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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 2017

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 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000 (Reclassified)
Continuing operations			
Revenue	5	**35,594**	518
Cost of sales		**(36,754)**	(1,144)
Gross loss		**(1,160)**	(626)
Other income		**1,702**	7,681
Administrative expenses		**(25,616)**	(23,810)
Impairment loss on intangible assets	11	**(344,545)**	–
Impairment loss on property, plant and equipment		**(49,861)**	–
Reversal of impairment loss on intangible assets	11	**–**	202,905
Loss on disposal of subsidiaries		**(21,585)**	–
Finance costs	6	**(6,194)**	(2,615)
(Loss)/profit before tax	7	**(447,259)**	183,535
Income tax credit/(expense)	8	**95,590**	(48,450)
(Loss)/profit for the year from continuing operations		**(351,669)**	135,085
Discontinued operation			
Loss for the year from discontinued operation		**–**	(769)
(Loss)/profit and total comprehensive (loss)/income for the year		**(351,669)**	134,316

* *For identification purpose only*

	Notes	2017 HK$'000	2016 HK$'000 (Reclassified)
Attributable to:			
Owners of the Company			
– from continuing operations		**(351,633)**	132,844
– from discontinued operation		**–**	(769)
Non-controlling interests			
– from continuing operations		**(36)**	2,241
– from discontinued operation		**–**	–
		(351,669)	134,316
(Loss)/earnings per share (HK cents) – Continuing and discontinued operations	*10*		
– Basic and diluted		**(10.83)**	4.07
(Loss)/earnings per share (HK cents) – Continuing operations			
– Basic and diluted		**(10.83)**	4.09

Certain comparative figures set out in the consolidated statement of profit or loss and other comprehensive income have been reclassified to conform with current year's presentation.

The reclassifications have no impact on the Group's financial position as at 1 January 2017 and 31 December 2017 and the Group's financial performance and cash flow for the year ended 31 December 2016 and 31 December 2017.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**38,038**	88,367
Intangible assets	11	**256,000**	600,600
		294,038	688,967
Current assets			
Trade receivables	12	**2,541**	–
Prepayments, deposits and other receivables		**6,666**	4,857
Bank balances and cash		**4,503**	4,735
		13,710	9,592
Current liabilities			
Trade payables	13	**5,993**	–
Other payables and accruals		**7,051**	3,469
Unsecured loan		**58,300**	33,000
Tax payable		**2**	–
		71,346	36,469
Net current liabilities		**(57,636)**	(26,877)
Total assets less current liabilities		**236,402**	662,090
Non-current liabilities			
Deferred tax liabilities		**35,844**	131,436
Asset retirement obligations		**3,579**	3,579
		39,423	135,015
Net assets		**196,979**	527,075
Equity			
Share capital		**324,552**	324,552
Reserves		**(129,003)**	222,630
Equity attributable to owners of the Company		**195,549**	547,182
Non-controlling interests		**1,430**	(20,107)
Total equity		**196,979**	527,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

For the year ended 31 December 2017

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 Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 28 February 2018.

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 consolidated financial statements have been prepared on the historical cost basis.

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.

Going concern basis

(i) The Group reported a net loss attributable to the owners of the Company of approximately HK$352 million for the year ended 31 December 2017 and as at 31 December 2017, the Group had net current liabilities of approximately HK$58 million together with total borrowings amounting to approximately HK$58 million classified as current liabilities, and with balance of cash and cash equivalents amounting to approximately HK$5 million only.

(ii) On 24 January 2018, the Company entered into a new loan agreement of HK$30 million with a lender. The loan will fall due on 24 July 2018. Approximately HK$28 million of the loan was used for repayment of the loans outstanding as at 31 December 2017. The unused balance of the new loan of approximately HK$2 million together with the cash and cash equivalents brought forward of approximately HK$5 million may not be enough to cover the Company's daily operating expenses and the other outstanding loan amounts when they fall due. Furthermore, HK$3 million of the loan balance as at 31 December 2017 falling due for repayment on 25 January 2018 is still outstanding up to the date of this announcement.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

As stated in the recent announcements published by the Company, the Company have finalized the terms of a share subscription agreement with a third party and intends to carry out into effect such agreement after the end of the black out period of the results announcement for the year ended 31 December 2017. The aforesaid agreement together with other finance measures and plans such as renewal of unsecured loans and development project on oil and gas business, provide the basis under which the directors of the Company considered that going concern basis is appropriate for preparing the consolidated financial statements, the validity of which depends on the outcome of the aforesaid agreement and the successful implementation of those finance measures and plans, which are subject to multiple uncertainties. Should the Group fail to successfully implementing it's plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year 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 this announcement.

Amendments to HKAS 7 Statement of cash flows – Disclosure initiative

Amendments to HKAS 7 require the Group to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

New and amendments to HKFRSs and interpretations issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretations that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 "Financial Instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has undertaken a detailed assessment of the classification and measurement of financial assets and does not consider the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The impacts on the Group's financial results and position upon the adoption of HKFRS 9 are not expected to be material. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2018.

HKFRS 15 "Revenue from Contracts with Customers"

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

(i) Identify the contract(s) with a customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to each performance obligation; and

(v) Recognise revenue when each performance obligation is satisfied.

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group had assessed the impact of adopting HKFRS 15 on the Group's consolidated financial statements, by identifying the separate performance obligations in the contracts with customers and allocating the transactions price, and considered the new guidance does not significantly affect the timing of the Group's revenue recognition.

Other than HKFRS 9 “Financial Instrument” and HKFRS 15 “Revenue from Contracts with Customers”, management is in the process of making an assessment on the impact of these new standards and amendments to existing standards and considered on a preliminary basis that, these new standards and amendment to existing standards will not result in any substantive changes of the Group’s existing accounting policies and presentation of the consolidated financial statements.

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 (i) exploring, exploiting and sales of oil and natural gas ("Oil and gas sales"), and (ii) trading of oil-related products. The procuring, processing and sales of plastic recycling materials were regarded as discontinued operation.

2017

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
Segment revenue	**395**	**35,199**	**35,594**
Segment (loss)/profit	**(395,721)**	**35**	**(395,686)**
Unallocated income			**1,686**
Unallocated expenses			**(25,480)**
Loss on disposal of subsidiaries			**(21,585)**
Finance costs			**(6,194)**
Loss before tax			**(447,259)**
Income tax credit			**95,590**
Loss for the year			**(351,669)**
Segment assets	**297,991**	**4,058**	**302,049**
Unallocated assets			**5,699**
Total assets			**307,748**
Segment liabilities	**5,568**	**5,993**	**11,561**
Deferred tax liabilities			**35,844**
Unallocated liabilities			**63,364**
Total liabilities			**110,769**
Impairment loss on intangible assets	**344,545**	**–**	
Impairment loss on property, plant and equipment	**49,861**	**–**	
Interest income	**5**	**–**	

2016

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

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**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
Hong Kong (place of domicile)	**35,199**	–	**33**	278
United States of America ("USA")	**395**	518	**294,005**	688,689
	35,594	518	**294,038**	688,967

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 two (2016: three) customers with whom transactions have exceeded 10% of the Group's total turnover. Revenue from sales to these two customers amounted to HK$15,078,000 and HK$13,663,000 respectively which related to trading of oil-related products segment (2016: sales to those three customers amounted to HK$366,000, HK$84,000 and HK$68,000 respectively which related to oil and gas sales segment).

6. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Interest expenses on unsecured loans	**6,194**	2,615

7. (LOSS)/PROFIT BEFORE TAX

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

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Depreciation, depletion and amortisation	**387**	475
Operating lease charges in respect of land and buildings	**2,451**	3,530
Auditors' remuneration:		
– Annual audit	**780**	750
– Other assurance services	**150**	100
Impairment loss on intangible assets	**344,545**	–
Impairment loss on property, plant and equipment	**49,861**	–
Impairment loss on other receivables	**1,680**	–
Gain on disposal of property, plant and equipment	**(199)**	(13)
Loss on disposal of subsidiaries	**21,585**	–
Reversal of impairment loss on intangible assets	**–**	(202,905)
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**14,852**	11,876
– Retirement scheme contributions	**200**	215

8. INCOME TAX CREDIT/(EXPENSE)

Hong Kong Profits Tax is arrived at 16.5% on the estimated assessable profits for the year (2016: No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits 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 country in which the Group operates.

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Current tax expense	**(2)**	–
Deferred tax credit/(expense)	**95,592**	(48,450)
	95,590	(48,450)

9. DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

10. (LOSS)/EARNINGS PER SHARE

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

Continuing and discontinued operations

	2017	2016
(Loss)/profit for the year attributable to owners of the Company *(HK$'000)*	**(351,633)**	132,075
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic (loss)/earnings per share *(HK cents)*	**(10.83)**	4.07

Continuing operations

	2017	2016
(Loss)/profit for the year attributable to owners of the Company *(HK$'000)*	**(351,633)**	132,075
Less: Loss for the year attributable to owners of the Company from discontinued operation *(HK$'000)*	**–**	(769)
(Loss)/profit for the year attributable to owners of the Company from continuing operations *(HK$'000)*	**(351,633)**	132,844
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic (loss)/earnings per share *(HK cents)*	**(10.83)**	4.09

Discontinued operation

	2017	2016
Loss for the year attributable to owners of the Company from discontinued operation *(HK$'000)*	**–**	(769)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic loss per share *(HK cents)*	**–**	(0.0237)

During the years ended 31 December 2017 and 31 December 2016, diluted (loss)/earnings per share equals to basic (loss)/earnings per share as the potential ordinary shares were not included in the calculation of diluted (loss)/earnings per share because they are anti-dilutive.

11. INTANGIBLE ASSETS

	Oil and gas processing rights *HK$'000*
Cost	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 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 year	55
Impairment for the year	344,545
At 31 December 2017	2,562,920
Net carrying amounts	
At 31 December 2017	256,000
At 31 December 2016	600,600

12. TRADE RECEIVABLES

All trade receivables are from trading of oil-related products segment with an ageing period within 30 days at the year end.

13. TRADE PAYABLES

All trade payables are from trading of oil-related products segment with an ageing period within 30 days at the year end.

EXTRACT OF 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 2017:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group due to the potential interaction of the multiple uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements and because we have not been able to obtain sufficient appropriate evidence as described in the Basis for Disclaimer of Opinion section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple uncertainties relating to going concern

As described in Note 2.1 to the consolidated financial statements:–

(i) The Group reported a net loss attributable to the owners of the Company of approximately HK$352 million for the year ended 31 December 2017 and as at 31 December 2017, the Group had net current liabilities of approximately HK$58 million together with total borrowings amounting to approximately HK$58 million classified as current liabilities, and with balance of cash and cash equivalents amounting to approximately HK$5 million only.

(ii) On 24 January 2018, the Company entered into a new loan agreement of HK$30 million with a lender. The loan will fall due on 24 July 2018. Approximately HK$28 million of the loan was used for repayment of the loans outstanding as at 31 December 2017. The unused balance of the new loan of approximately HK$2 million together with the cash and cash equivalents brought forward of approximately HK$5 million may not be enough to cover the Company's daily operating expenses and the other outstanding loan amounts when they fall due. Furthermore, HK$3 million of the loan balance as at 31 December 2017 falling due for repayment on 25 January 2018 is still outstanding up to the date of this report.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

As stated in the recent announcements published by the Company, the Company have finalized the terms of a share subscription agreement with a third party and intends to carry out into effect such agreement after the end of the black out period of the results announcement for the year ended 31 December 2017. The aforesaid agreement together with other finance measures and plans as described in Note 2.1 to the consolidated financial statements, provide the basis under which the directors of the Company considered that going concern basis is appropriate for preparing the consolidated financial statements, the validity of which depends on the outcome of the aforesaid agreement and the successful implementation of those finance measures and plans, which are subject to multiple uncertainties. Should the Group fail to successfully implementing it's plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2017 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK$35,594,000 (2016: (Reclassified) HK$518,000) mainly contributed from the trading of oil-related products business. Basic loss per share for the Year was HK$10.83 cents (2016: Earnings per share HK$4.07 cents). Loss per share was based on the weighted average of 3,245 million shares in issue in the Year.

Gross loss for the Year amounted HK$1,160,000 (2016: (Reclassified) HK$626,000), which was mainly due to relatively low crude oil and gas prices over a long term.

The loss attributable to the owners of the Company for the Year was HK$351,633,000 (2016: Profit attributable to the owners of the Company HK$132,844,000), mainly attributable to the impairment loss on carrying amount of the Group's intangible assets amount to HK$344,545,000, impairment loss on carrying amount of the Group's property, plant and equipment amount to HK$49,861,000.

BUSINESS REVIEW

Trading Business

During the Year, after careful consideration and for the purpose of maximizing shareholder's return, the Group started the trading of oil-related products business to extend its business to down-stream of the production chain.

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 slightly rebounded from the bottom since early 2016 but the oil price (WTI) and gas price (Henry Hub) are 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 2018, 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 2018 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$58 million unsecured loans repayable within one year (2016: HK$33 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 0.19 as at 31 December 2017 (31 December 2016: 0.26).

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 2017.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Saved as disclosed above, the Group made no other material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2017.

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 2017, the number of employees of the Group was about 20 (2016: 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 standards 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") 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 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 Corporate Governance 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 2017.

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, 24 May 2018 to Wednesday, 30 May 2018, 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, 23 May 2018.

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 seven independent non-executive Directors, namely Mr. Lum Pak Sum, Mr. Chan Sung Wai, Mr. Koo Luen Bong, Mr. Chau Wing Man, Mr. Wang Jing Ting, Mr. Lam Kwan and Mr. Chan Kwan Pak.

On behalf of the Board
Pearl Oriental Oil Limited
Tang Yau Sing
Executive Director

Hong Kong, 28 February 2018