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# 東方明珠石油有限公司\*

## Pearl Oriental Oil Limited

(the “Company”)

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

### RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME For the year ended 31 December 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Restated)
<b>Continuing operations</b>			
<b>Revenue</b>			
Sales of oil and natural gas	6	<b>518</b>	889
Other income	7	<b>7,668</b>	310
		<u><b>8,186</b></u>	<u>1,199</u>
<b>Expenses</b>			
Exploration, repair and maintenance expenses of oil and natural gas		<b>806</b>	1,624
Depreciation, depletion and amortisation of oil and natural gas		<b>338</b>	634
Selling, marketing and distribution costs		<b>15</b>	54
Other operating expenses		<b>294</b>	475
Administrative expenses		<b>23,501</b>	26,357
		<u><b>24,954</b></u>	<u>29,144</u>

\* For identification purpose only

	<i>Notes</i>	<b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i> (Restated)
<b>Loss from operations</b>		<b>(16,768)</b>	(27,945)
Finance costs	8	<b>(2,615)</b>	(1,041)
Gain on disposal of property, plant and equipment		<b>13</b>	–
Written off of property, plant and equipment		–	(53)
Impairment loss on intangible assets		–	(1,909,456)
Reversal of impairment loss on intangible assets		<b>202,905</b>	–
Reversal of impairment loss on loan receivables		–	10,000
Realised loss in financial assets at fair value through profit or loss		–	(917)
		<hr/>	<hr/>
<b>Profit/(loss) before tax</b>	9	<b>183,535</b>	(1,929,412)
Income tax (expense)/credit	10	<b>(48,450)</b>	469,166
		<hr/>	<hr/>
Profit/(loss) for the year from continuing operations		<b>135,085</b>	(1,460,246)
<b>Discontinued operation</b>			
Loss for the year from discontinued operation	11	<b>(769)</b>	(25,954)
		<hr/>	<hr/>
<b>Profit/(loss) and total comprehensive income/(loss) for the year</b>		<b>134,316</b>	(1,486,200)
		<hr/>	<hr/>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company			
– from continuing operations		<b>132,844</b>	(1,461,623)
– from discontinued operation		<b>(769)</b>	(25,954)
		<hr/>	<hr/>
		<b>132,075</b>	(1,487,577)
		<hr/>	<hr/>
Non-controlling interests			
– from continuing operations		<b>2,241</b>	1,377
– from discontinued operation		–	–
		<hr/>	<hr/>
		<b>2,241</b>	1,377
		<hr/>	<hr/>
		<b>134,316</b>	(1,486,200)
		<hr/>	<hr/>

	<i>Notes</i>	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000 (Restated)
<b>Total comprehensive income/(loss) attributable to:</b>			
Owners of the Company			
– from continuing operations		<b>132,844</b>	(1,461,623)
– from discontinued operation		<b>(769)</b>	(25,954)
		<u><b>132,075</b></u>	<u>(1,487,577)</u>
Non-controlling interests			
– from continuing operations		<b>2,241</b>	1,377
– from discontinued operation		<u>–</u>	<u>–</u>
		<u><b>2,241</b></u>	<u>1,377</u>
		<u><b>134,316</b></u>	<u>(1,486,200)</u>
<b>Earnings/(loss) per share (HK cents) – Continuing and discontinued operations</b>			
– Basic and diluted	<i>13</i>	<u><b>4.07</b></u>	<u>(45.86)</u>
<b>Earnings/(loss) per share (HK cents) – Continuing operations</b>			
– Basic and diluted		<u><b>4.09</b></u>	<u>45.06</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>88,367</b>	88,426
Intangible assets	<i>14</i>	<b>600,600</b>	397,800
		<u><b>688,967</b></u>	<u>486,226</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables		<b>4,857</b>	7,339
Bank balances and cash		<b>4,735</b>	17,459
		<u><b>9,592</b></u>	<u>24,798</u>
<b>Current liabilities</b>			
Other payables and accruals		<b>3,469</b>	11,700
Other unsecured loan		<b>33,000</b>	20,000
		<u><b>36,469</b></u>	<u>31,700</u>
<b>Net current liabilities</b>		<u><b>(26,877)</b></u>	<u>(6,902)</u>
<b>Total assets less current liabilities</b>		<u><b>662,090</b></u>	<u>479,324</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>131,436</b>	82,986
Asset retirement obligations		<b>3,579</b>	3,579
		<u><b>135,015</b></u>	<u>86,565</u>
<b>Net assets</b>		<u><b>527,075</b></u>	<u>392,759</u>
<b>Equity</b>			
Share capital	<i>15</i>	<b>324,552</b>	324,552
Reserves		<b>222,630</b>	90,555
		<u><b>547,182</b></u>	<u>415,107</u>
Equity attributable to owners of the Company		<b>547,182</b>	415,107
Non-controlling interests		<b>(20,107)</b>	(22,348)
		<u><b>527,075</b></u>	<u>392,759</u>
<b>Total equity</b>		<u><b>527,075</b></u>	<u>392,759</u>

## **Notes to the Consolidated Financial Statements:**

*For the year ended 31 December 2016*

### **1. GENERAL INFORMATION**

Pearl Oriental Oil Limited (the “Company”) 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 Suite 2805-6, 28th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company’s parent and ultimate holding company is Charcon Assets Limited, a company incorporated in the British Virgin Islands.

The principal activities of the Company and its subsidiaries (the “Group”) are oil and natural gas and petroleum exploration, exploitation and production in certain natural gas and oil field located in Uinta Basin, Uintah County, Utah, the United States of America (“Utah Gas and Oil Field”).

The consolidated financial statements for the year ended 31 December 2016 were approved for issue by the board of directors on 31 March 2017.

### **2. BASIS OF PREPARATION**

These consolidated financial statements have been prepared in accordance with all applicable 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 comply with the applicable disclosures requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The Group’s current liabilities exceeded its current assets by approximately HK\$26,877,000 (2015: HK\$6,902,000). The directors are taking steps to improve the Group’s liquidity and financial performance, the largest shareholder has confirmed to provide financial assistance to the Group to meet its financial obligations as they fall due, if required.

On the basis that the Group’s operating results and cash flows will be improved through the implementation of the measures described above, the directors are satisfied that the Group will be able to meet in full its financial obligation when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis except certain financial instruments that are measured at fair values. The measurement bases are fully described in the accounting policies below.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

### **3. ADOPTION OF NEW OR AMENDED HKFRSs**

In the current year, the Group has applied a number of new and revised HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2016:

Amendments to HKFRSs	Annual Improvements 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 14	Regulatory Deferral Accounts
HKFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
HKAS 1 (amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (amendments)	Agriculture: Bearer Plants
HKAS 27 (amendments)	Equity Method in Separate Financial Statements

The application of these new and revised HKFRSs has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early adopted the following new and revised HKFRSs that have been issued but not yet effective:

HKFRS 10 and HKAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>1</sup>
HKAS 7 (amendments)	Disclosure Initiative <sup>2</sup>
HKAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses <sup>2</sup>
HKFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions <sup>3</sup>
HKFRS 4 (amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
HKFRS 16	Leases <sup>4</sup>

<sup>1</sup> A date to be determined

<sup>2</sup> Accounting periods beginning on or after 1 January 2017

<sup>3</sup> Accounting periods beginning on or after 1 January 2018

<sup>4</sup> Accounting periods beginning on or after 1 January 2019

The group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. As the group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

##### **Estimation of oil and natural gas reserves**

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

##### **Estimation of impairment of oil and gas assets and intangible assets**

Oil and gas assets and intangible assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

##### **Estimation of asset retirement obligations**

Provision is recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provision recognised are the present values of the estimated future expenditures. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the Group.



## 5. SEGMENT INFORMATION

The Group is principally engaged in exploring, exploiting and sales of oil and natural gas. The procuring, processing and sales of plastic recycling materials were regarded as discontinued operation.

2016

	<b>Continuing operations Oil and gas sales HK\$'000</b>	<b>Discontinued operation plastic recycling materials HK\$'000</b>	<b>Total HK\$'000</b>
<b>Segment revenue</b>	<u>518</u>	<u>–</u>	<u>518</u>
<b>Segment profit/(loss)</b>	<u>201,264</u>	<u>(769)</u>	200,495
Unallocated income			7,665
Unallocated expenses			(22,792)
Finance costs			(2,615)
Gain on disposal of property, plant and equipment			<u>13</u>
Profit before tax			182,766
Income tax expense			<u>(48,450)</u>
Profit for the year			<u>134,316</u>
<b>Segment assets</b>	692,575	16	692,591
Unallocated assets			<u>5,968</u>
Total assets			<u>698,559</u>
<b>Segment liabilities</b>	5,552	–	5,552
Deferred tax liabilities			131,436
Unallocated liabilities			<u>34,496</u>
Total liabilities			<u>171,484</u>
Reversal of impairment loss on intangible assets	202,905	–	
Interest income	3	–	
Depreciation, depletion and amortisation	<u>338</u>	<u>–</u>	

2015

	Continuing operations Oil and gas sales <i>HK\$'000</i> (Restated)	Discontinued operation plastic recycling materials <i>HK\$'000</i> (Restated)	Total <i>HK\$'000</i> (Restated)
<b>Segment revenue</b>	<u>889</u>	<u>–</u>	<u>889</u>
<b>Segment loss</b>	<u>(1,911,965)</u>	<u>(25,954)</u>	(1,937,919)
Realised loss on financial assets at FVTPL			(917)
Reversal of impairment loss on loan receivables			10,000
Unallocated income			154
Unallocated expenses			(25,643)
Finance costs			<u>(1,041)</u>
Loss before tax			(1,955,366)
Income tax credit			<u>469,166</u>
Loss for the year			<u>(1,486,200)</u>
<b>Segment assets</b>	490,021	785	490,806
Unallocated assets			<u>20,218</u>
Total assets			<u>511,024</u>
<b>Segment liabilities</b>	5,520	6,011	11,531
Deferred tax liabilities			82,986
Unallocated liabilities			<u>23,748</u>
Total liabilities			<u>118,265</u>
Depreciation, depletion and amortisation	634	45	
Written off of property, plant and equipment	–	53	
Impairment loss on trade deposits paid	–	28,396	
Impairment loss on intangible assets	<u>1,909,456</u>	<u>–</u>	

The Group's revenue from external customers and its non-current assets are divided into the following geographical areas:

	Revenue from external customers		Specified non-current assets	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Continuing operations</b>				
Hong Kong (place of domicile)	–	–	<b>278</b>	101
United States of America (“USA”)	<b>518</b>	889	<b>688,689</b>	486,125
	<b>518</b>	889	<b>688,967</b>	486,226

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

The Group's customer base includes three (2015: three) customers with whom transactions have exceeded 10% of the Group's total turnover. Revenue from sales to these customers amounted to HK\$518,000 which related to oil and gas sales segment (2015: HK\$889,000).

## 6. REVENUE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Continuing operations</b>		
Sales of oil and natural gas	<b>518</b>	889
Total revenue	<b>518</b>	889

## 7. OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Restated)
<b>Continuing operations</b>		
Bank interest income	3	3
Others	<u>7,665</u>	<u>307</u>
	<b>7,668</b>	310
<b>Discontinued operation</b>		
Others	<u>–</u>	<u>2,571</u>
Total other income	<u><b>7,668</b></u>	<u>2,881</u>

## 8. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Continuing operations</b>		
Interest expenses on other unsecured loans	<u>2,615</u>	<u>1,041</u>

## 9. PROFIT/(LOSS) BEFORE TAX

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Restated)
<b>Continuing operations</b>		
Depreciation, depletion and amortisation	475	1,134
Operating lease charges in respect of land and buildings	3,530	3,942
Auditors' remuneration:		
– Annual audit	750	1,080
– Other assurance services	100	100
Impairment loss on intangible assets	–	1,909,456
Reversal of impairment loss on intangible assets	(202,905)	–
Reversal of impairment loss on loan receivables	–	(10,000)
Realised loss on financial assets at FVTPL	–	917
Employee benefit expense, including director emoluments:		
– Salaries and allowances	11,876	12,478
– Retirement scheme contributions	<u>215</u>	<u>224</u>
<b>Discontinued operation</b>		
Impairment loss on trade deposits paid	<u>–</u>	<u>28,396</u>

## 10. INCOME TAX EXPENSE/(CREDIT)

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the year (2015: Nil). 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.

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Continuing operations</b>		
Deferred tax expense/(credit) – current year	<b>48,450</b>	(469,166)

## 11. DISCONTINUED OPERATION

During the year ended 31 December 2016, the Group ceased the operation of its plastic recycling materials business. Accordingly, the operating results of the plastic recycling materials business for the year ended 31 December 2016 are presented as discontinued operation in the financial statements. The presentation of comparative information in respect of the year ended 31 December 2015 has been reclassified to conform to the current year's presentation.

### (a) Results of the discontinued operation:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Other income	–	2,571
Impairment loss on trade deposit paid	–	(28,396)
Administrative expenses	<b>(769)</b>	(129)
Loss before taxation	<b>(769)</b>	(25,954)
Income tax	–	–
Loss for the year	<b>(769)</b>	(25,954)

### (b) Cash flows of the discontinued operation

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net cash (used in)/generated from operating activities	<b>(10)</b>	14

## 12. DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

### 13. 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:

#### Continuing and discontinued operations

	2016	2015 (Restated)
Profit/(loss) for the year attributable to owners of the Company ( <i>HK\$'000</i> )	132,075	(1,487,577)
Weighted average number of ordinary shares in issue ( <i>'000</i> )	<u>3,245,520</u>	<u>3,243,755</u>
Basic earnings/(loss) per share ( <i>HK cents</i> )	<u>4.07</u>	<u>(45.86)</u>

#### Continuing operations

	2016	2015 (Restated)
Profit/(loss) for the year attributable to owners of the Company ( <i>HK\$'000</i> )	132,075	(1,487,577)
Less: Loss for the year attributable to owners of the Company from discontinued operation ( <i>HK\$'000</i> )	<u>(769)</u>	<u>(25,954)</u>
Profit/(loss) for the year attributable to owners of the Company from continuing operations ( <i>HK\$'000</i> )	132,844	(1,461,623)
Weighted average number of ordinary shares in issue ( <i>'000</i> )	<u>3,245,520</u>	<u>3,243,755</u>
Basic earnings/(loss) per share ( <i>HK cents</i> )	<u>4.09</u>	<u>(45.06)</u>

#### Discontinued operation

	2016	2015 (Restated)
Loss for the year attributable to owners of the Company from discontinued operation ( <i>HK\$'000</i> )	(769)	(25,954)
Weighted average number of ordinary shares in issue ( <i>'000</i> )	<u>3,245,520</u>	<u>3,243,755</u>
Basic loss per share ( <i>HK cents</i> )	<u>(0.0237)</u>	<u>(0.8001)</u>

## Weighted average number of ordinary shares

	<b>2016</b>	2015
	<b>'000</b>	<b>'000</b>
Issued ordinary shares at 1 January	<b>3,241,520</b>	3,241,520
Effect of shares issued under exercise of share options	<u>–</u>	<u>2,235</u>
Weighted average number of ordinary shares at 31 December	<b><u>3,241,520</u></b>	<b><u>3,243,755</u></b>

During the year ended 31 December 2016 and 31 December 2015, diluted earnings/(loss) per share equals to basic earnings/(loss) per share as the potential ordinary shares were not included in the calculation of diluted earnings/(loss) per share because they are anti-dilutive.

## 14. INTANGIBLE ASSETS

	<b>Oil and gas processing rights</b>
	<i>HK\$'000</i>
<b>Cost</b>	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	<u>2,818,920</u>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2015	511,256
Amortisation for the year	408
Impairment for the year	<u>1,909,456</u>
At 31 December 2015 and 1 January 2016	2,421,120
Amortisation for the year	105
Reversal of impairment for the year	<u>(202,905)</u>
<b>At 31 December 2016</b>	<u>2,218,320</u>
<b>Net carrying amounts</b>	
<b>At 31 December 2016</b>	<b><u>600,600</u></b>
At 31 December 2015	<u>397,800</u>

## 15. SHARE CAPITAL

	2016		2015	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.1 each	<u>200,000,000</u>	<u>20,000,000</u>	200,000,000	<u>20,000,000</u>
<b>Issued and fully paid:</b>				
At 1 January	3,245,520	324,552	3,241,520	324,152
Share options exercised ( <i>Note</i> )	<u>–</u>	<u>–</u>	<u>4,000</u>	<u>400</u>
At 31 December	<u>3,245,520</u>	<u>324,552</u>	<u>3,245,520</u>	<u>324,552</u>

*Note:*

During the year ended 31 December 2015, 4,000,000 share options (which have been issued pursuant to the Company's share option scheme) were exercised at an exercise price of HK\$0.52 per share, resulting in the issue of a total of 4,000,000 new ordinary shares in the Company with an aggregate gross proceeds of HK\$3,063,000 (including an amount transferred from share option reserve of approximately HK\$983,000). The net proceeds from the exercise of the share options were HK\$2,080,000.



## **INDEPENDENT AUDITOR’S REPORT**

The following paragraphs are extracted from the Independent Auditor’s Report on the Group’s consolidated financial statements for the year ended 31 December 2016:

### **Opinion**

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 2016, and of its consolidated financial performance and its consolidated 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 (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Material uncertainty related to going concern**

We draw attention to note 2 to the consolidated financial statements, which indicates that as of 31 December 2016, the Group’s current liabilities exceeded its current assets by HK\$26,877,000. As stated in note 2, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS AND REVIEW OF OPERATIONS**

For the year ended 31 December 2016 (the “Year”), the Company and its subsidiaries (the “Group”) recorded a consolidated revenue of HK\$8,186,000 (2015: (Restated) HK\$1,199,000) mainly contributed from the sales of oil and gas and other income. Basic earnings per share for the Year was HK\$4.07 cents (2015: Loss per share HK\$45.86 cents). Earnings per share was based on the weighted average of 3,244 million shares in issue in the Year.

Gross loss for the Year amounted HK\$626,000 (2015: HK\$1,369,000), which was mainly due to relatively low crude oil and gas prices over a long term and the gross loss margin was 121% (2015: 154%).

The profit attributable to the owners of the Company for the Year was HK\$132,075,000 (2015: Loss attributable to the owners of the Company HK\$1,487,577,000), mainly attributable to the reversal of impairment loss on fair value in the Group's intangible assets amount to HK\$202,905,000, which was resulted from the recovery of gas price as well as reduced drilling and operating costs at the Utah Gas and Oil Field.

## **BUSINESS REVIEW**

### **Plastic Recycling Business**

The plastic recycling market remained in recession, mainly due to the slowing down of China's economic growth, the relatively low level of crude oil price over a long term and tightened environmental protection policy adopted by the China Government, resulting in the shrinking demand for recycled plastics and decreased price of recycled plastics. Given that there is little possibility to see any major improvement of the recycled plastic market in the foreseeable future, the Company has decided to cease the plastic recycling business after careful consideration, so as to focus the resources on oil and gas business and other possible new and profitable business opportunities.

### **Oil and Gas Business**

During the Year, the Utah Gas and Oil Field recorded gas sale of around 8,411 thousand cubic feet, which was sold to Anadarko's midstream operations and other purchasers. On the other hand, oil sale was around 1,400 barrels. 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.

## **PROSPECTS**

Oil and gas prices have rebounded from the bottom since early 2016 after a sharp drop in 2015. The oil price (WTI) and the gas price (Henry Hub) rebounded by approximately 45% and 63% respectively at the end of 2016 as compared with those at the end of 2015, but they still stayed at a relatively low level on the whole over a long term. Meanwhile, the drilling and operating costs of oil and gas have also been declining significantly from their highs in 2012.

Looking ahead in 2017, the economy of the United States is gradually recovering, and the new U.S. government is inclined to adopt policies such as expansion of infrastructure, encouraging the local manufacturing industry and providing tax cuts to further stimulate its domestic economy, all of which will be beneficial to the increase in energy demand and further recovery of oil and gas prices. As the U.S. government encourages the development of the domestic oil and gas industry, the oil and gas market environment is expected to improve continuously.

At the end of 2016, the supply cuts agreed by the Organization of the Petroleum Exporting Countries also played a role in driving up the oil price. Overall, the global supply and demand of oil and gas will continue to remain positive in 2017 and the oil and gas prices are expected to realize steady growth. Under these circumstances, reducing costs is still a key for the oil and gas operations, and this will also bring many opportunities for alliances, acquisition and mergers in the oil and gas industry.

The Company has focused its business on oil and gas exploration, production and field operations in the Utah Gas and Oil Field, which is mostly a gas field. The Utah Gas and Oil Field is located in Uintah Basin of Utah, Midwestern of the United States which has very long history and good location for oil and gas business with mature infrastructure and oilfield service facility including water, electricity, roads, pipeline network and other logistic facilities around.

In response to this overall situation, the Company will continue to focus on the strict control of operating costs and maintain normal production and operation. The Company will take advantage of the favorable condition of the significant decrease in the drilling costs and consider cooperating with deep-pocketed investors to expand the development of the Utah Gas and Oil Field, paving the way for expanding current businesses scale once the market environment improves. At the same time, the Company will explore new business opportunities, bringing new growth and momentum to the Group.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Group generally finances its operations with issue of new shares, borrowings and internally generated resources. At the Year end date, the Group had HK\$33 million other borrowings repayable within one year (2015: HK\$20 million). The Group's cash and bank balances as at 31 December 2016 have decreased to approximately HK\$5 million from HK\$17 million as at 31 December 2015. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 0.26 as at 31 December 2016 (31 December 2015: 0.78).

During the Year, the Group conducted its business transactions principally in US dollars 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.

## **SIGNIFICANT INVESTMENTS**

There were no other significant investments for the year ended 31 December 2016.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2016.

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

Save as disclosed in the “Prospects” section above, there were no future plans for material investments or capital assets.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2016, the number of employees of the Group was about 20 (2015: 20). 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.

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

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

## **PURCHASE, SALE OF REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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

## CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the “Board”) is committed to achieving high standard of corporate governance.

In the opinion of the Board, the Company has complied throughout the Year with the Corporate Governance Code as contained in Appendix 14 to the Listing Rules, save for the following:

- i) Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

The Chief Executive Officer, Mr. Law Wing Tak, Jack, resigned from the post with effect from 30 June 2015 and the position has been left vacant since his resignation. All duties of chief executive are shared between Mr. Zhou Li Yang and Mr. Wong Hiu Tung, the Executive Directors. The Company is in the process of identifying a suitable candidate to assume the role as the chief executive officer of the Company.

- ii) Code provision A.2.7 of the Corporate Governance Code stipulates that the chairman should at least annually hold meetings with the non-executive directors (including independent non- executive directors) without the executive directors present. Nevertheless, from time to time, the non-executive directors of the Company express their views directly to the Chairlady via other means including correspondences and emails. The Company is of the view that there is efficient communication between the non-executive directors and the Chairlady; and
- iii) Code provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meetings. He should invite the chairman of the audit, remuneration, nomination committee and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Mr. Wong Kwan, the ex-chairman of the Company and the ex-chairman of the Nomination Committee of the Company, did not attend the 2016 AGM, due to his need for medical treatment overseas. Mr. Lam Kwan, the then chairman of each of the Audit Committee and the Remuneration Committee did not attend the 2016 AGM due to his own official engagement. However, arrangements including the attendance of other members of the Board had been in place to ensure the AGM was in order.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

For determining the qualification as members of the Company to attend and vote at the 2017 Annual General Meeting (the “AGM”), the register of members of the Company will be closed from Thursday, 11 May 2017 to Tuesday, 16 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificate(s) and transfer form(s) must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 10 May 2017.

## **BOARD OF DIRECTORS**

As at the date hereof, the Board comprises six executive Directors, namely Ms. Fan Amy Lizhen, Mr. Wong Hiu Tung, Mr. Zhou Li Yang, Mr. Liu Ju, Mr. Tang Yau Sing and Mr. Cheung Kam Shing, Terry; and three independent non-executive Directors, namely Mr. Lam Kwan, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine.

On behalf of the Board  
**Pearl Oriental Oil Limited**  
**Wong Hiu Tung**  
*Executive Director*

Hong Kong, 31 March 2017