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東方明珠石油有限公司*

Pearl Oriental Oil Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

INTERIM RESULTS ANNOUNCEMENT 2014

The board (the “Board”) of directors (the “Directors”) of Pearl Oriental Oil Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2014 (the “Period”) together with comparative figures for the previous corresponding period. The interim results have not been audited but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue			
Sales of oil and natural gas	3	1,558	1,730
Sales of plastic recycling materials	3	89,518	229,933
Other income		398	963
		91,474	232,626
Expenses			
Cost of sales of plastic recycling materials		88,623	224,326
Exploration, repair and maintenance expenses		1,210	627
Depreciation, depletion and amortisation		472	866
Selling, marketing and distribution costs		187	632
Other operating expenses		850	1,565
Administrative expenses		22,555	31,253
Equity-settled share option expenses		—	26,567
		113,897	285,836

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Notes			
	Loss from operations	(22,423)	(53,210)
	Gain on deconsolidation of a subsidiary	423	—
	Impairment loss on loan receivables	—	(1,752)
	Unrealised loss in financial assets at fair value through profit or loss	(5,904)	(29,283)
		<u></u>	<u></u>
	Loss before tax	(27,904)	(84,245)
	Income tax credit	1,227	1,077
		<u></u>	<u></u>
	Loss and total comprehensive loss for the period	(26,677)	(83,168)
		<u></u>	<u></u>
	Attributable to:		
	Owners of the Company	(25,806)	(82,989)
	Non-controlling interests	(871)	(179)
		<u></u>	<u></u>
		(26,677)	(83,168)
		<u></u>	<u></u>
	Loss per share attributable to owners of the Company		
	— Basic (<i>HK cents</i>)	(0.80)	(2.49)
		<u></u>	<u></u>
	— Diluted (<i>HK cents</i>)	(0.80)	(2.49)
		<u></u>	<u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment		89,465	89,955
Intangible assets	8	2,307,812	2,308,064
Loan receivables		5,756	5,756
Deferred tax assets		12,510	11,345
Total non-current assets		2,415,543	2,415,120
Current assets			
Financial assets at fair value through profit or loss	9	18,855	47,669
Prepayments, deposits and other receivables		138,028	144,931
Bank balances and cash		8,725	1,180
Total current assets		165,608	193,780
Current liabilities			
Trade payables	10	558	5
Other payables and accruals		18,486	19,692
Total current liabilities		19,044	19,697
Net current assets		146,564	174,083
Total assets less current liabilities		2,562,107	2,589,203
Non-current liabilities			
Deferred tax liabilities		565,414	565,476
Assets retirement obligations		3,579	3,579
Total non-current liabilities		568,993	569,055
NET ASSETS		1,993,114	2,020,148

		At 30 June 2014 (Unaudited) <i>HK\$'000</i>	At 31 December 2013 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Equity			
Share capital	11	324,152	324,152
Reserves		<u>1,673,771</u>	<u>1,699,934</u>
Equity attributable to owners of the Company		1,997,923	2,024,086
Non-controlling interests		<u>(4,809)</u>	<u>(3,938)</u>
TOTAL EQUITY		<u>1,993,114</u>	<u>2,020,148</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Group's unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013.

2. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis except certain financial instruments that are measured at fair values.

The accounting policies used in the preparation of these unaudited condensed consolidated financial statements are the same as those used in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("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 2014.

The adoption of the new or amended HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods.

3. SEGMENT INFORMATION

The Group has identified the following reportable segments:

- (a) Plastic recycling materials — procuring, processing and sales of recycling materials; and
- (b) Oil and gas sales — exploring, exploiting and sales of oil and natural gas.

	Segment revenue		Segment (loss)/profit from operations	
	Six months ended 30 June 2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	Six months ended 30 June 2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Sales of plastic recycling materials	89,518	229,933	(3,152)	381
Sales of oil and natural gas	1,558	1,730	(3,169)	(2,077)
	<u>91,076</u>	<u>231,663</u>		
Equity-settled share options expenses			—	(26,567)
Unallocated expenses			(16,102)	(24,947)
Loss from operations			(22,423)	(53,210)
Gain on deconsolidation of a subsidiary			423	—
Impairment loss on loan receivables			—	(1,752)
Unrealised loss in financial assets at fair value through profit or loss			(5,904)	(29,283)
Loss before tax			<u>(27,904)</u>	<u>(84,245)</u>

	As at 30 June 2014 (Unaudited)			As at 31 December 2013 (Audited)		
	Plastic recycling materials <i>HK\$'000</i>	Oil and gas <i>HK\$'000</i>	Total <i>HK\$'000</i>	Plastic recycling materials <i>HK\$'000</i>	Oil and gas <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	48,591	2,401,333	2,449,924	49,516	2,402,290	2,451,806
Deferred tax assets			12,510			11,345
Unallocated assets			118,717			145,749
Total assets			<u>2,581,151</u>			<u>2,608,900</u>
Segment liabilities	8,959	5,796	14,755	6,731	3,584	10,315
Deferred tax liabilities			565,414			565,476
Unallocated liabilities			7,868			12,961
Total liabilities			<u>588,037</u>			<u>588,752</u>

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	
	Six months ended 30 June		At 30 June	At 31 December
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong (place of domicile)	89,518	229,933	6,674	6,944
United States of America	1,558	1,730	2,396,359	2,396,831
	<u>91,076</u>	<u>231,663</u>	<u>2,403,033</u>	<u>2,403,775</u>

4. LOSS BEFORE TAX

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group's loss before tax is arrived at after charging:		
Depreciation, depletion and amortization	748	866
Exchange losses, net	—	625
Operating lease charges in respect of land and buildings	3,123	3,125
Impairment loss on loan receivables	—	1,752
Unrealised loss in financial assets at fair value through profit or loss	5,904	29,283
Equity settled share option expenses	—	26,567

5. INCOME TAX CREDIT

	Six months ended 30 June	
	2014	2013
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current tax — Hong Kong Profits Tax	—	—
Deferred Tax	1,227	1,077
	<u>1,227</u>	<u>1,077</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the period (2012: Nil).

7. LOSS PER SHARE

(i) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$25,806,000 (2013: profit HK\$82,989,000) and the weighted average number of ordinary shares of 3,241,520,000 (2013: 3,337,860,000) in issue during the period.

(ii) Diluted loss per share

During the period ended 30 June 2014 and 2013, 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.

8. INTANGIBLE ASSETS

**Oil and gas
processing
rights**
HK\$'000

Cost

At 1 January 2013, at 31 December 2013 and at 30 June 2014	2,818,920
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Accumulated amortisation and impairment

At 1 January 2013	510,120
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Amortisation for the year	736
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At 31 December 2013 and at 1 January 2014	510,856
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Amortisation for the period	252
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At 30 June 2014	511,108
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Net carrying amounts

At 30 June 2014	2,307,812
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At 31 December 2013	2,308,064
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The intangible assets represents oil and gas processing rights in Utah, the United States of America. 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.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

At 30 June 2014 (Unaudited) <i>HK\$'000</i>	At 31 December 2013 (Audited) <i>HK\$'000</i>
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At fair value:

Listed securities held for trading

— Listed in Hong Kong	18,855	47,669
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10. TRADE PAYABLES

Based on invoice dates, the ageing analysis of trade payables is as follows:

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Less than 90 days	<u>558</u>	<u>5</u>

11. SHARE CAPITAL

	Authorized ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
	<i>'000</i>	<i>HK\$'000</i>
At 31 December 2013, at 1 January 2014 and at 30 June 2014	<u>200,000,000</u>	<u>20,000,000</u>
	Issued and fully paid ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
	<i>'000</i>	<i>HK\$'000</i>
At 31 December 2013, at 1 January 2014 and at 30 June 2014	<u>3,241,520</u>	<u>324,152</u>

12. CAPITAL COMMITMENT

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Authorized but not contracted for:		
Proposed acquisition of a subsidiary	<u>9,360</u>	<u>9,512</u>

MANAGEMENT DISCUSSION & ANALYSIS

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2014 (the “Period”), the Group recorded a consolidated turnover of HK\$91,076,000 (2013: HK\$231,663,000), and the loss attributable to the owners of the Company for the Period amounted to HK\$25,806,000 (2013: HK\$82,989,000). Basic loss per share for the Period was HK0.80 cents (2013: HK2.49 cents). Loss per share was based on the weighted average of 3,241.52 million of shares in issue in first half of 2014.

The consolidated turnover was mainly contributed from the sales of oil and gas and sales of plastic recycling materials operations. Gross profit decreased from HK\$6,156,000 in 2013 to HK\$771,000 for the Period, which is mainly due to highly competitive plastic materials market environment and the gross profit margin was 0.8% (2013: 2.7%).

Loss for the Period was HK\$26,677,000 (2013: HK\$83,168,000). The decrease was mainly due to lack of equity-settled share option expenses, decrease in staff costs and legal and professional fee in the Period.

In March 2013, settlement agreements have been entered into between the Company and certain debtors (the “Settlement Agreements”). Pursuant to the Settlement Agreements, the debtors have agreed to irrevocably surrender and deliver the pledged Shares to the Company. During the Period, 100,000,000 pledged Shares have been sold and the net proceeds of HK\$22.9 million have been applied towards the general working capital of the Group.

BUSINESS REVIEW

Plastic Recycling Business

In view of strict requirements for environmental protection in the People’s Republic of China, a highly competitive plastic materials market and volatile price fluctuation, years of continuing loss making and to reduce its operational cost, the Group, while seeking to dispose of this business, has scaled down the operation, and may consider to act as an agent for trading business of plastic recycling materials instead.

The turnover of sales of plastic recycling materials decreased to HK\$89,518,000 during the Period from HK\$229,933,000, representing a drop of 61%.

Oil and Gas Business

The Group 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 gas production of around 7,151 thousand cubic feet in the first half of 2014 which is being sold to Anadarko’s midstream operations and other purchasers. On the other hand, there are two (2) oil producing wells with oil production of around 1,953 barrels during the Period. Plains All American Pipeline, L.P., USA is the purchaser to collect the Group’s crude oil produced in the Utah Gas and Oil Field.

EXPENDITURES INCURRED ON OIL & GAS PRODUCTION ACTIVITIES

During the Period, no exploration activity had taken place. The expenditures incurred on the development and mining production activities during the Period were approximately HK\$3.7 million in aggregate.

There was constant and durable oil and gas production in the Utah Gas and Oil Field during the Period.

PROSPECTS

The increase in natural gas price in the U.S., especially in early 2014, provides an optimistic outlook for the medium and long term development of natural gas, and Management will make appropriate adjustments to the development strategies in the future in response to the favorable changes in natural gas price in U.S.

In order to enhance the operation efficiency, the Group has taken up operations of Utah Gas and Oil Field in April 2014. In other words, the oil and gas field is now under directly operated by the operational and technical team of the Company, which is more favorable to control the operation costs, accumulate operation experience of the Utah Gas and Oil Field and possibly to increase return in future.

In addition, a petrophysical study relating to Utah Gas and Oil Field has been conducted recently by independent professional engineers. The study shows that some new oil and gas pay zones have been identified in the Utah Gas and Oil Field, positively indicating certain new potentials of the field subject to further confirmation by perforating and fracturing on the existing wells.

Looking forward, the trend of natural gas market remains positive. The Company will continuously evaluate the situation and consider plans to cooperate with strategic partners to raise funds for properly expediting development progress of the Utah Gas and Oil Field.

According to the announcements of the Company dated 28 June 2013, 15 October 2013, 21 December 2013 and 8 August 2014 in relation to a very substantial acquisition of the Company of part of an oil and gas exploration and production company with oil reserves mainly located in Russia (the “Target”), the Group entered into a share purchase agreement (the “S&P Agreement”) with Levant Energy Limited (the “Seller”), an independent third party, on 7 June 2013.

As the conditions precedent under the S&P Agreement had not been satisfied, the S&P Agreement was terminated in October 2013. To date, the Company has received US\$500,000 out of the initial consideration paid to the Seller under the S&P Agreement, in the amount of US\$10,000,000 less an amount equal to the costs and expenses of the Seller referred in the S&P Agreement. Management has been discussing with the Seller regarding the repayment of the remaining sum being US\$9,500,000 less the said costs and expenses (the “Net Initial Consideration”).

The Company shall take the best course of action, including but not limited to, and subject to further legal, financial and operational due diligence on the Target, considering to retain certain equity interest in the Target as a means of recovering the Net Initial Consideration.

The Seller has also indicated their interest in engaging the Company to seek other investors for the Target. Management has, in fact, commenced discussions with certain Chinese state owned enterprises with the view for them either joining the Company or directly themselves investing into the Target. The Company believes that such cooperation on appropriate terms can be beneficial to the Shareholders of the Company as a whole.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of new shares and internally generated resources. At the Period end date, the Group did not have any bank borrowings (2013: Nil). The Group's cash and bank balances as at 30 June 2014 have increased to approximately HK\$8.7 from HK\$1.2 million as at 31 December 2013, mainly as a result of sale of 100,000,000 Shares pledged to the Company. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 8.70 as at 30 June 2014 (31 December 2013: 9.84).

During the Period, the Group conducted its business transactions principally in US dollars, Renminbi 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 30 June 2014, the number of employees of the Group was approximately 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

During the Period, the Company has sold 100,000,000 shares pledged to the Company at HK\$0.25 per share.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Period.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, the Company has complied throughout the Period with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Lam Kwan (Chairman of the Audit Committee), Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and has reviewed the unaudited interim results for the six months ended 30 June 2014.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The electronic version of this announcement is published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and on the Company's website (<http://www.pearloriental.com>). The interim report for the period ended 30 June 2014, containing all the information required by the Listing Rules, will be despatched to the shareholders of the Company and published on the website of the Stock Exchange and on the Company's website in due course.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises four executive Directors, namely, Mr. Wong Yuk Kwan (alias: Wong Kwan), Mr. Law Wing Tak, Jack, Mr. Wong Hiu Tung and Mr. Zhou Li Yang; one non-executive Director, namely, Mr. Baiseitov Bakhytbek; and three independent non-executive Directors, namely, Mr. Lam Kwan, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine.

By Order of the Board
Pearl Oriental Oil Limited
Law Wing Tak, Jack
Executive Director and Chief Executive Officer

Hong Kong, 29 August 2014

* *For identification purpose only*