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東方明珠石油有限公司*
Pearl Oriental Oil Limited

(formerly know as "Pearl Oriental Innovation Limited")
(the "Company")
(Incorporated in Bermuda with limited liability)
(Stock Code: 632)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

CHAIRMAN'S STATEMENT

Dear Shareholders,

The consolidated revenue of Pearl Oriental Oil Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2011 (the "Year") was HK$510.93 million. The loss after tax for the Year was HK$66.16 million, and loss per share was HK1.96 cents.

The main reason of the loss was that the market price of natural gas in United States has been decreasing during the Year. Hence the fair value of the oil and gas processing right of the Utah Gas and Oil Field has been adjusted resulting in an impairment loss on intangible assets totalling HK$110.33 million for which no cash payment has been made. Excluding the impairment of intangible assets and goodwill, net cash inflow of approximately HK$42.47 million has been generated for the Group during the Year.

Other than the stable business operation in recycled plastic, the Group is endeavoring in oil and gas development. During the Year, the Utah Gas and Oil Field had a good start of exploitation and has successful trial production of crude oil and natural gas. Since oil has been found in the Green River Oil Formation, the Group has decided to focus on the exploitation of oil. Around 10,000 barrels of crude oil have been produced in the second half of the Year. The average selling price of crude was US$73 per barrel during the Year, which has increased to US$85 per barrel in early 2012. Volume of natural gas production in the second half of the Year was approximately 72,880 thousand cubic feet with an average price per thousand cubic feet of US$3.80, which has dropped to US$3.10 per thousand cubic feet in early 2012. The Group will enhance the technology of its oil exploitation, and will also seek and explore more oil resources in the Utah Gas and Oil Field.

Management is now negotiating and conducting detailed due diligence for the potential acquisitions of several new oil projects in the areas such as North America, Kazakhstan, South Sudan, Indonesia and Thailand, respectively. We wish the Group can further enlarge its oil reserves through successful mergers and acquisitions in 2012 and increase production of crude oil rapidly in order to bring more economic benefits to the Group.

We have established a team of petroleum experts who are experienced in oil exploration and operations. Given the circumstances including positive anticipation of improving environment in the global oil market, the Group‘s better financial position without any bank borrowings, a strong net cash reserve and net assets around HK$2.54 billion, together with other favourable factors such as strategic partnerships with major petroleum enterprises and good cooperation relationship with relevant government authorities in the target countries, the Group is in a very advantageous position. By concentrating the Company's resources and efforts fully in the oil and gas business, the Board and Management have strong confidence and wisdom to create more value for our shareholders and bring an excellent return for the Company.

I would like to take this opportunity to thank all of our shareholders, colleagues and business partners for their full support to the Board.

Wong Kwan
Chairman and Chief Executive
30 March 2012, Hong Kong

The board of directors (the "Board") of Pearl Oriental Oil Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2011 HK$'000	2010 HK$'000 (restated)
CONTINUING OPERATIONS			
Revenue			
Sales of oil and natural gas	3	**7,479**	46
Sales of plastic recycling materials	3	**487,922**	555,196
Other income	4	**15,530**	3,252
		510,931	558,494
Expenses			
Cost of sales of plastic recycling materials		**475,038**	530,788
Exploration, repair and maintenance expenses		**5,800**	12,594
Depreciation, depletion and amortisation		**2,427**	–
Selling and distribution costs		**2,358**	5,323
Other operating expenses		**2,256**	5
Administrative expenses		**58,629**	88,125
Equity-settled share option expenses		**7,104**	39,966
		553,612	676,801
Loss from operations		**(42,681)**	(118,307)
Finance costs	6	**(27)**	(53)
Gain on bargain purchase		**–**	604,703
Gain on disposal of available-for-sale investments		**85,178**	–
Net gain on disposal of subsidiaries		**–**	54,884
Impairment loss on goodwill		**(23,408)**	(27,943)
Impairment loss on intangible assets		**(110,334)**	–
Write-off of assets on liquidation of a subsidiary		**–**	(126,513)
(Loss)/Profit before tax from continuing operations	5	**(91,272)**	386,771
Income tax credit	7	**25,109**	4,703
(Loss)/Profit for the year from continuing operations		**(66,163)**	391,474
DISCONTINUED OPERATION			
Profit for the year from discontinued operation		**–**	36
(Loss)/Profit for the year		**(66,163)**	391,510

CONSOLIDATED INCOME STATEMENT

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
Attributable to:			
Owners of the Company		**(59,204)**	423,195
Non-controlling interests		**(6,959)**	(31,685)
		(66,163)	391,510
		HK cents	HK cents *(restated)*
(Loss)/Earnings per share attributable to owners of the Company	*9*		
From continuing and discontinued operations			
Basic		**(1.96)**	22.77
Diluted		**(1.96)**	22.49
From continuing operations			
Basic		**(1.96)**	22.77
Diluted		**(1.96)**	22.49

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
	HK$'000	*HK$'000*
(Loss)/Profit for the year	**(66,163)**	391,510
Other comprehensive income		
Exchange differences on translation of financial statements of foreign operations	**63**	(5,739)
Total comprehensive income for the year	**(66,100)**	385,771
Attributable to:		
Owners of the Company	**(59,141)**	417,456
Non-controlling interests	**(6,959)**	(31,685)
	(66,100)	385,771

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Non-current assets			
Property, plant and equipment		**82,690**	1,198
Exploration and evaluation assets		**–**	46,371
Intangible assets	*10*	**2,706,600**	2,624,393
Goodwill		**10,688**	34,096
Deferred tax assets		**7,381**	5,204
		2,807,359	2,711,262
Current assets			
Inventories and supplies		**1,369**	6,912
Trade and bill receivables	*11*	**6,623**	1,771
Prepayments, deposits and other receivables		**233,521**	263,011
Tax recoverable		**376**	–
Bank balances and cash		**168,861**	374,932
		410,750	646,626
Current liabilities			
Trade payables	*12*	**3**	4,502
Other payables and accruals		**13,633**	14,665
Bank borrowings		**–**	1,399
Tax payable		**–**	820
		13,636	21,386
Net current assets		**397,114**	625,240
Total assets less current liabilities		**3,204,473**	3,336,502
Non-current liabilities			
Deferred tax liabilities		**663,117**	686,049
Assets retirement obligations		**2,301**	–
		665,418	686,049
Net assets		**2,539,055**	2,650,453
Equity			
Share capital	*13*	**340,826**	198,697
Reserves		**2,206,714**	1,520,691
Consideration shares to be issued		**–**	932,591
Equity attributable to owners of the Company		**2,547,540**	2,651,979
Non-controlling interests		**(8,485)**	(1,526)
Total equity		**2,539,055**	2,650,453

NOTES:

1. 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 individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The consolidated financial statements have been prepared on the historical cost basis except for buildings which are stated at fair values less accumulated depreciation and any impairment losses.

The significant accounting policies that have been used in the preparation of the consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010, except that the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2011:

HKAS 24 (Revised)	Related Party Disclosures
Various	Improvements to HKFRSs 2010

The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

At the date of authorisation of the consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012.

2. SEGMENT INFORMATION

The Group has identified the following reportable segments:

(a) Logistics and related services – provision of logistic business and related services, which had been discontinued during last year;

(b) Plastic recycling – procuring, processing and sales of recycling materials; and

(c) Oil and gas sales – exploring, exploiting, and sales of natural gas and oil.

2011

	Continuing operations		
	Plastic recycling *HK$'000*	**Oil and gas sales** *HK$'000*	**Total** *HK$'000*
Segment revenue	**487,922**	**7,479**	**495,401**
Segment loss	**(23,485)**	**(113,960)**	**(137,445)**
Gain on disposal of available-for-sale investments			**85,178**
Unallocated income			**15,530**
Equity-settled share option expenses			**(7,104)**
Finance costs			**(27)**
Unallocated expenses			**(47,404)**
Loss before tax			**(91,272)**
Income tax credit			**25,109**
Loss for the year			**(66,163)**
Segment assets	**62,530**	**2,805,128**	**2,867,658**
Deferred tax assets			**7,381**
Unallocated assets			**343,070**
Total assets			**3,218,109**
Segment liabilities	**6,704**	**5,109**	**11,813**
Deferred tax liabilities			**663,117**
Unallocated liabilities			**4,124**
Total liabilities			**679,054**
Capital expenditure	**–**	**33,947**	
Depreciation, depletion and amortisation	**329**	**2,427**	
Impairment loss on goodwill	**23,408**	**–**	
Impairment loss on intangible assets	**–**	**110,334**	

2010

	Continuing operations		Discontinued operation	
	Plastic recycling	Oil and gas sales	Logistics and related services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	555,196	46	–	555,242
Segment (loss)/profit	(78,610)	(14,318)	36	(92,892)
Net gain on disposal of subsidiaries				54,884
Gain on bargain purchase				604,703
Unallocated income				3,252
Equity-settled share option expenses				(39,966)
Write-off of assets on liquidation of a subsidiary				(126,513)
Unallocated expenses				(16,608)
Finance costs				(53)
Profit before tax				386,807
Income tax credit				4,703
Profit for the year				391,510
Segment assets	91,846	2,734,077	–	2,825,923
Deferred tax assets				5,204
Unallocated assets				526,761
Total assets				3,357,888
Segment liabilities	12,410	2,606	–	15,016
Deferred tax liabilities				686,049
Unallocated liabilities				6,370
Total liabilities				707,435
Capital expenditure	920	46,371	–	
Depreciation	2,884	–	–	
Impairment loss on goodwill	27,943	–	–	

The Group's revenue from external customers and its non-current assets (other than deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**487,922**	553,636	**11,400**	35,293
France	**–**	1,560	**–**	–
United States of America ("USA")	**7,479**	46	**2,788,578**	2,670,765
	495,401	555,242	**2,799,978**	2,706,058

The geographical location of customers is based on the location at which the goods delivered. The geographical location of the non-current assets is based on physical location of the asset.

The Group's customer base includes one (2010: one) customer with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to this customer amounted to HK$104,301,000 (2010: HK$73,342,000).

3. REVENUE

Revenue, which is also the Group's turnover, represents sales of recycling materials and sales of natural gas and oil during the year:

	2011	2010
	HK$'000	*HK$'000*
Sales of plastic recycling materials	**487,922**	555,196
Sales of oil and natural gas	**7,479**	46
Total revenue	**495,401**	555,242

4. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	**30**	14
Other loan interest income	**9,265**	3,146
Compensation from settlement of litigations	**3,769**	–
Others	**2,466**	92
Total other income	**15,530**	3,252

5. (LOSS)/PROFIT BEFORE TAX

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

	2011	2010
	HK$'000	*HK$'000*
Depreciation, depletion and amortisation	**2,995**	3,118
Operating lease charges in respect of land and buildings	**3,833**	4,131
Auditors' remuneration:		
– Annual audit	**1,300**	980
– Other assurance services	**30**	760
Exchange losses, net	**655**	775
Impairment loss on intangible assets	**110,334**	–
Impairment loss on goodwill	**23,408**	27,943
Gain on disposal of available-for-sale investments	**(85,178)**	–
Net gain on disposal of subsidiaries	**–**	(54,884)
Write-off of assets on liquidation of a subsidiary	**–**	126,513
Gain on bargain purchase	**–**	(604,703)

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**27**	3
Bank overdraft interest	**–**	35
Interest on other loans	**–**	15
	27	53

7. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2011	2010
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**–**	501
Deferred tax	**(25,109)**	(5,204)
Total income tax credit	**(25,109)**	(4,703)

8. DIVIDENDS

(a) Dividends attributable to the year

	2011	2010
	HK$'000	*HK$'000*
Proposed final dividend of HK Nil cents (2010: HK2 cents) per ordinary share	**–**	39,739

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2011.

A final dividend in respect of year 2010 of 2 cents per share, totalling approximately HK$39,739,000 are declared. These final dividends have not been included as liabilities in the consolidated financial statements.

On 31 March 2011, the directors recommended a bonus issue of shares on the basis of one bonus share for every five existing ordinary shares. The bonus issue of shares was approved by the shareholders at the annual general meeting and the share capital of the Company was increased by HK$56,804,000 by capitalising the share premium during the year ended 31 December 2011.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2011	2010
	HK$'000	*HK$'000*
Final dividend in respect of previous year of HK2 cents (2010: Nil) per ordinary share	**56,804**	–

9. (LOSS)/EARNINGS PER SHARE

(a) From continuing and discontinued operations:

	2011	2010
	HK$'000	*HK$'000*
(Loss)/Earnings		
(Loss)/Profit for the year attributable to owners of the Company	**(59,204)**	423,195

	2011	2010
	'000	*'000*
		(restated)
Number of shares		
Weighted average number of ordinary shares in issue used in basic earnings per share calculation	**3,026,953**	1,858,466
Effect of dilutive potential ordinary shares:		
Share options	**–**	15,412
Warrants	**–**	7,541
	3,026,953	1,881,419

(b) From continuing operations:

	2011	2010
	HK$'000	*HK$'000*
(Loss)/Earnings		
(Loss)/Profit for the year attributable to owners of the Company	**(59,204)**	423,159

	2011	2010
	'000	*'000*
		(restated)
Number of shares		
Weighted average number of ordinary shares in issue used in basic earnings per share calculation	**3,026,953**	1,858,466
Effect of dilutive potential ordinary shares:		
Share options	**–**	15,412
Warrants	**–**	7,541
	3,026,953	1,881,419

During the year ended 31 December 2011, diluted loss per share equals to basic loss per share as the potential ordinary shares were not included in the calculation of diluted loss per share because they are anti-dilutive.

The comparative figures have been restated to reflect the effect of the bonus issue of shares during the year (note 13).

10. INTANGIBLE ASSETS

	Oil and gas processing right	
	2011	2010
	HK$'000	*HK$'000*
At 1 January		
Cost	**2,624,393**	–
Accumulated amortisation and impairment	**–**	–
Net carrying amount	**2,624,393**	–
Year ended 31 December		
Opening net carrying amount	**2,624,393**	–
Acquisition through business combination	**–**	2,624,393
Addition	**194,527**	–
Amortisation	**(1,986)**	–
Impairment	**(110,334)**	–
Closing net carrying amount	**2,706,600**	2,624,393
At 31 December		
Cost	**2,818,920**	2,624,393
Accumulated amortisation and impairment	**(112,320)**	–
Closing net carrying amount	**2,706,600**	2,624,393

11. TRADE AND BILL RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**9,563**	3,357
Less: impairment	**(2,940)**	(2,985)
	6,623	372
Bill receivables	**–**	1,399
	6,623	1,771

The credit terms are generally one month. In regard to plastic recycling business, sales deposits are required to receive in advance from its customers.

Based on the invoice dates, the ageing analysis of the trade and bill receivables was as follows:

	2011	2010
	HK$'000	*HK$'000*
Less than 90 days	**6,623**	1,771

12. TRADE PAYABLES

The normal credit period granted by its suppliers is 60 days. Based on the invoice dates, the ageing analysis of the trade payables was as follows:

	2011	2010
	HK$'000	*HK$'000*
0-90 days	**3**	3,405
Over 365 days	**–**	1,097
	3	4,502

13. SHARE CAPITAL

	2011		2010	
	Number of shares		Number of shares	
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	**200,000,000**	**20,000,000**	200,000,000	20,000,000
Issued and fully paid:				
At 1 January	**1,986,969**	**198,697**	1,159,216	115,922
Issue of new shares	**–**	**–**	799,118	79,911
Issue of consideration shares	**847,810**	**84,781**	–	–
Bonus issue of shares *(note)*	**568,043**	**56,804**	–	–
Exercise of share options	**5,440**	**544**	28,635	2,864
At 31 December	**3,408,262**	**340,826**	1,986,969	198,697

Note:

Pursuant to an ordinary resolution passed in the annual general meeting on 27 May 2011, one bonus share was issued for every existing five shares held by shareholders. The bonus shares rank pari passu with existing shares in all respects but they did not rank for the final dividend recommended by the Company in respect of the year ended 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2011 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK$510,931,000 (2010: HK$558,494,000) mainly from the processing and sales of plastic recycling materials operation by China Environmental Resources Limited, which is 60% owned by the Group. Basic loss per share for the Year was HK1.96 cents (2010: restated basic earnings per share HK22.77 cents). Loss per share was based on the weighted average of 3,027 million shares in issue in the Year.

The gross profit was HK$12,136,000 (2010: restated HK$11,860,000) for the Year, which represented an increase of approximately 2.3% over last year and the gross profit margin has increased from 2.1% to 2.4%.

The Group recorded a gain on disposal of available-for-sale investments totalling HK$85,178,000 (2010: Nil) due to the receipt of proceeds from disposal of equity investment in China Coal Energy Holdings Limited ("China Coal") during the Year.

The loss attributable to the owners of the Company for the Year was HK$59,204,000 (2010: profit attributable to owners of the Company was HK$423,195,000), mainly due to the changes in fair value of HK$110,334,000 on ownership interest in the Utah Gas and Oil Field during the Year. 2010 profit attributable to owners of the Company mainly contributed from the gain on bargain purchase $604,703,000.

BUSINESS REVIEW

Oil and Gas Business

The Group has completed the Phase 2 acquisition, i.e. the remaining 30% Ownership Interest of the Utah Gas and Oil Field in March 2011 and therefore the Group now owns 100% Ownership Interest of the Utah Gas and Oil Field.

There are three (3) shale gas producing wells in the Utah Gas and Oil Field with daily gas production of around 250 thousand cubic feet which is being sold to Anadarko's or Questar's midstream operations.

Green River Oil Formation was found in 2010 while discovering Wasatch gas. The Utah Gas and Oil Field has started oil production since June 2011. Plains All American Pipeline, L.P., USA is the purchaser to collect Group's crude oil produced in the Utah Gas and Oil Field.

Plastic Recycling Industry

Plastic recycling material operations contributed over 98% of the Group's consolidated revenue during the Year. The consolidated turnover of sales of recycling materials decreased from HK$555,196,000 in 2010 to HK$487,922,000 during the Year, representing a decrease of 12%. The decrease in turnover was mainly due to the adverse changes in the recycling materials trading market resulting from the intense competition and the customers resistance to price increases in 2011.

OPERATION REVIEW AND UPDATE ON RESERVES

During the Year, no exploration activity had taken place. The Group utilized the reliable and professional local oil field services company in Utah, on one hand, drilling of two (2) new wells for the development of yield oil in shallow pay zone at a depth of around 2,700 to 4,000 feet of Green River Formation and on the other hand for gas pay zone at depth of around 6,000 feet of Wasatch formation. Five (5) wells were under working over and completion.

The Utah Gas and Oil Field has obtained constant and durable oil and gas productions since June 2011 till up to now.

The expenditure incurred on the development and mining production activities during the Year were approximately US$5,070,000 (equivalent to approximately HK$39,547,000) in aggregate.

During the Year, a total of 10,047 Bbls crude oil and 82,702 Mcf gas was produced from the Utah Gas and Oil Field.

According to the independent technical expert report prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers, the total net probable and possible reserves of the Utah Gas and Oil Field as at 24 May 2010 ("the ITR") were estimated to be:

Oil & Condensate	1,857,600 barrels
Natural gas	454,518,000 Mcf

To the best of the Company's knowledge, as at 31 December 2011, there was no material difference on the reserves of the Utah Gas and Oil Field from those reported in the ITR.

In addition, the gross prospective oil resources from the Green River Formation as at 31 December 2011 have been estimated to be around 400,000 barrels. These estimates are based on resource definitions from the Society of Petroleum Engineers : Petroleum Resources Management System (PRMS), March 2007.

SETTLEMENT OF LITIGATIONS

(a) On 31 July 2010, the Company entered into a settlement agreement (the "Settlement Agreement") with Mr. Zhang Jingyuan ("Mr. Zhang"), the joint venture party, to withdraw all legal claims against any parties to those litigations in Hong Kong and Mainland China and to dispose of 55.11% equity interest of China Coal to Mr. Zhang. Upon completion of the disposal, the Company will have an aggregate net proceeds of HK$164.36 million to be received by instalments within 2 years. As a full provision of impairment loss in respect of China Coal has been made before, therefore, the disposal of equity interest of China Coal will bring a considerable amount of non-recurring gain to the Company. Up to the date hereof, the net proceeds from the first, second and third instalments of payment of HK$113.26 million in aggregate have been received by the Company pursuant to the Settlement Agreement.

On 12 March 2012, the Company entered into a Supplemental Settlement agreement (the "Supplemental Settlement Agreement") with Mr. Zhang. Pursuant to the Supplement Settlement Agreement, Mr. Zhang and the Company have agreed to amend the payment dates for the Fourth and the Fifth instalments on or before 10 May 2012.

The entering into the Settlement Agreement and the Supplemental Settlement Agreement allow the Company to have considerable proceeds which are not only beneficial to strengthen financial capability of the Group, but also for Management to focus its energy and resources on developing oil and gas core business at full speed.

(b) Grand Ascend Investments Limited ("Grand Asend"), a wholly owned subsidiary of the Company issued an indorsement of claim on 27 October 2009 at the High Court of Hong Kong against Laurent Kim and Ung Phong as guarantors for damages in the sum of approximately Euro 9.83 million as a result of their breaches of profit guarantee under the agreement dated 29 July 2006 between them and Grand Ascend. In addition, Grand Ascend claimed against them and Christine Tran Kim, wife of Laurent Kim for an order of declarations that:–

(i) Laurent Kim is the sole beneficial owner of 5,000,000 shares (the "Shares") in the Company registered in the name of Christine Tran Kim which have been issued by the Company as part of the consideration for the Group's acquisition of 50% shares in Euro Resources China Limited in 2007;

(ii) Grand Ascend is entitled to levy execution of judgment to be obtained on the Shares.

On 11 August, 2011, the Group successfully obtained a judgment together with legal costs from the High Court of Hong Kong for a declaration that Laurent Kim is the sole beneficial owner of 6,000,000 ordinary shares (of which included 1,000,000 bonus shares issued by the Company on 9 June 2011) in the Company registered in the name of Kim Tran Christine.

The Group has already obtained a charging order absolute on these 6,000,000 ordinary shares in March 2012 and will proceed to levy execution thereon as soon as practicable in respect of the judgment that the Group has obtained for a sum of Euro 9,833,000 (equivalent to approximately HK$98,800,000) together with interest payable by Laurent Kim.

PROSPECTS

China's high demands for overseas oil

According to Energy Information Administration ("EIA") of USA, China produces over 4 million Bbls of crude oil every day, making it the fifth largest oil-producing country in the world by volume. However, China is still the second largest oil-consuming country just after the United States and consumes over 9 million Bbls each day, meaning that over 55% of China's oil consumption depends on external supply. In other words, China's oil resources are not self-sufficient and largely affected by the peripheral region.

China's intention to expand oil reserves

In terms of energy, although coal accounts for 70% of energy consumption in China, we cannot ignore the importance of oil, which significantly affects nearly all products. At present, oil reserves in the Mainland China are only enough for one month of consumption, which is far under the international standard of 90 days and therefore are in dire need of improvement in future. Oil is so important that money cannot buy when a crisis occurs.

In a long-term view, it is estimated that oil would be used out in about 40 years. Its decreasing nature will only keep pushing prices up.

Prospects of natural gas

At its recently held Energy Economy Press Conference, National Energy Administration of China stated that at the time of energy restructuring, traditional energies have to make way for new energies; China's energy strategy during the "twelfth five-year plan" period has already shifted from keeping supply to controlling the total consumption of energies; and the control on total energy consumption in a reasonable manner has been written into the proposals for the "twelfth five-year plan" period. In 2012, coal consumption will be affected by such macro-control policy, especially the development objective for renewable energies and such tasks as energy saving and waste reduction during the "twelfth five-year plan" period, which would slow down the growth of coal demand. Driven by relevant policies, the consumption of traditional fossil energies such as coal, electricity and oil will be curbed to a certain extent. On the other hand, the consumption of natural gas will maintain rapid growth.

National Energy Administration of China disclosed that the Central government has already prepared the "twelfth five-year plan" for shale gas. Shale gas is a major component of China's energy strategic plan. China will formulate the policies for the shale gas industry with clear entry requirements and standards stated, thus forming a development situation with orderly competition for shale gas. China will also strengthen its support to the policies so as to promote the rapid development of the shale gas industry.

In addition, China will perform the resources assessment work properly to thoroughly investigate the reserve of shale gas in China, and put more effort in scientific research to develop a shale gas exploration and development technology suitable for the geographic conditions in China, as well as achieving self-production and manufacture of major machineries for shale gas.

Shale gas is a kind of natural gas extracted from the shale bed and is a major component of non-conventional natural gas. China's recoverable resource reserves of shale gas is approximately 26 trillion cubic metres, which is more or less the same as the United States.

After the nuclear crisis happened in Japan in March 2011, natural gas is considered as the best alternative to nuclear power. Because natural gas, as well as nuclear power, is a clean energy with little greenhouse gas emission and air pollution as well as a short lead time. Besides, the recent years have witnessed aggressive efforts by many countries in the development of unconventional natural gas.

In addition, on 7 July 2011, the Environmental Protection Agency (EPA) of USA released the Cross-State Air Pollution Rule, an addendum to the Clean Air Act, with the goal of reducing sulfur dioxide (SO_2) and nitrogen oxide (NO_X) emissions from power plants. The required emissions reductions would take effect in 2012 and impact more than 1,000 power plants in 27 eastern states of USA. Based on these estimates, using EPA's Continuous Emissions Monitoring System (CEMS) data, analysts have estimated that gas demand from power would increase 35% by 2014. CEMS covers 97% of all oil, coal and natural gas-fired power generators across the USA. Accordingly, the ruling may force coal-fired power units to either be retired or converted to burn natural gas. To sum up, despite the recent fall of natural gas price, the medium and long term, outlook for natural gas remain positive.

OUTLOOK

The Board believes that, given the commencement of oil production of the Group's Utah Gas and Oil Field, the Group will actively expand its portfolio of oil assets substantially through mergers and acquisitions so as to enhance the development potential of the Company.

LITIGATION

On 4 August 2011, an originating summons (the "Summons") was delivered to management of the Company. The Summons have been taken out against the Company by Dransfield Holdings Limited (in liquidation) ("DHL"), a subsidiary which has been disposed of by the Group in around July 2005.

By the Summons, DHL alleged that the then intra-group transfer of the entire share capital of Good Value Holdings Limited (a former subsidiary of the Company) in around August 2003 was an unfair preference of the Company and was invalid and DHL claimed against the Company for a sum of RMB93,000,000.

Reference is made to the Company's announcement dated 23 August 2005 in respect of a legal action instituted by Horace Yao Yee Cheung, Habile International Holdings Limited and Makdavy Holding Limited (the "Previous Legal Action"). The subject matters of the Previous Legal Action have happened before the existing Board of Directors which was formed in May 2006. The Company has successfully appealed against a judgment regarding the Previous Legal Action as announced by the Company on 13 April 2010.

The subject matters of the Summons appear to be substantially the same and/or closely related to as those of the Previous Legal Action.

The Company has been advised by its legal advisers that the Summons and the claims therein were unfounded and will be stringently defended by the Company.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances it operations with issue of news shares and internally generated resources. At the Year end date, the Group did not have any borrowings (2010: Nil). Furthermore, the Group's cash and bank balances as at 31 December 2011 have decreased to approximately HK$169 million from HK$375 million as at 31 December 2010 as a result of the payment for acquisition of 30% Ownership Interest in the Utah Gas and Oil Field amounted to approximately HK$195 million in March 2011 and the receipt of further instalments of consideration for the disposal of equity interests in China Coal of HK$85,178,000 in aggregate (net proceeds after 3% expenses payable) from Mr. Zhang in February 2011 and June 2011. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 30.12 as at 31 December 2011 (31 December 2010: 30.24).

Due to the capital flooded in the banking system of Hong Kong, the interest rate of saving deposit has been remaining at a very low level for a long period, the Group has safe short-term loan receivables with an average interest rate of 5.33% per annum totalling HK$175,000,000, which the Group could enjoy higher interest earnings. Together with the cash and bank balances of HK$169,000,000 as abovementioned, the disposable cash reserves of the Group is HK$344,000,000, and will be used as working capital of the Group and/or for acquisitions of new oil projects.

Moreover, on 12 March 2012, the Group had entered a Supplemental Settlement Agreement with Mr. Zhang and we expect the Group will early receive proceeds of around HK$50,000,000 on or before 10 May 2012.

During the Year, the Group conducted its business transactions principally in US dollars, Renminbi, Euro and Hong Kong dollars, or in the local currencies of the operating subsidiaries. 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, Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the number of employees of the Group was about 60 (2010: 60). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and travelling allowances and discretionary bonuses.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises three executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Dr. Lew Mon Hung and Mr. Cheung Kwok Yu; two non-executive Directors, namely Mr. Baiseitov Bakhytbek and Mr. Chen Ping; and three independent non-executive Directors, namely Mr. Wang Tong Sai, Mr. Yu Jianmeng, and Mr. Lam Ka Wai, Graham.

On behalf of the Board
Pearl Oriental Oil Limited
Cheung Kwok Yu
Executive Director and Company Secretary

Hong Kong, 30 March 2012

* *For identification purpose only*