liu was appointed as the Company Secretary on 1 October 2019. Ms. Liu graduated with Bachelor of Commerce (Accounting) from The University of Sydney in October 2007 and a Master of Financial Analysis from University of New South Wales, Australia in August 2010. Ms. Liu is a member of both Hong Kong Institute of Certified Public Accountants and the CPA Australia. From July 2015 to May 2017, Ms. Liu was the company secretary of e-Kong Group Limited (stock code: 524), a company listed on the Stock Exchange. From September 2017 to May 2019, Ms. Liu was the company secretary, the financial controller and the chief assistant to the chairman of Man Wah Holdings Limited (stock code: 1999), a company listed on the Stock Exchange. From October 2010 to February 2015, Ms. Liu was working at PricewaterhouseCoopers. During the Year, Ms. Liu has undertaken over 15 hours of professional training pursuant to Rule 3.29 of the Listing Rules to update her skills and knowledge.

BOARD DIVERSITY POLICY

During the Year, the Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company aims to achieve board diversity through the consideration of a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will from time to time discuss and agree on the measurable objective for achieving diversity of the Board. The existing Board members come from a variety of business and professional backgrounds: three out of nine Board members are women; two of the Board members have a legal education background and one of the Board members has tax and accounting background. With regard to age groups, four members of the Board are at the age below 40, two members of the Board are at the age between 41 to 50, and three members of the Board are at the age above 50.

POLICY ON DISCLOSURE OF INSIDE INFORMATION

The Board has adopted the Policy on the Disclosure of Inside Information (“Policy”) with respect to the procedures and internal controls for the handling and dissemination of inside information. The Policy sets out guidelines and procedures to the Directors and relevant officers of the Group to ensure inside information of the Group is to be disseminated to the public on an equal basis and in timely manner. Directors and relevant officers in possession of potential inside information and/or inside information are required to take reasonable measures to ensure that proper safeguards are in place to preserve strict confidentiality of inside information and to ensure that its recipients recognise their obligations to maintain the information confidential. The Policy shall be updated and revised as and when necessary in light of changes in circumstances and changes in the Listing Rules, Part XIVA of the Securities and Futures Ordinance and relevant statutory and regulatory requirements from time to time.

DIVIDEND POLICY

The Company has a dividend policy in compliance with E.1.5 of the Corporate Governance Code, which aims to establish the principles and guidelines in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements. The Board has the absolute discretion to declare and distribute dividends to the shareholders of the Company, subject to the Bye-Laws of the Company and all applicable laws and regulations. The Board shall also take into account various factors of the Group when considering the declaration and payment of dividends. The Board will review the dividend policy as appropriate from time to time.

BOARD MEETINGS, COMMITTEE MEETINGS AND SHAREHOLDERS' MEETING ATTENDANCE

During the Year, nine (9) board meetings have been held, the attendance of each director, on named basis and by category at Board meetings, committee meetings and shareholders' meeting is set out below:

	Meetings attended/held				
	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Annual General Meeting on 26 June 2020
Executive Directors:					
Liu Gui Feng	8/9	N/A	N/A	N/A	1/1
Chen Bin (resigned on 21 September 2020)	6/7	N/A	N/A	2/3	1/1
Yu Jiyuan (appointed as the Chief Executive officer and the vice chairman on 21 September 2020)	9/9	N/A	2/2	N/A	1/1
Lin Qing Yu	5/9	N/A	N/A	N/A	1/1
Chen Junyan	7/9	N/A	N/A	N/A	1/1
Yun Guangrui (resigned on 1 June 2020)	4/4	N/A	N/A	N/A	N/A
Yu Zhibo (appointed on 29 June 2020 and redesignated as a non-executive Director on 21 September 2020) *(Note 2)*	3/3	N/A	N/A	N/A	N/A
Li Songtao (redesignated as an executive Director since 21 September 2020) *(Note 1)*	1/1	N/A	N/A	N/A	N/A
Non-executive Director:					
Yu Zhibo (redesignated as a non-executive Director on 21 September 2020) *(Note 2)*	1/1	N/A	N/A	N/A	N/A
Independent Non-executive Directors:					
Cao Wei (resigned on 21 September 2020)	6/7	3/3	1/1	1/1	1/1
Xu Guoqiang (resigned on 1 June 2020)	4/4	2/2	N/A	2/2	N/A
Zhong Bifeng	8/9	1/1	2/2	3/4	1/1
Li Songtao (redesignated as an executive Director on 21 September 2020) *(Note 1)*	8/8	3/3	N/A	N/A	1/1
Yang Yuyan (appointed on 21 September 2020)	1/1	N/A	N/A	N/A	N/A
Pang Jun (appointed on 21 September 2020)	1/1	N/A	N/A	N/A	N/A

Notes

(1) Mr. Li Songtao was redesignated from an independent non-executive Director to an executive Director on 21 September 2020. Mr. Li also resigned as a member and the chairman of Audit Committee on the same date. Prior to the redesignation, Mr. Li attended eight (8) Board meetings and three (3) Audit Committee meeting in the capacity as an independent non-executive Director. After the redesignation, Mr. Li attended one (1) Board meeting in the capacity as an executive Director.

(2) Mr. Yu Zhibo was redesignated from an executive Director to an non-executive Director on 21 September 2020. Prior to the redesignation, Mr. Yu attended three (3) Board meeting in the capacity as an executive Director. After the redesignation, Mr. Yu attended one (1) Board meeting in the capacity as a non-executive Director.

To the best knowledge of the Board, save as Mr. Yu Zhibo is the father of Mr. Yu Jiyuan, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 December 2020. All of them are free to exercise their individual judgments.

REMUNERATION COMMITTEE

As at 31 December 2020, the Remuneration Committee currently comprises three Directors, namely Ms. Zhong Bifeng (Chairlady), Mr. Yu Jiyuan and Ms. Yang Yuyan.

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

The primary role of the Remuneration Committee under its terms of reference is to:

(i) make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of formal and transparent procedure for developing remuneration policy on such remuneration;

(ii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

(iii) make recommendations to the Board on the remuneration packages of individual executive directors and senior management.

During the Year, the Remuneration Committee had performed the following works:

(i) reviewed and recommended for the Board's approval the existing policy and structure for the remuneration of Directors; and

(ii) assessed the performance of and reviewed the remuneration packages of all the Directors for the Year.

Details of the remuneration of Directors for the Year are set out in note 11 to the consolidated financial statements.

NOMINATION COMMITTEE

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

The principal role of the Nomination Committee is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

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

The Nomination Committee has formulated and set out the nomination policy ("Nomination Policy") in its terms of reference. The objective of the Nomination Policy is to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Nomination Committee will from time to time discuss and agree on measurable objective for achieving diversity of the Board. For details, please refer to the section headed "Board diversity policy" in this annual report. To ensure changes to the Board composition can be managed without undue disruption, a formal, considered and transparent procedure is in place for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities. Further details of the selection criteria and the procedure are set out in the terms of reference of the Nomination Committee which are available on the websites of the Stock Exchange and the Company.

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

1. The secretary of the Nomination Committee or the Company Secretary shall call a meeting of the Nomination Committee, and invites nominations of candidates from Board member if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.
2. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.
3. Until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.
4. In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from shareholders, a circular will be sent to shareholders. The circular will set out the lodgment period for shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders.
5. A shareholder can serve a notice to the Company Secretary within the lodgement period of its intention to propose a resolution to elect a certain person as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular. The particulars of the candidates so proposed will be sent to all shareholders for information by a supplementary circular. A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the Company Secretary or Chairman.
6. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting. The Nomination Committee may obtain independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

During the Year, the Nomination Committee performed the works as summarised below:

(i) reviewed and recommended for the Board's approval the proposed resolutions for re-election of the retiring Directors at the annual general meeting of the Company held on 26 June 2020; and

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

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

AUDIT COMMITTEE

The Audit Committee currently comprises all three Independent Non-executive Directors, namely Ms. Yang Yuyan (Chairlady), Ms. Zhong Bifeng and Mr. Pang Jun. During the Year, the Audit Committee held three meetings to review annual financial results and reports in respect of the year ended 31 December 2020, and interim financial results and reports in respect of the period ended on 30 June 2020. The Audit Committee is provided with sufficient resources to discharge its duties. The Audit Committee has clear terms of reference and its principal duties include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts review and monitoring of the appointment of the auditors and their independence.

During the Year, the Audit Committee performed the works as summarised below:

(i) making recommendations to the board on the appointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

(ii) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discussing with the external auditor the nature and scope of the audit and reporting obligations;

(iii) implementing the Company's policy on the engagement of an external auditor to supply non-audit services;

(iv) reviewing and monitoring the integrity of the financial statements of the Company and the Company's annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position;

(v) making recommendation to the Board any appropriate extensions or changes in the duties of the Audit Committee;

(vi) reviewing the Company's financial controls, risk management and internal control systems to ensure that management has discharged its duty to have effective systems including discussing the risk management and internal control systems with management;

(vii) ensuring the coordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring the effectiveness of the audit function;

(viii) reviewing the Company's financial and accounting policies and practices;

(ix) reviewing the external auditor's management letter, material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and

(x) reporting to the Board on the matters set out in the Corporate Governance Code on the audit committee.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to ensure that a sound and effective internal control system and risk management, which serves as an integral part of the Company's management system, is maintained. The Board is responsible for approving and reviewing internal control policy, while the responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with the management. The Group's internal control system is based on the Integrated Framework of the Committee of Sponsoring Organisations of the Treadway Commission on Internal Control. An internal control system is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- encouraging internal reporting on serious concern about malpractice
- conducting internal independent review by internal audit function

The Company places great value upon creating an environment where employees maintain the highest standard of integrity. To this end, the Board encourages the raising of concerns by employees about internal malpractice directly to the Board which will review complaints and decide how the investigation should be conducted. The Group has an Internal Audit ("IA") function, which consists of professional staff with relevant expertise, the IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

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

The Board has reviewed the effectiveness of the risk management and internal control systems and considers the risk management and internal control systems effective and adequate.

Systems and procedures are put in place to identify, evaluate and manage the risks of different businesses and activities. The annual assessment is performed through the completion by the relevant business units and department heads of their respective responsibility statements as co-ordinated by the IA function. The management conducted interviews with relevant staff members, reviewing relevant documentation of the internal control system, identifying and evaluating findings of any deficiencies in the design of the Company's internal control system, providing recommendations for improvement and following up on the effectiveness of implementation of such recommendations, where appropriate. Procedure manuals and operational guidelines are in place to safeguard the assets against unauthorised use or disposition, ensuring maintenance of proper accounting records in compliance with the applicable laws, rules and regulations for the provision of reliable financial information for internal use and/or external publication. The result and findings are reported to the Chairlady who puts forward the same to the Audit Committee and the Board for review on the effectiveness of the risk management and internal control systems, which have been considered effective and adequate.

AUDITOR'S REMUNERATION

For the year ended 31 December 2020, the nature of the audit and non-audit services provided by the auditors of the Company, Mazars CPA Limited, and the relevant fee paid and payable by the Company for such services are as follows:

	HK$'000
Annual audit services	820
Non-assurance services	270
	1,090

The other non-assurance services mainly cover the interim results of the Group for the six months ended 30 June 2020 and Rights Issue in December 2020.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such consolidated financial statements.

The statement of the external auditors of the Company, Mazars CPA Limited, with regard to their reporting responsibilities on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 45 to 48.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

Shareholders to convene a Special General Meeting ("SGM")

The Directors of the Company, notwithstanding anything in its bye-laws shall, on the requisition of Shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a SGM of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited with the Company Secretary at the Company's principal place of business at Units 2617-18, 26/F, Mira Place Tower A, No. 132 Nathan Road, Kowloon, Hong Kong, and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the SGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The procedures for sending enquiries to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited with the Company Secretary at the Company's principal place of business at Units 2617-18, 26/F, Mira Place Tower A, No. 132 Nathan Road, Kowloon, Hong Kong.

The procedures for making proposals at Shareholders' Meetings

To put forward proposals at an annual general meeting ("AGM"), or SGM, the Shareholders should submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Company's principal place of business at Units 2617-18, 26/F, Mira Place Tower A, No. 132 Nathan Road, Kowloon, Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at AGM or SGM varies according to the nature of the proposal, as follows:

— At least 21 days' notice (the notice period must include not less than 20 clear business days) in writing if the proposal constitutes a resolution of the Company in AGM

— At least 21 days' notice (the notice period must include not less than 10 clear business days) in writing if the proposal constitutes a special resolution of the Company in SGM

— At least 14 days' notice (the notice period must include not less than 10 clear business days) in writing for all other SGM of the Company

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

The Group will continue to maintain a close relationship with investors and develop greater understanding about the Group for international investors, to enhance investors' confidence in the Group.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

To promote effective communication, the Company maintains a website at www.chkoilltd.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

CONSTITUTIONAL DOCUMENT

According to the resolutions at the annual general meeting of the Company held on 26 June 2020 and the authorization granted in the resolutions regarding the amendments to the Company's Bye-laws, that (i) the Bye-laws 86(4) in relation to the way of the resolution be passed to remove a Director as any time before the expiration of his period of office be change from special resolution to ordinary resolution and (ii) the existing English name of the Company "Pearl Oriental Oil Limited" as appearing in the Bye-laws and replacing the same with the new English name of the Company "CHK Oil Limited". For more details, please refer to the circular of the Company dated 21 April 2020.

Independent Auditor's Report

Mazars CPA Limited
中審眾環(香港)會計師事務所有限公司
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To the shareholders of
CHK Oil Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of CHK Oil Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 49 to 107, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of intangible assets and oil and gas properties	
Refer to note 14 to the consolidated financial statements. As at 31 December 2020, the Group's intangible assets of HK$230,068,000 and property, plant and equipment of HK$38,259,000 which were allocated to the oil and gas segment and monitories at the respective level. Any impairment of these non-current assets identified may have material impact on the consolidated financial statements. The carrying amounts of these non-current assets are subject to impairment assessments annually or when there is an indication of impairment or an impairment loss is reversed if there has been a favorable change in the estimates used to determine their recoverable amount. For the purpose of assessing impairment, these intangible assets and property, plant and equipment, being the oil and gas sales, were identified, as a cash generating unit (the "Oil and Gas Sales CGU"), and the Group engaged an independent and qualified professional valuer to assess the recoverable amount of the Oil and Gas Sales CGU which is determined based on the higher of the fair value less costs of disposal and the value in use. The management estimated the recoverable amount of the Oil and Gas Sales CGU based on their fair value less costs of disposal and concluded that neither provision for nor reversal of impairment loss in relation to the intangible assets is recognised for the year ended 31 December 2020. Impairment assessment of the significant carrying amount of intangible assets is highly judgmental and involves a high degree of estimation uncertainty. We therefore identified the impairment assessment as a key audit matter.	In addressing this matter, we had performed the following key procedures: a) We evaluated the competence, capabilities and objectivity of the valuer; b) We performed procedures to understand the key processes and controls relating to the assessment of the recoverable amounts of the Oil and Gas Sales CGU; c) We evaluated the appropriateness of the methodology used for the determination of recoverable amount of the Oil and Gas Sales CGU; d) We evaluated the reasonableness of key assumptions applied in the fair value less costs of disposal calculations with reference to available market data; e) We performed sensitivity analysis over the key assumptions used in order to assess the potential impact of a range of possible outcomes; f) We checked with comparable data through internal or external sources, on a sample basis, the accuracy and relevancy of the input data used; and g) We considered the adequacy of the Group's disclosure in respect of the impairment assessment.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 22 March 2021

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	4	**736,762**	175,467
Cost of sales		**(694,483)**	(175,439)
Gross profit		**42,279**	28
Other income	5	**5,889**	3,992
Administrative expenses		**(24,804)**	(32,514)
Impairment loss on intangible assets	14	–	(25,739)
Expenditure on settlement of indebtedness		–	(210,572)
Finance costs	6	**(4,179)**	(10,100)
Profit (loss) before tax	7	**19,185**	(274,905)
Income tax (expense) credit	8	**(10,469)**	5,936
Profit (loss) for the year		**8,716**	(268,969)
Other comprehensive income for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
–Exchange differences arising on translation of foreign operations		**3,119**	91
Total comprehensive income (loss) for the year		**11,835**	(268,878)
Profit (loss) attributable to:			
Owners of the Company		**8,716**	(268,841)
Non-controlling interests		–	(128)
		8,716	(268,969)
Total comprehensive income (loss) attributable to:			
Owners of the Company		**11,835**	(268,750)
Non-controlling interests		–	(128)
		11,835	(268,878)
Earnings (loss) per share (HK cents)			(Restated)
– Basic and diluted	10	**1.38**	(70.00)

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 *HK$'000*	2019 *HK$'000*
Non-current assets			
Property, plant and equipment	*12*	**38,610**	40,340
Intangible assets	*14*	**230,068**	230,068
Right-of-use assets	*13*	**2,567**	3,224
Statutory deposits and other assets	*15*	**2,622**	2,622
		273,867	276,254
Current assets			
Trade receivables	*16*	**56,428**	3,837
Prepayments, deposits and other receivables	*17*	**184,375**	8,892
Bank balances and cash	*18*	**27,948**	53,889
		268,751	66,618
Current liabilities			
Trade and other payables	*19*	**76,722**	12,592
Contract liabilities	*20*	**104,960**	–
Unsecured loans	*21*	**–**	36,186
Lease liabilities	*22*	**1,459**	3,146
Tax payable	*8*	**11,007**	141
		194,148	52,065
Net current assets		**74,603**	14,553
Total assets less current liabilities		**348,470**	290,807
Non-current liabilities			
Deferred tax liabilities	*23*	**29,020**	29,020
Lease liabilities	*22*	**1,219**	246
Asset retirement obligations	*24*	**82**	82
		30,321	29,348
Net assets		**318,149**	261,459

	Note	2020 HK$'000	2019 HK$'000
Equity			
Share capital	25	**168,376**	122,455
Reserves		**148,758**	137,989
Equity attributable to owners of the Company		**317,134**	260,444
Non-controlling interests		**1,015**	1,015
Total equity		**318,149**	261,459

The consolidated financial statements on pages 49 to 107 were approved and authorised for issue by the Board of Directors on 22 March 2021 and are signed on its behalf by:

Yu Jiyuan
Executive Director

Chen Junyan
Executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Equity attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000* *Note 27(e)*	Treasury shares reserve *HK$'000* *Note 27(b)*	Capital reserve *HK$'000* *Note 27(a)*	Share option reserve *HK$'000*	Statutory reserve *HK$'000* *Note 27(c)*	Translation reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2019	324,552	2,222,586	(10,556)	403,851	22,032	–	–	(2,825,331)	137,134	1,143	138,277
Loss for the year	–	–	–	–	–	–	–	(268,841)	(268,841)	(128)	(268,969)
Other comprehensive income for the year	–	–	–	–	–	–	91	–	91	–	91
Total comprehensive loss for the year	–	–	–	–	–	–	91	(268,841)	(268,750)	(128)	(268,878)
Transactions with owners:											
Contributions and distributions											
Share subscription on 8 July 2019 *(note 25(a))*	50,000	46,060	–	–	–	–	–	–	96,060	–	96,060
Capitalisation of unsecured loan *(note 25(a))*	40,000	256,000	–	–	–	–	–	–	296,000	–	296,000
Share reduction on 3 July 2019 and share consolidation on 10 July 2019 *(note 25(b))*	(292,097)	292,097	–	–	–	–	–	–	–	–	–
Share option lapsed	–	–	–	–	(22,032)	–	–	22,032	–	–	–
Total transactions with owners:	(202,097)	594,157	–	–	(22,032)	–	–	22,032	392,060	–	392,060
At 31 December 2019 and 1 January 2020	**122,455**	**2,816,743**	**(10,556)**	**403,851**	**–**	**–**	**91**	**(3,072,140)**	**260,444**	**1,015**	**261,459**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,716**	**8,716**	**–**	**8,716**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**3,119**	**–**	**3,119**	**–**	**3,119**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**3,119**	**8,716**	**11,835**	**–**	**11,835**
Transactions with owners:											
Contributions and distributions											
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**3,484**	**–**	**(3,484)**	**–**	**–**	**–**
Issue of new shares upon rights issue *(note 25(c))*	**45,921**	**(1,066)**	**–**	**–**	**–**	**–**	**–**	**–**	**44,855**	**–**	**44,855**
Total transactions with owners	**45,921**	**(1,066)**	**–**	**–**	**–**	**3,484**	**–**	**(3,484)**	**44,855**	**–**	**44,855**
At 31 December 2020	**168,376**	**2,815,677**	**(10,556)**	**403,851**	**–**	**3,484**	**3,210**	**(3,066,908)**	**317,134**	**1,015**	**318,149**

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Profit (loss) before tax		**19,185**	(274,905)
Adjustments for:			
Finance costs		**4,179**	10,100
Depreciation		**1,588**	1,985
Depreciation of right-of-use assets		**3,463**	3,377
Amortisation of intangible assets		**–**	137
Write-back of interest payables		**(4,854)**	–
Loss on disposal of property, plant and equipment		**293**	–
Reversal of assets retirement obligations		**–**	(3,497)
Impairment loss on intangible assets		**–**	25,739
Expenditure on settlement of indebtedness		**–**	210,572
Operating profit (loss) before working capital changes		**23,854**	(26,492)
Increase in trade receivables		**(52,417)**	(3,837)
Increase in trade payables		**67,944**	–
(Increase) decrease in prepayments, deposits and other receivables		**(175,614)**	7,830
Decrease in other payables and accruals		**(3,180)**	(23,141)
Increase in contract liabilities		**104,960**	–
Cash used in operations		**(34,453)**	(45,640)
Tax refunded		**388**	111
Net cash used in operating activities		**(34,065)**	(45,529)
Cash flows from investing activity			
Purchase of property, plant and equipment		**(151)**	(85)
Net cash used in investing activity		**(151)**	(85)
Cash flows from financing activities			
Net proceeds from subscription of shares	*25*	**44,855**	96,060
Proceeds from unsecured loans	*31*	**–**	28,076
Repayment of unsecured loans	*31*	**(36,186)**	(13,983)
Interest paid	*31*	**(264)**	(938)
Repayment of lease liabilities	*31*	**(3,090)**	(3,795)
Debts settlement expenses paid	*31*	**–**	(6,910)
Net cash generated from financing activities		**5,315**	98,510
Net (decrease) increase in cash and cash equivalents		**(28,901)**	52,896
Effect on exchange rate changes		**2,960**	–
Cash and cash equivalents at beginning of year		**53,889**	993
Cash and cash equivalents at end of year, represented by bank balances and cash		**27,948**	53,889

Notes to the Consolidated Financial Statements

Year ended 31 December 2020

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 2019 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year. A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of new / revised HKFRSs

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

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform – Phase 1
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

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

(a) Basis of preparation *(Continued)*

Adoption of new / revised HKFRSs *(Continued)*

Amendments to HKASs 1 and 8: Definition of Material

The amendments clarify the definition of material and align the definition used across HKFRSs.

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

Amendments to HKAS 39, HKFRSs 7 and 9: Interest Rate Benchmark Reform – Phase 1

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform (the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark). In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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

Amendments to HKFRS 3: Definition of a Business

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

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

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 2021 with earlier application permitted. The amendments do not affect lessors.

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

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

Allocation of total comprehensive income

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Change in ownership interest

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

(b) Basis of consolidation *(Continued)*

Change in ownership interest *(Continued)*

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of a financial asset or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(c) Foreign currency translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

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

(d) Property, plant and equipment

Oil and gas properties

Oil and gas properties are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and impairment losses.

The successful efforts method of accounting is used for oil and gas exploration and production activities. The Group capitalises the initial acquisition costs of oil and gas properties. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

Oil and gas properties are depreciated on a unit-of-production basis over the proved reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved and probable developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Other property, plant and equipment

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the shorter of the lease terms or 5 years
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	30%

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

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

Other property, plant and equipment *(Continued)*

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(e) Intangible assets

Acquired intangible assets are recognised initially at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

The intangible assets of oil and gas possessing right of the natural gas and oil properties have been amortised upon the commercial production of oil and gas on a unit-of-production basis over the total proved reserves.

(f) Financial assets

The Group's accounting policies for financial assets are set out below.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets occurs when the rights to receive cash from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Financial assets are initially stated at fair value plus directly attributable transaction costs, except for those financial assets measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. Financial assets are subsequently accounted for as follows, depending on their classification.

Financial assets held by the Group are all classified as amortised cost. The financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income is calculated using effective interest method.

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

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, deposits and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rate where the effect of discounting is material:

- fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof.
- variable rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

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

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

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

(i) Credit losses from financial instruments (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

The following assets are subject to impairment testing:

- Intangible assets;
- Right-of-use assets;
- Property, plant and equipment;
- Statutory deposits and other assets; and
- The Company's interests in subsidiaries

All the above assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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

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

(ii) Impairment of other non-current assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquids investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Financial liabilities

The Group's financial liabilities include trade and other payables, unsecured loans and lease liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

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

(i) Financial liabilities *(Continued)*

Unsecured loans

Unsecured loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Lease liabilities

Lease liabilities are recognised and measured at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

(j) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(k) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

(k) Leases (Continued)

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

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

(l) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil and gas properties.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where the Company's equity share capital is repurchased (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

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

(n) Revenue recognition

(i) Revenue from contracts with customers within HKFRS 15

Nature of goods

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

Identification of performance obligations

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

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

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

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

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

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

Timing of revenue recognition

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

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

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
(ii) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
(iii) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

(n) Revenue recognition *(Continued)*

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

Timing of revenue recognition (Continued)

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

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

Oil and gas sales are recognised at a point in time at which the customer accepts and takes the control of the products, being when the products are physically transferred into a vessel, pipe or other delivery mechanism agreed with customers.

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods to the amount paid in advance or arrears), the prevailing market interest rates, the Group's borrowing rates and other relevant creditworthiness information of the customer of the Group.

The Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(g)(i)).

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

(o) Employee benefits

(i) Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

(ii) Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Equity-settled share-based payment transactions with parties other than employees are measured at fair value of the goods or services received, except where the fair value cannot be reliably estimated, in which case they are measured at the fair value of the equity instruments granted. In all cases, the fair value is measured at the date the Group obtains the goods or the counterparty renders the services.

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

(p) Income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(i) the Group has the legally enforceable right to set off the recognised amounts; and

(ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(i) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

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

(p) Income taxes *(Continued)*

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(a) the same taxable entity; or

(b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(q) Segment reporting

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

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

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its consolidated financial statements prepared under HKFRSs, except that:

- finance costs
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets exclude corporate assets which are not directly attributable to the business activities of any operating segment. Corporate assets include certain property, plant and equipment, prepayments, deposits and other receivables and bank balances and cash.

Segment liabilities exclude deferred tax liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment. Corporate liabilities include certain other payables and accruals, lease liabilities and tax payable.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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

(s) Government grants

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

(t) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third party and the other entity is an associate of the third party.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provide key management personnel services to the Group or to the Group's parent.

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

(t) Related parties *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of oil and natural gas reserves

Changes in proved oil and natural gas reserves will affect the depreciation, depletion and amortisation under the unit-of-production method recorded in the Group's consolidated financial statements for property, plant and equipment and intangible assets related to oil and gas production activities. The proved oil and natural gas reserves are also key determinants in assessing whether the carrying value of the Group's oil and gas properties and intangible assets have been impaired. Proved reserves are determined using estimates such as oil in place, future product prices and drilling and development plans.

Estimation of impairment of oil and gas assets and intangible assets

Oil and gas assets and intangible assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves the management estimates and judgements such as future price of oil and gas, the production profile and any significant changes in factors or assumptions used in estimating reserves.

4. REVENUE AND SEGMENT INFORMATION

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

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

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

	2019		
	Oil and gas sales *HK$'000*	Trading of oil-related and other products *HK$'000*	Total *HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– USA	111	–	111
– Sales of oil-related and other products:			
recognised at a point in time			
– Hong Kong	–	127,220	127,220
– PRC	–	48,136	48,136
	111	175,356	175,467
Segment (loss) profit	(24,217)	1,097	(23,120)
Unallocated income			496
Unallocated expenses			(242,181)
Finance costs			(10,100)
Loss before tax			(274,905)
Income tax credit			5,936
Loss for the year			(268,969)
Segment assets	271,361	34,928	306,289
Unallocated assets			36,583
Total assets			342,872
Segment liabilities	2,053	11,406	13,459
Deferred tax liabilities			29,020
Unallocated liabilities			38,934
Total liabilities			81,413
Depreciation and amortisation	249	–	
Impairment loss on intangible assets	25,739	–	

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	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**30,351**	127,220	**2,918**	5,310
USA	**–**	111	**270,949**	270,944
PRC	**706,411**	48,136	**–**	–
	736,762	175,467	**273,867**	276,254

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

The Group's customer base includes two (2019: five) customers with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers were amounted to approximately HK$122,704,000 and HK$105,986,000 respectively (2019: HK$48,627,000, HK$25,777,000, HK$25,128,000, HK$25,101,000 and HK$19,350,000 respectively) were related to trading of oil, oil-related and other products segment.

5. OTHER INCOME

	2020	2019
	HK$'000	*HK$'000*
Interest income	**8**	1
Reversal of asset retirement obligations	**–**	3,497
Write-back of interest payables *(Note 19 (b))*	**4,854**	–
Sundry income	**595**	494
Government subsidies *(note (i))*	**432**	–
	5,889	3,992

Note:

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

6. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest expenses on unsecured loans *(note (i))*	**3,915**	9,512
Interest on lease liabilities	**264**	588
	4,179	10,100

Note:

(i) Included in interest expenses on unsecured loans were HK$3,915,000 (2019: HK$4,071,000) related to overdue unsecured loans which were fully settled during the year.

7. PROFIT (LOSS) BEFORE TAX

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

	2020 HK$'000	2019 HK$'000
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**13,300**	11,564
– Retirement scheme contributions	**178**	111
	13,478	11,675
Cost of inventories	**694,483**	175,439
Depreciation		
– property, plant and equipment	**1,588**	1,985
– right-of-use assets	**3,463**	3,337
Amortisation of intangible assets	**–**	137
Auditor's remuneration:		
– Annual audit	**820**	720
– Non-assurance services	**270**	151
Impairment loss on intangible assets *(Note 14)*	**–**	25,739
Expenditure on settlement of indebtedness	**–**	210,572
Legal and professional fees	**1,014**	7,116
Financial advisory fee	**–**	222

8. INCOME TAX EXPENSE (CREDIT)

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%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year (2019: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the country in which the Group operates.

PRC Enterprise Income tax ("EIT")

EIT has been provided on the estimated assessable profits of subsidiaries operating in the PRC at 25% (2019: 25%).

PRC withholding tax

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

Withholding income tax is provided on the dividends to be distributed by the PRC subsidiaries and associates of the Group. The relevant group companies have successfully obtained endorsement from various PRC tax bureaus to enjoy the treaty benefit of 5% EIT rate on dividends received from the PRC subsidiaries and associates of the Group. Accordingly, withholding income tax has been provided at 5% of the dividends to be distributed by the PRC subsidiaries and associates of the Group. As at 31 December 2020 and 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Groups' subsidiaries established in the PRC of HK$30,196,000 (2019: HK$500,000). In the opinion of the directors, these accumulated profits, at the present time, are required for financing the continuing operations of the entities and no distribution would be made in the foreseeable future.

US tax

The tax rate adopted to measure the deferred tax balances is reduced to 21% to reflect the reduction in the US federal tax rate since 1 January 2018.

	2020 ***HK$'000***	2019 *HK$'000*
Current income tax on profit (loss) for the year		
Hong Kong Profits Tax	**(2)**	2
PRC EIT	**10,471**	26
Deferred tax	**–**	(5,964)
	10,469	(5,936)

8. INCOME TAX EXPENSE (CREDIT) *(Continued)*

Reconciliation between tax expense (credit) and accounting profit (loss) at applicable tax rates:

	2020	2019
	HK$'000	*HK$'000*
Profit (loss) before tax	**19,185**	(274,905)
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**6,588**	(46,319)
Tax effect of non-taxable revenue	**(56)**	(74)
Tax effect of non-deductible expenses	**3,326**	40,298
Tax effect of tax losses not recognised	**1,066**	150
Tax effect of unrecognised temporary differences	**(455)**	189
Utilisation of tax losses previously not recognised	**–**	(68)
Tax relief for the year	**–**	(112)
Income tax expense (credit)	**10,469**	(5,936)

As at 31 December 2020, the Group's tax payable was approximately HK$11,007,000 (2019: HK$141,000) which was mainly attributable to the PRC EIT payable arising from the operation in the PRC.

9. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

10. 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:

	2020	2019
		(Restated)
Profit (loss) for the year attributable to owners of the Company *(HK$'000)*	**8,716**	(268,841)
Weighted average number of ordinary shares *('000)*	**630,365**	384,054
Basic and diluted earnings (loss) per share *(HK cents)*	**1.38**	(70.00)

(a) Basic earnings (loss) per share

The weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share for the years ended 31 December 2020 and 2019 has been adjusted/restated to reflect the effect of bonus element in rights issue on 10 December 2020.

Details of the movements in share capital have been set out in Note 25 to the consolidated financial statements.

10. EARNINGS (LOSS) PER SHARE *(Continued)*

(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 years ended 31 December 2020 and 2019 as there were no dilutive potential ordinary shares during both years.

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

2020

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

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

(a) Directors' emoluments *(Continued)*

2019

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Fan Amy Lizhen (resigned on 28 June 2019)	–	450	9	459
Cheung Kam Shing, Terry (resigned on 1 October 2019)	–	962	13	975
Tang Yau Sing (resigned on 1 October 2019)	–	962	13	975
Liu Gui Feng (appointed on 28 November 2018)	–	1,083	–	1,083
Xiao Li (appointed on 28 November 2018 and resigned on 17 June 2019)	–	369	–	369
Lin Qing Yu (appointed on 3 October 2018)	–	758	–	758
Chen Junyan (appointed on 15 July 2019)	–	120	–	120
Yu Jiyuan (appointed on 15 July 2019)	–	351	–	351
Yun Guangrui (appointed on 15 July 2019 and resigned on 1 June 2020)	–	120	–	120
Chen Bin (appointed on 19 July 2019 and resigned on 21 September 2020)	–	117	–	117

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

(a) Directors' emoluments *(Continued)*

2019

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Independent non-executive directors:				
Xing Yong (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Shi Wen Jiang (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Chen Zhong Min (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Jiang Cai Yi (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Zhang Yue Yang (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
He Jun (appointed on 28 November 2018 and resigned on 28 June 2019)	60	–	–	60
Chen Xue Hui (appointed on 3 October 2018 and resigned on 28 June 2019)	60	–	–	60
Hu Jing (appointed on 3 October 2018 and resigned on 28 June 2019)	60	–	–	60
Lyu Jia Lian (appointed on 3 October 2018 and resigned on 28 June 2019)	60	–	–	60
Cao Wei (appointed on 14 August 2019 and resigned on 21 September 2020)	92	–	–	92
Xu Guoqiang (appointed on 14 August 2019 and resigned on 1 June 2020)	92	–	–	92
Zhong Bifeng (appointed on 14 August 2019)	92	–	–	92
Li Songtao (appointed on 24 September 2019 and re-designated on 21 September 2020)	65	–	–	65
	881	5,292	35	6,208

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

(a) Directors' emoluments *(Continued)*

Note:

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

No directors and five highest paid individuals have waived emoluments in respect of the years ended 31 December 2020 and 2019.

No emoluments were paid by the Group to any directors as inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2020 and 2019.

(b) Five highest paid individuals

During the year ended 31 December 2020, out of the five individuals with the highest emoluments in the Group, three (2019: three) were directors of the Company, details of whose emoluments are set out in note 11(a) above. The emoluments of the remaining two (2019: two) individuals for the year ended 31 December 2020 were as follows:

	2020	2019
	HK$'000	*HK$'000*
Salaries and other benefits	**1,040**	2,225
Retirement benefits scheme contributions	**20**	33
Compensation for loss of office:		
– contractual payment	**3,100**	–
	4,160	2,258

	Number of Individual	
	2020	**2019**
Emoluments band:		
Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**1**	2
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**1**	–
	2	2

No emoluments were paid by the Group to any five highest paid individuals as inducement to join or upon joining the Group during the years ended 31 December 2020 and 2019.

12. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2019 (Upon adoption of HKFRS 16)	90,108	5,216	1,080	96,404
Additions	–	41	44	85
At 31 December 2019 and 1 January 2020	90,108	5,257	1,124	96,489
Additions	8	89	54	151
Disposal	–	(5,257)	(8)	(5,265)
At 31 December 2020	**90,116**	**89**	**1,170**	**91,375**
Accumulated depreciation				
At 1 January 2019 (Upon adoption of HKFRS 16)	51,745	1,739	680	54,164
Change for the year	112	1,759	114	1,985
At 31 December 2019 and 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	**51,857**	**7**	**901**	**52,765**
Net book value				
At 31 December 2020	**38,259**	**82**	**269**	**38,610**
At 31 December 2019	38,251	1,759	330	40,340

13. RIGHT-OF-USE ASSETS

	Motor vehicles *HK$'000*	Leased properties *HK$'000*	Total *HK$'000*
Reconciliation of carrying amount			
For the year ended 31 December 2019			
At the beginning of the reporting period (Upon adoption of HKFRS 16)	494	6,107	6,601
Depreciation	(191)	(3,186)	(3,377)
At the end of the reporting period	303	2,921	3,224
For the year ended 31 December 2020			
Opening carrying amount	303	2,921	3,224
Addition	–	2,806	2,806
Depreciation	(191)	(3,272)	(3,463)
Closing carrying amount	112	2,455	2,567
As at 31 December 2019			
Cost	494	6,107	6,601
Accumulated depreciation	(191)	(3,186)	(3,377)
Net carrying amount	303	2,921	3,224
As at 31 December 2020			
Cost	494	2,806	3,300
Accumulated depreciation	(382)	(351)	(733)
Net carrying amount	112	2,455	2,567

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

The total cash outflow for leases was HK$3,354,000 (2019: HK$3,795,000) for the year ended 31 December 2020.

At 31 December 2020 and 2019, the weighted average incremental borrowing rate for the lease liabilities of the Group was 12% per annum.

Commitments under leases

At 31 December 2020, the Group was committed to HK$261,800 (2019: HK$297,000) for short-term leases.

14. INTANGIBLE ASSETS

	Oil and gas processing rights *HK$'000*
Costs	
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	2,818,920
Accumulated amortisation and impairment	
At 1 January 2019	2,562,976
Amortisation for the year	137
Impairment loss	25,739
At 31 December 2019, 1 January 2020 and 31 December 2020	2,588,852
Net carrying amounts	
At 31 December 2019 and 31 December 2020	**230,068**

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

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

The recoverable amount for this Oil and Gas Sales CGU was determined based on fair value, reflecting market conditions less cost of disposal calculation with reference to a valuation performed by an independent valuer, BMI Appraisals Limited. The fair value less cost of disposal calculation use cash flow projections of 36 years, which is the expected period of time estimated by the management to fully utilise the reserve as per the latest competent person report, and a discount rate of 10.15% (2019: 11.77%). The management determined the key assumptions based on past performance and expectation on market development by reference to market information such as forecast to future oil and gas prices, historical growth rate of oil and gas prices and expectation on oil and gas consumption.

The fair value measurement in the impairment assessment is categorised in level 3 of the fair value hierarchy. The significant unobservable input including the price of oil and gas, gross margin, growth rate and discount rate, where the higher the price of oil and gas, gross margin and growth rate and the lower of the discount rate, the higher the fair value of the Oil and Gas Sales CGU would be.

After assessing the information, the management of the Group considered that neither provision for nor reversal of impairment loss on oil and gas processing rights and oil and gas properties included in property, plant and equipment was recognised during the year (2019: Impairment loss on oil and gas processing rights of approximately HK$25,739,000 was recognised).

15. STATUTORY DEPOSITS AND OTHER ASSETS

	2020	2019
	HK$'000	*HK$'000*
Oil and gas or geothermal lease bond	**507**	507
Right of way surety bond	**516**	516
Certificate of deposit	**1,599**	1,599
	2,622	2,622

16. TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**56,428**	3,837

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

	2020	2019
	HK$'000	*HK$'000*
0-30 days	**1,413**	2,815
31-60 days	**55,015**	–
61-90 days	**–**	–
Over 90 days	**–**	1,022
	56,428	3,837

Information about the Group's exposure to credit risks for trade receivables is included in Note 29 to the consolidated financial statements.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2020 HK$'000	2019 HK$'000
Prepayments		**555**	905
Rental and other deposits paid		**1,730**	1,201
Trade deposits paid	*(a)*	**181,543**	6,215
Deposit paid for acquiring Russia oil fields, net	*(b)(i)*	**69,929**	69,929
Other receivables	*(b)(ii)*	**2,227**	2,251
		255,984	80,501
Less: Impairment loss	*(b)*	**(71,609)**	(71,609)
		184,375	8,892

Note:

(a) Trade deposits paid

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

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

The directors have reassessed the recoverability of the unutilised prepayments based on all relevant information available to the Group. The directors consider that there is no significant uncertainty on the recovery of prepayments. Therefore, no impairment loss has been recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2020 (2019: Nil).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each supplier. The default risk of the industry and country in which suppliers operate also has an influence on credit risk but to a lesser extent. At the end of each reporting period, the Group has a certain concentrations of credit risk as 70% (2019: 100%) and 98% (2019: 100%) of the total prepayments made to the Group's largest supplier and the five largest suppliers respectively.

(b) Impairment losses on deposits paid and other receivables

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

As the conditions precedent to closing under the S & P Agreement were not satisfied (nor waived by the Group) on or before 30 September 2013, the S & P Agreement 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 31 December 2020 and 2019, 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 (2019: 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.

18. BANK BALANCES AND CASH

At end of reporting period, the bank balances of the Group denominated in RMB amounted to HK$7,610,341 (2019: HK$9,080,757). The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of PRC.

19. TRADE AND OTHER PAYABLES

	Note	**2020** *HK$'000*	2019 *HK$'000*
Trade payables to third party	*(a)*	**67,944**	–
Other payables			
Accruals		**4,090**	3,382
Accrued directors' fee and salaries		**99**	948
Interests payables	*(b)*	**–**	6,439
Value-added tax and other tax payables		**4,125**	–
Other payables		**464**	1,823
		8,778	12,592
		76,722	12,592

Note:

(a) The credit period of trade payables is normally within 90 (2019: Nil) days. The ageing analysis of the trade payables, based on the invoice date is as follows:

	2020 *HK$'000*	2019 *HK$'000*
0-30 days	**–**	–
31-60 days	**67,944**	–
61-90 days	**–**	–
Over 90 days	**–**	–
	67,944	–

(b) Included in other payables as at 31 December 2019 were interest payables of HK$6,439,000 in relation to the accrued interests of the unsecured loans in the principal amount of HK$25,000,000. In December 2020, the Group repaid the total sum of HK$30,500,000 as full and final settlement of all outstanding principal amount of the unsecured loan and the interest accrued thereon. The difference of HK$4,854,000 between the full and final settlement of HK$30,500,000 and the aggregate amount of principal amount of HK$25,000,000 and accumulated accrued interest of HK$10,354,000 was recognised as other income in the profit or loss during the reporting period.

20. CONTRACT LIABILITIES

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

	2020	2019
	HK$'000	*HK$'000*
At 1 January	–	12,402
Recognised as revenue	–	(12,402)
Receipt of advances	**104,960**	–
At 31 December	**104,960**	–

At 31 December 2020 and 2019, the contract liabilities are expected to be settled within next 12 months.

21. UNSECURED LOANS

	HK$'000
At 1 January 2019	102,093
Proceeds from unsecured loans	28,076
Repayment of unsecured loans	(93,983)
At 31 December 2019 and 1 January 2020	36,186
Repayment of unsecured loans	(36,186)
At 31 December 2020	–

Included in unsecured loans as at 31 December 2019 were unsecured loans in sum of RMB10,000,000 (equivalent to approximately HK$11,186,000) carrying interest at 8.2% per annum which were fully repaid in January 2020.

Included in unsecured loans as at 31 December 2019 were unsecured loan in the principal amount of HK$25,000,000 which was overdue and carried overdue interest rate of 16% per annum. In December 2020, the Group repaid the total sum of HK$30,500,000 as full and final settlement of all outstanding principal amount and the interest accrued of the unsecured loan (Note 19(b)).

22. LEASE LIABILITIES

	2020	2019
	HK$'000	*HK$'000*
Current portion	**1,459**	3,146
Non-current portion	**1,219**	246
	2,678	3,392

23. DEFERRED TAX

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

	Fair value adjustment on intangible assets	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2019	45,275	(10,291)	34,984
Recognised in profit or loss	(5,384)	(580)	(5,964)
At 31 December 2019, 1 January 2020 and 31 December 2020	39,891	(10,871)	29,020

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

	2020	2019
	HK$'000	*HK$'000*
Deferred tax assets	**(10,871)**	(10,871)
Deferred tax liabilities	**39,891**	39,891
Net deferred tax liabilities	**29,020**	29,020

At the end of the reporting period, the Group has unrecognised unused tax losses of approximately HK$55,316,000 (2019: HK$48,853,000) available for offset against future profits. However, no deferred tax asset in respect of them had been recognised due to the unpredictability of future profit streams even though those tax losses may be carried forward indefinitely.

24. ASSET RETIREMENT OBLIGATIONS

	2020	2019
	HK$'000	*HK$'000*
At 1 January	**82**	3,579
Less: Written back of asset retirement obligations	**–**	(3,497)
At 31 December	**82**	82

Asset retirement obligations are the provision for the cost associated with the Group's obligation to plug and abandon all oil and gas wells and remediate the surface of the site once production ceases on a lease.

Such amount of the asset retirement obligations are estimated based on the opinion of the directors and expected to be occurred since 2034.

25. SHARE CAPITAL

		2020		2019	
	Note	**Number of shares *'000***	***HK$'000***	Number of shares *'000*	*HK$'000*
Authorised:					
At beginning of the reporting period, ordinary shares of HK$0.1 each	*(b)*	**100,000,000**	**20,000,000**	200,000,000	20,000,000
Share subdivision on 3 July 2019	*(b)*	**–**	**–**	1,800,000,000	–
Share consolidation on 10 July 2019	*(b)*	**–**	**–**	(1,900,000,000)	–
At end of the reporting period, ordinary shares of HK$0.2 each		**100,000,000**	**20,000,000**	100,000,000	20,000,000
Issued and fully paid:					
At beginning of the reporting period, ordinary shares of HK$0.2 each	*(b)*	**612,276**	**122,455**	3,245,520	324,552
Share reduction on 3 July 2019	*(b)*	**–**	**–**	–	(292,097)
Share subscription on 8 July 2019	*(a)*	**–**	**–**	5,000,000	50,000
Capitalisation of unsecured loan	*(a)*	**–**	**–**	4,000,000	40,000
Share consolidation on 10 July 2019	*(b)*	**–**	**–**	(11,633,244)	–
Issue of new shares upon rights issue on 10 December 2020	*(c)*	**229,603**	**45,921**	–	–
At end of the reporting period, ordinary shares of HK$0.2 each		**841,879**	**168,376**	612,276	122,455

Notes:

(a) Details in Note b (i), the Company would allot and issue and each of Xin Hua and Noble agreed to subscribe for 7,300,000,000 subscription shares and 1,700,000,000 subscription shares, respectively, at an issue price of HK$0.02 per subscription share.

On 29 March 2019, the Company, Xin Hua and Noble entered into the supplemental agreement (the "Supplemental Subscription"), pursuant to which the parties thereto agreed to cancel Noble's subscription of new shares under the First Subscription Agreement, while the subscription by Xin Hua of 7,300,000,000 subscription shares remained unchanged (the "Xin Hua Subscription Shares").

On 3 April 2019, the Company and Noble entered into the second subscription agreement (the "Second Subscription Agreement"), pursuant to which the Company would allot and issue and Noble agreed to subscribe for 1,700,000,000 subscription shares at an issue price of HK$0.02 per subscription share (the "Noble Subscription Shares").

These 2 subscription agreements were approved at the special meeting held on 24 June 2019 and completed on 8 July 2019. The aggregate consideration for Xin Hua Subscription Shares and Noble Subscription Shares amounts to HK$146,000,000 and HK$34,000,000, respectively.

25. SHARE CAPITAL *(Continued)*

Notes: (continued)

(a) *(continued)*

4,000,000,000 of the Xin Hua Subscription Shares were issued for the settlement of the unsecured loans due to Xin Hua amounting to HK$80,000,000. The difference of HK$210,572,000 between the aggregate fair values of these new shares issued at HK$0.02 per Xin Hua Subscription Shares amounted to HK$296,000,000 and the aggregate amount of the settlement of the unsecured loan of HK$80,000,000 and the waived interest payable due to Xin Hua of HK$5,428,000, was recognised as expenditure on settlement of indebtedness in the profit or loss for the year ended 31 December 2019.

(b) On 10 July 2019, the Company completed a capital reorganisation (the "Capital Reorganisation") involving the capital reduction (the "Capital Reduction"), the share subdivision (the "Share Subdivision") and the share consolidation (the "Share Consolidation"). The Capital Reorganisation was approved at the special meeting held on 24 June 2019. Details of which are as follows:

(i) Capital reduction
This involves the reduction of the nominal value of each then issued share from HK$0.10 to HK$0.01 each and every then authorised but unissued share will be sub-divided into 10 new shares (the "New Share(s)") with a par value of HK$0.01 each effective on 3 July 2019;

(ii) Share subdivision
Immediately following the capital reduction, each of the authorised but unissued Shares of nominal value of HK$0.10 each will be subdivided into 10 New Shares of nominal value of HK$0.01 each effective on 3 July 2019;

(iii) Share consolidation
After the completion of the Xin Hua Subscription Shares and Noble Subscription Shares, the Company implemented a Share Consolidation on the basis that every 20 issued and unissued new shares of nominal value of HK$0.2 each in the share capital of the Company effective on 10 July 2019.

After the share consolidation, the nominal value of authorised, issued and fully paid ordinary shares as at 10 July 2019 and 31 December 2019 were HK$0.2 each (As at 1 January 2019 of HK$0.1 each).

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

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

26. SHARE OPTION SCHEME

Share option scheme in 2009

On 15 July 2009, the Company adopted a share option scheme (the "Share Option Scheme 2009") whereby the directors of the Company may grant options to eligible employees, including directors of any companies in the Group to subscribe for shares in Company upon and subject to a maximum number of shares available for issue thereunder, which is 10% of the issued shares of the Company. Also, the number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued shares or otherwise it must be approved by the shareholders of the Company.

The Share Option Scheme 2009 expired on 14 July 2019. As at 31 December 2019, no share option was outstanding under the Share Option Scheme 2009.

Share option scheme adopted in 2019

On 12 December 2019, the Company adopted a new share option scheme (the "Share Option Scheme 2019") whereby the directors of the Company may grant options to those who are eligible an opportunity to have a personal stake in the Company upon and subject to a maximum number of shares available for issue thereunder, which is 10% of the issued shares of the Company. Also, the number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued shares or otherwise it must be approved by the shareholders of the Company.

The Share Option Scheme 2019 was set up for the primary purpose of providing incentives to directors, eligible employees and other personal stake in the Company and will expire on 11 December 2029.

The options vest from the date of grant and are exercisable at any time from the date of acceptance of the offer and the earlier of up to 10 years from the date of grant and 12 December 2019. The exercise price determined by the directors of the Company will be at least the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares. Each option gives the holder the right to subscribe for one ordinary share of the Company.

26. SHARE OPTION SCHEME *(Continued)*

Share option scheme adopted in 2019 *(Continued)*

Details of share options granted by the Company and the share options outstanding as at 31 December 2020 and 2019 are as follow:

Grantee	Date of grant	Period during which options are exercisable	Outstanding as at 31 December 2020	Outstanding as at 31 December 2019	Exercise price per share option after share consolation/ (before share consolidation) *HK$*
Consultants	9 June 2010	9 June 2010 - 14 July 2019	–	–	18.832/ (0.9416)
	10 April 2013	1 September 2013 - 14 July 2019	–	–	10.4/ (0.52)
Employees	9 June 2010	9 June 2010 - 14 July 2019	–	–	18.832/ (0.9416)
	27 June 2011	27 June 2011 - 14 July 2019	–	–	18.832/ (0.9416)
	10 April 2013	1 September 2013 - 14 July 2019	–	–	10.4/ (0.52)
			–	–	

Movements in the number of options outstanding and their weighted average exercise prices are as follows:

	2020		2019	
	Number *'000*	**Weighted average exercise price** *HK$*	Number *'000*	Weighted average exercise price *HK$*
Outstanding at 1 January	–	–	74,890	0.7975
Lapsed	–	–	(74,890)	0.7975
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

During the year ended 31 December 2020, no share option has been granted under the Share Option Scheme 2009 and Share Option Scheme 2019. As at 31 December 2020 and 2019, no share option under the Share Option Scheme 2009 and Share Option Scheme 2019 was outstanding.

27. RESERVES

(a) Capital reserve

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

(b) Treasury shares reserve

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2020 the Group held 243,600 ordinary shares of the Company (31 December 2019: 243,600 ordinary shares).

(c) Statutory reserves

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

(d) Contributed surplus

The contributed surplus of the Company represents the excess of the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Under the Companies Act 1981 Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

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

(e) Share premium

The share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

(f) The Company has no reserves available for distribution to shareholders as at 31 December 2020 (2019: Nil).

28. RELATED PARTY TRANSACTIONS

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

(i) Key management personnel remuneration

	2020 HK$'000	2019 HK$'000
Key management personnel:		
– Short term employee benefits	**4,361**	6,173
– Pension scheme contribution	**30**	35
	4,391	6,208

(ii) Directors' material interests in transactions and arrangement

	2020 HK$'000	2019 HK$'000
Interest expenses on unsecured loans paid to a director		
– Ms. Fan Amy Lizhen	**–**	302

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group actively and regularly reviews and manages its financial risk and takes actions to mitigate such risk. The board of directors reviews and agrees policies for managing each of these risks.

(a) Foreign currency risk

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

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

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

(a) Foreign currency risk *(Continued)*

The following table details the Group's exposure as at 31 December 2020 and 2019 to currency risk arising from recognised financial assets and financial liabilities denominated in RMB. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the end of the reporting period.

	RMB	*RMB*
	HK$'000	*HK$'000*
Trade receivables	**56,428**	2,815
Prepayments, deposits and other receivables	**181,543**	–
Bank balances and cash	**7,610**	9,081
Contract liabilities	**(104,960)**	–
Trade and other payables	**(72,201)**	(79)
	68,420	11,817

The foreign currency sensitivity analysis is calculated based on the major net foreign currency exposure of the Group as at the end of the reporting period, assuming 5% shift of RMB against HK$. A 5% strengthening of the RMB against HK$ would result in increasing the Group's profit before tax for the year ended 31 December 2020 by approximately HK$3,421,000 (2019: decrease the Group's loss before tax by approximately HK$591,000). A 5% weakening of the RMB against HKD as at the same date would have had the equal but opposite effect.

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

(b) Interest rate risk

The Group's interest-earning financial assets comprise bank balances. The Group is exposed to fair value interest rate risk in relation to lease liabilities, the Group's policy is to obtain the most favourable interest rates available and also by reviewing the terms of the interest-bearing liabilities to minimise the adverse effects of changes in interest rates.

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

(c) Credit risk

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

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

Trade receivables

The Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who trade on credit terms are subject to credit verification procedures. The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of three months.

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

At the end of the reporting period, the Group had a concentration of credit risk as 61% (2019: 100%) and 100% (2019: 100%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

	2020 ***HK$'000***	2019 *HK$'000*
Neither past due nor impaired	**56,428**	2,815
1-30 days past due	**–**	–
31-60 days past due	**–**	–
61-90 days past due	**–**	–
More than 90 days past due	**–**	1,022
	56,428	3,837

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

(c) Credit risk *(Continued)*

Deposits and other receivables

The management considers the credit risk on deposits and other receivables, net of impairment losses is minimal after considering the financial conditions of counterparties. Management has performed assessment over the recoverability of these balances and does not expect any losses from these balances.

Bank balances

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

(d) Liquidity risk

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

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

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

	2019				
	On Demand or within 1 year *HK\$'000*	1 to 2 year *HK\$'000*	2 to 5 year *HK\$'000*	Total contractual undiscounted cash flow *HK\$'000*	Total carrying amount *HK\$'000*
Trade and other payables	12,592	–	–	12,592	12,592
Unsecured loans	36,186	–	–	36,186	36,186
Lease liabilities	3,569	–	–	3,569	3,392
	52,347	–	–	52,347	52,170

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

30. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of net debt to total equity ratio. For this purpose net debt is defined as borrowings less cash and cash equivalents. To maintain or adjust the capital structure, the Group may adjust the dividends paid to shareholders, return capital to shareholders, issue new shares or raise new debt financing.

The Group's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

	2020	2019
	HK$'000	*HK$'000*
Unsecured loans	–	36,186
Cash and cash equivalent	**(27,948)**	(53,889)
Net debt	**(27,948)**	(17,703)
Equity	**318,065**	261,459
Net debt to equity ratio	**N/A**	N/A

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

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

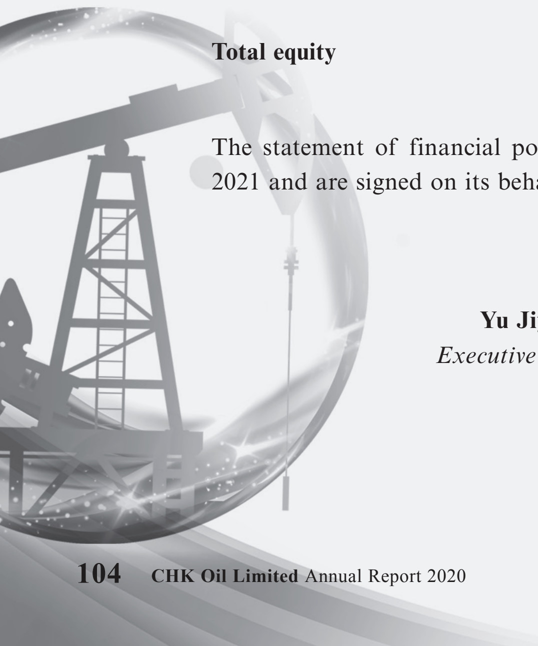
31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

	Unsecured loans *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 1 January 2019 (Upon the adoption of HKFRS 16)	112,296	6,599	118,895
Changes from financing cash flows:			
Proceeds from unsecured loans	28,076	–	28,076
Repayment of unsecured loans	(13,983)	–	(13,983)
Interest paid	(938)	–	(938)
Debts settlement expenses paid	(6,910)	–	(6,910)
Repayment of lease liabilities	–	(3,795)	(3,795)
Total changes from financing cash flows	6,245	(3,795)	2,450
Other changes			
Interest expenses	9,512	588	10,100
Interest payable waived by Xin Hua	(5,428)	–	(5,428)
Settlement of indebtedness by issue of shares	(80,000)	–	(80,000)
Total other changes	(75,916)	588	(75,328)
At 31 December 2019	42,625	3,392	46,017

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 HK$'000	2019 HK$'000
Non-current assets			
Interest in subsidiaries		**312,773**	303,972
Right-of-use assets		**–**	2,921
		312,773	306,893
Current assets			
Prepayments, deposits and other receivables		**1,468**	8,102
Bank balances and cash		**13,968**	22,548
		15,436	30,650
Current liabilities			
Amount due to subsidiaries		**45,993**	46,000
Other payables and accruals		**2,161**	10,586
Unsecured loans		**–**	25,000
Lease liabilities		**–**	3,020
		48,154	84,606
Net current liabilities		**(32,718)**	(53,956)
Total assets less current liabilities		**280,055**	252,937
Net assets		**280,055**	252,937
Equity			
Share capital	*25*	**168,376**	122,455
Reserves	*32(a)*	**111,679**	130,482
Total equity		**280,055**	252,937

The statement of financial position was approved and authorised for issue by Board of Directors on 22 March 2021 and are signed on its behalf by:



Yu Jiyuan	**Chen Junyan**
Executive Director	*Executive Director*

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

(a) Reserves

	Share premium HK$'000 Note 27(e)	Contribution surplus HK$'000 Note 27(d)	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2019	2,223,486	45,348	22,032	(2,481,525)	(190,659)
Total comprehensive loss for the year	–	–	–	(273,016)	(273,016)
Transactions with owners:					
Contributions and distributions					
Share subscription on 8 July 2019 *(Note 25(a))*	46,060	–	–	–	46,060
Capitalisation of unsecured loan *(Note 25(a))*	256,000	–	–	–	256,000
Share reduction on 3 July 2019 and share consolidation on 10 July 2019 *(Note 25(b))*	292,097	–	–	–	292,097
Share options lapsed	–	–	(22,032)	22,032	–
Total transaction with owners	594,157	–	(22,032)	22,032	594,157
At 31 December 2019 and 1 January 2020	**2,817,643**	**45,348**	**–**	**(2,732,509)**	**130,482**
Total comprehensive loss for the year	**–**	**–**	**–**	**(17,737)**	**(17,737)**
Transactions with owners:					
Contributions and distributions					
Issue of new shares upon rights issue *(Note 25(c))*	**(1,066)**	**–**	**–**	**–**	**(1,066)**
Total transaction with owners	**(1,066)**	**–**	**–**	**–**	**(1,066)**
At 31 December 2020	**2,816,577**	**45,348**	**–**	**(2,750,246)**	**111,679**

33. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2020 are as follows:

Name of company	Place of incorporation/ operation	Issued ordinary share capital/ Paid-up share capital	Percentage of equity interests held by the Company		Principal activities
			Directly	Indirectly	
Pearl Oriental International Assets Limited	Hong Kong	HK$1	–	100%	Provision of corporate services
Festive Oasis Limited	The British Virgin Islands ("BVI")	US$1,000	–	100%	Investment holding
Shiny One Limited	BVI	US$100	–	100%	Investment holding
Shiny One, USA, LLC	USA	N/A	–	100%	Exploration, development, production and sales of natural gas and oil
Jet United Development Limited	Hong Kong	HK$1	100%	–	Trading of oil-related products
Pearl Oriental (Daqing) Oil Limited* 東方明珠(大慶)石油有限公司	PRC	RMB20,000,000 (2019: RMB19,397,231)	–	100%	Trading of oil

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

34. FUTURE CHANGES IN HKFRSs

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

Amendments to HKFRS 16	Covid-19-Related Rent Concessions [1]
Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2 [2]
Amendments to HKAS 16	Proceeds before Intended Use [3]
Amendments to HKAS 37	Cost of Fulfilling a Contract [3]
Amendments to HKFRS 3	Reference to the Conceptual Framework [3]
Annual Improvements to HKFRSs	2018-2020 Cycle [3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current [4]
HKFRS 17	Insurance Contracts [4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [5]

[1] Effective for annual periods beginning on or after 1 June 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] Effective for annual periods beginning on or after 1 January 2022
[4] Effective for annual periods beginning on or after 1 January 2023
[5] The effective date to be determined

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below.

RESULTS

	2020 ***HK$'000***	2019 *HK$'000*	2018 *HK$'000*	2017 *HK$'000*	2016 *HK$'000* (Reclassified)
Revenue	**736,762**	175,467	74,036	35,594	518
Profit (loss) before tax	**19,185**	(274,905)	(59,562)	(447,259)	182,766
Income tax (expense) credit	**(10,469)**	5,936	860	95,590	(48,450)
Profit (loss) for the year	**8,716**	(268,969)	(58,702)	(351,669)	134,316
Profit (loss) for the year attributable to:					
Owners of the Company					
– from continuing operations	**8,716**	(268,841)	(58,415)	(351,633)	132,844
– from discontinued operations	**–**	–	–	–	(769)
Non-controlling interests					
– from continuing operations	**–**	(128)	(287)	(36)	2,241
– from discontinued operations	**–**	–	–	–	–
	8,716	(268,969)	(58,702)	(351,669)	134,316
Total assets	**542,618**	342,872	319,015	307,748	698,559
Total liabilities	**(224,469)**	(81,413)	(180,738)	(110,769)	(171,484)
Net assets	**318,149**	261,459	138,277	196,979	527,075