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 2017

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 2017 (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	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
			(Restated)
Continuing operations			
Revenue			
Sales of oil and natural gas	*3*	**55**	127
Other income		**1,488**	7,625
		1,543	7,752
Expenses			
Exploration, repair and maintenance expenses of oil and natural gas		**315**	385
Depreciation, depletion and amortisation of oil and natural gas		**114**	142
Administrative expenses		**12,741**	11,810
		13,170	12,337

* *For identification purpose only*

	Notes	Six months ended 30 June **2017** **(Unaudited)** ***HK$'000***	2016 (Unaudited) *HK$'000* (Restated)
Loss from operations		**(11,627)**	(4,585)
Finance costs		**(2,039)**	(1,200)
Impairment loss on intangible assets	*8*	**(216,592)**	–
Gain on disposal of property, plant and equipment		**150**	13
Loss before tax		**(230,108)**	(5,772)
Income tax credit	*4*	**73**	659
Loss for the period from continuing operations	*5*	**(230,035)**	(5,113)
Discontinued operation			
Loss for the period from discontinued operation		**–**	(9)
Loss and total comprehensive loss for the period		**(230,035)**	(5,122)
Attributable to:			
Owners of the Company			
– from continuing operations		**(230,034)**	(7,731)
– from discontinued operation		**–**	(5)
Non-controlling interests			
– from continuing operations		**(1)**	2,618
– from discontinued operation		**–**	(4)
		(230,035)	(5,122)
Loss per share attributable to owners of the Company	*7*		
Continuing and discontinued operations			
– Basic and diluted *(HK cents)*		**(7.09)**	(0.24)
Continuing operations			
– Basic and diluted *(HK cents)*		**(7.09)**	(0.24)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2017 (Unaudited) HK$'000	At 31 December 2016 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**88,191**	88,367
Intangible assets	*8*	**384,000**	600,600
		472,191	688,967
Current assets			
Prepayment, deposits and other receivables		**4,693**	4,857
Bank balances and cash		**3,151**	4,735
		7,844	9,592
Current liabilities			
Other payables and accruals		**3,053**	3,469
Other unsecured loan		**45,000**	33,000
		48,053	36,469
Net current liabilities		**(40,209)**	(26,877)
Total assets less current liabilities		**431,982**	662,090
Non-current liabilities			
Deferred tax liabilities		**131,363**	131,436
Asset retirement obligations		**3,579**	3,579
		134,942	135,015
Net assets		**297,040**	527,075
Equity			
Share capital	*9*	**324,552**	324,552
Reserves		**(7,404)**	222,630
Equity attributable to owners of the Company		**317,148**	547,182
Non-controlling interests		**(20,108)**	(20,107)
Total equity		**297,040**	527,075

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 consolidated financial statements for the year ended 31 December 2016.

The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis even though the Group incurred a net loss of approximately HK$230,035,000 for the period ended 30 June 2017 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$40,209,000.

The directors are taking steps to improve the Group's liquidity and financial performance, the shareholders have agreed to provide continuing financial supports, if necessary, to the Group to meet its obligations as and when they fall due. Accordingly, it is not necessary to include any adjustments that would be required should the Group fail to continue as a going concern.

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 preparing the condensed consolidated interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2016 except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations as disclosed below.

In the current interim period, the Group has also applied, for the first time, the following new or revised standards and interpretations issued by the HKICPA:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

3. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Segment information

During the year ended 31 December 2016, the Group ceased the operation of its plastic recycling materials business. Accordingly, the Group is currently principally engaged in exploring, exploiting and sales of oil and natural gas (the "Oil and Gas Business). The Oil and Gas Business as a whole constitutes one operating segment for the purpose of segment information presentation under HKFRS 8 Operating Segments.

Information are reported to the executive directors of the Company, being the chief operating decision maker (the "CODM"), for the purpose of performance assessment and resource allocation. The CODM regularly reviews the Group's revenue and profit for the period as a whole, which are measured in accordance with the Group's accounting policies. Accordingly, no segment information is presented.

4. INCOME TAX CREDIT

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Deferred tax	**73**	659

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the period (2016: Nil). 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.

5. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
The Group's loss for the period is arrived at after charging:		
Depreciation, depletion and amortization	**184**	207
Operating lease charges in respect of land and buildings	**1,222**	2,056
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**8,275**	5,626
– Retirement scheme contributions	**121**	102

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the period (2016: Nil).

7. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the followings:

Continuing and discontinued operations

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
		(Restated)
Loss for the period attributable to owners of the Company *(HK$'000)*	**(230,034)**	(7,736)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic loss per share *(HK cents)*	**(7.09)**	(0.24)

Continuing operations

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
		(Restated)
Loss for the period attributable to owners of the Company *(HK$'000)*	**(230,034)**	(7,736)
Less: Loss for the period attributable to owners of the Company from discontinued operation *(HK$'000)*	**–**	(5)
Loss for the period attributable to owners of the Company from continuing operations *(HK$'000)*	**(230,034)**	(7,731)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic loss per share *(HK cents)*	**(7.09)**	(0.24)

Discontinued operation

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
		(Restated)
Loss for the period attributable to owners of the Company from discontinued operation *(HK$'000)*	**–**	(5)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic loss per share *(HK cents)*	**–**	(0.0002)

During the period ended 30 June 2017 and 2016, 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 2016, 31 December 2016 and 30 June 2017	2,818,920
Accumulated amortisation and impairment	
At 1 January 2016	2,421,120
Amortisation for the year	105
Reversal of impairment for the year	(202,905)
At 31 December 2016 and 1 January 2017	2,218,320
Amortisation for the period	8
Impairment for the period	216,592
At 30 June 2017	2,434,920
Net carrying amounts	
At 30 June 2017	384,000
At 31 December 2016	600,600

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.

The carrying amount of intangible assets, net of any impairment loss, is allocated to the cash generating unit of oil and gas sales business.

The recoverable amount for the oil and gas processing rights was determined based on value-in-use calculation with reference to a valuation performed by an independent valuer, BMI Appraisals Limited. The value-in use calculations use cash flow projections of 32.5 years (31 December 2016: 33 years), which is the expected period of time estimated by the management to fully utilize the reserve as per the latest competent person report, and a discount rate of 13.28% (31 December 2016: 10%). The management determined the key assumptions based on past performance and expectation on market development by reference to market information such as forecast to future oil and gas prices, historical growth rate of oil and gas prices and expectation on oil and gas consumption.

After assessing the information, the recoverable amount is lower than its carrying amount as at 30 June 2017 mainly due to the increase in discount rate used as compared with forecast in previous years, accordingly an impairment loss of approximately HK$216,592,000 (31 December 2016: reversal of impairment loss of HK$202,905,000) was recognized.

9. SHARE CAPITAL

	Authorized ordinary shares of HK$0.10 each	
	No. of shares *'000*	*HK$'000*
At 31 December 2016, at 1 January 2017 and at 30 June 2017	200,000,000	20,000,000

	Issued and fully paid ordinary shares of HK$0.10 each	
	No. of shares *'000*	*HK$'000*
At 31 December 2016, at 1 January 2017 and at 30 June 2017	3,245,520	324,552

10. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the presentation of discontinued operation.

MANAGEMENT DISCUSSION & ANALYSIS

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2017 (the "Period"), the Group focused on its principal business of exploring, exploiting and sales of oil and natural gas (the "Oil and Gas Business").

In the corresponding period of 2016, the Group was principally engaged in the Oil and Gas Business and procuring, processing and sales of recycling materials (the "Plastic Recycling Material Business"). After the cessation of the Plastic Recycling Material Business during the year ended 31 December 2016, the Plastic Recycling Material Business was discontinued and was considered as "discontinued operations" of the Group in the corresponding period of 2016. The Group continued to engage in the Oil and Gas Business which is considered as "continuing operations".

The figures for the Period stated herein refer to the results of continuing operations. To facilitate meaningful comparison, unless specified, the comparative figures in this announcement refer to the results of continuing operations for the six months ended 30 June 2016.

For the Period, the Group recorded a consolidated turnover of HK$55,000 (2016: HK$127,000), and the loss attributable to the owners of the Company for the Period amounted to HK$230,034,000 (2016: HK$7,736,000). Basic loss per share for the Period was HK7.09 cents (2016: HK0.24 cents). Loss per share was based on the weighted average of 3,246 million of shares in issue in first half of 2017.

The consolidated turnover was mainly contributed from the sales of oil and gas. Gross loss for the Period amounted HK$374,000 (2016: HK$400,000), which was mainly due to the persistently low crude oil price.

Loss for the Period was HK$230,035,000 (2016: HK$5,122,000). The increase was mainly due to impairment loss on intangible assets in the Period.

BUSINESS REVIEW

Oil and Gas Business

There are six (6) shale gas producing wells in the Utah Gas and Oil Field with a sale of around 1,762 thousand cubic feet in the first half of 2017 which is being sold to Anadarko's midstream operations and other purchasers. On the other hand, there is one (1) oil producing well with a sale of around 201 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$505,000 in aggregate.

PROSPECTS

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 and internally generated resources. At the Period end date, the Group had HK$45 million other borrowings repayable within one year (year ended 31 December 2016: 33 million). The Group's cash and bank balances as at 30 June 2017 have decreased to approximately HK$3 million from HK$5 million as at 31 December 2016, mainly due to weak cash generation from operating activities. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 0.16 as at 30 June 2017 (31 December 2016: 0.26).

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.

LITIGATION

(a) On 28 June 2017, the Company received a statement of claim dated 23 June 2017 from Razor-Sharp Investments Limited, a company incorporated in the British Virgin Islands, demanding the Company to repay a total sum of approximately HK$25.2 million (the "Claim").

    The Company have appointed lawyer and is now setting the defence to the Claim.

(b) On 13 July 2017, the Company received a statutory demand dated 12 July 2017 from Frontier International Investment Limited, demanding the Company to repay a total sum of approximately HK$20 million (the "Demand"). And on 29 August 2017, the Company received a winding up petition from the High Court of the Hong Kong Special Administrative Region that the Company may be wound up on the ground that the Company is insolvent and unable to pay its debts.

    The Company have clarified that the Company is solvent and have sufficient fund to repay its debts in full, and seeking legal advice on this matter.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the number of employees of the Group was approximately 20. 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

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

COMPLIANCE WITH THE CODE ON 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, except for the following deviation:

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 was left vacant since his resignation. All duties of chief executive are shared between the Executive Directors. The Company is in the process of identifying a suitable candidate to assume the role as chief executive officer of the Company.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee consists of five independent non-executive Directors, namely Mr. Chau Wing Man (Chairman of the Audit Committee), Mr. Wang Jing Ting, Mr. Koo Luen Bong, Mr. Lam Kwan and Mr. Chan Kwan Pak. 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 2017.

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 2017, 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 Ms. Fan Amy Lizhen, Mr. Cheung Kam Shing, Terry, Mr. Tang Yau Sing and Mr. Cheung Ka Chun David; and five independent non-executive Directors, namely Mr. Wang Jing Ting, Mr. Koo Luen Bong, Mr. Chau Wing Man, Mr. Lam Kwan and Mr. Chan Kwan Pak.

By Order of the Board
Pearl Oriental Oil Limited
Tang Yau Sing
Executive Director

Hong Kong, 31 August 2017