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東方明珠石油有限公司*

Pearl Oriental Oil Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

INTERIM RESULTS ANNOUNCEMENT 2018

The board (the "Board") of directors (the "Directors") of Pearl Oriental Oil Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 (the "Period") with comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
	Notes	**2018 (Unaudited) *HK$'000***	2017 (Unaudited) *HK$'000* (Reclassified)
Revenue	*3*	**37,650**	55
Cost of sales		**(39,128)**	(429)
Gross loss		**(1,478)**	(374)
Other income		**8**	1,638
Administrative expenses		**(16,891)**	(12,741)
Impairment loss on intangible assets		**–**	(216,592)
Finance costs		**(3,502)**	(2,039)
Loss before tax	*4*	**(21,863)**	(230,108)
Income tax credit	*5*	**–**	73
Loss and total comprehensive loss for the period		**(21,863)**	(230,035)
Attributable to:			
Owners of the Company		**(21,625)**	(230,034)
Non-controlling interests		**(238)**	(1)
		(21,863)	(230,035)
Loss per share *(HK cents)*			
– Basic and diluted	*7*	**(0.67)**	(7.09)

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2018 (Unaudited) HK$'000	At 31 December 2017 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**44,321**	38,038
Intangible assets		**255,980**	256,000
		300,301	294,038
Current assets			
Trade receivables		**–**	2,541
Prepayment, deposits and other receivables		**3,899**	6,666
Bank balances and cash		**1,554**	4,503
		5,453	13,710
Current liabilities			
Trade payables	*8*	**4,866**	5,993
Other payables and accruals	*9*	**17,357**	7,051
Unsecured loans	*10*	**68,990**	58,300
Tax payable		**2**	2
		91,215	71,346
Net current liabilities		**(85,762)**	(57,636)
Total assets less current liabilities		**214,539**	236,402
Non-current liabilities			
Deferred tax liabilities		**35,844**	35,844
Asset retirement obligations		**3,579**	3,579
		39,423	39,423
Net assets		**175,116**	196,979
Equity			
Share capital	*11*	**324,552**	324,552
Reserves		**(150,628)**	(129,003)
Equity attributable to owners of the Company		**173,924**	195,549
Non-controlling interests		**1,192**	1,430
Total equity		**175,116**	196,979

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 Directors have given careful consideration to the going concern of the Group in light of the fact that the Group had net current liabilities of approximately HK$85,762,000 as at 30 June 2018, also considered the statutory demand from creditors (refer to P.10 "Litigation" section). The Group's ability to continue as a going concern is dependent on the ongoing availability of funds to the Group. The Directors are actively identifying any potential investors for equity or debt financing means providing additional funds to the Group, and also negotiating the extension of existing loans to support its daily operation. Taken into account these considerations, the Directors are of the opinion that the Group will have sufficient funds to meet in full its financial obligations as and when they fall due.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the above new and amendments to 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. SEGMENT INFORMATION

The Group is principally engaged in (i) exploring, exploiting ans sales of oil and nature gas ("Oil and gas sales"), and (ii) trading of oil-related products.

2018

Six months ended 30 June 2018

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
Segment revenue	**119**	**37,531**	**37,650**
Segment loss	**(1,450)**	**(187)**	**(1,637)**
Unallocated expenses			**(16,724)**
Finance costs			**(3,502)**
Loss before tax			**(21,863)**
Income tax credit			**–**
Loss for the period			**(21,863)**

At 30 June 2018

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
Segment assets	**297,271**	**64**	**297,335**
Unallocated assets			**8,419**
Total assets			**305,754**
Segment liabilities	**6,785**	**4,868**	**11,653**
Deferred tax liabilities			**35,844**
Unallocated liabilities			**83,141**
Total liabilities			**130,638**

2017

Six months ended 30 June 2017

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
Segment revenue	55	–	55
Segment loss	(217,142)	–	(217,142)
Unallocated income			1,638
Unallocated expenses			(12,565)
Finance costs			(2,039)
Loss before tax			(230,108)
Income tax credit			73
Loss for the period			(230,035)

At 31 December 2017

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
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	(216,592)	–	

4. LOSS BEFORE TAX

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Reclassified)
The Group's loss before tax is arrived at after charging:		
Operating lease charges in respect of land and buildings	**2,300**	1,222
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**8,320**	8,275
– Retirement scheme contributions	**98**	121

5. INCOME TAX CREDIT

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Reclassified)
Deferred tax	**–**	73

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the period (2017: 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.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the period (2017: 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:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Reclassified)
Loss for the period attributable to owners of the Company *(HK$'000)*	**(21,625)**	(230,034)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic loss per share *(HK cents)*	**(0.67)**	(7.09)

During the period ended 30 June 2018 and 2017, 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. TRADE PAYABLES

All trade payables are from trading of oil-related products segment with an aging period within 30 days (as at 31 December 2017: 30 days) and expected to be settled within one year.

9. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2018 *HK$'000*	As at 31 December 2017 *HK$'000*
Accrued interest	**3,579**	1,736
Renovation payable	**2,165**	–
Professional fee payable	**2,549**	1,204
Director emolument payable	**5,322**	1,568
Other payables	**3,742**	2,543
	17,357	7,051

The carrying amounts of other payables and accruals at the end of the reporting period approximately their fair values. All of the other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

10. UNSECURED LOANS

Unsecured loans carried interest at range between 8% to 14% per annum and repayable within one year (as at 31 December 2017: interest at range between 8% to 13% per annum and repayable within one year).

11. SHARE CAPITAL

	Authorized ordinary shares of HK$0.10 each	
	No. of shares '000	*HK$'000*
At 31 December 2017, at 1 January 2018 and at 30 June 2018	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 2017, at 1 January 2018 and at 30 June 2018	3,245,520	324,552

12. COMPARATIVE FIGURES

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

The reclassification has no impact on the Group's financial positions as at 1 January 2018 and 30 June 2018 and the Group's financial performance and cash flow for the year ended 31 December 2017 and period ended 30 June 2018.

MANAGEMENT DISCUSSION & ANALYSIS

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2018 (the "Period"), the Group focused on its principal business of (i) exploring, exploiting and sales of oil and natural gas (the "Oil and Gas Business") and (ii) trading of oil-related products (the "Trading Business").

For the Period, the Group recorded a consolidated revenue of HK$37,650,000 (2017: HK$55,000), and the loss attributable to the owners of the Company for the Period amounted to HK$21,625,000 (2017: HK$230,034,000). Basic loss per share for the Period was HK0.67 cents (2017: HK7.09 cents). Loss per share was based on the weighted average of 3,246 million of shares in issue in first half of 2018.

The consolidated revenue was mainly contributed from the Trading Business. Gross loss for the Period amounted HK$1,478,000 (2017: HK$374,000), which was mainly due to the small scale of economics.

Loss for the Period was HK$21,863,000 (2017: HK$230,035,000). The decrease was mainly due to the absence of any further impairment loss on intangible assets recognised for the Period versus the significant impairment loss on intangible assets recognised for the six months ended 30 June 2017.

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 1,865 thousand cubic feet in the first half of 2018 which is mainly sold to Anadarko's midstream operations. On the other hand, there is one (1) oil producing well with a sale of around 480 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 mining production activities during the Period were approximately HK$589,000 in aggregate.

PROSPECTS

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.

Oil prices (WTI) hitting bottom at around USD40 per barrel in early 2017 but rebounded gradually to around USD65 per barrel. Most of the projections have indicated that oil prices are on the recovery path. Nevertheless, the markets are still confronted with ongoing uncertainties and challenges. Therefore, the Company will make correct assessment of the situation, and as opportunities arise, will consider seeking new investors with solid financial strength to expand our gas and oil business and/or to explore new business developments.

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 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 debt financing. As at 30 June 2018, the Group had HK$69 million unsecured loans repayable within one year (As at 31 December 2017: 58 million). The Group's cash and bank balances as at 30 June 2018 have decreased to approximately HK$2 million from HK$5 million as at 31 December 2017, mainly due to weak cash generation from operating activities. The current ratio has decreased to 0.06 as at 30 June 2018 (As at 31 December 2017: 0.19).

During the Period, the Group conducted its business transactions principally in US dollars and Hong Kong dollars. 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 24 August 2018, the Company received a statutory demand dated 24 August 2018 from ICD Group International Limited ("ICD"), demanding the Company to repay a total sum of approximately HK$5 million within three weeks. If the Company does not repay such amount within three weeks, ICD may present a winding up petition against the Company.

b) On 29 August 2018, the Company received a statutory demand dated 29 August 2018 from Burberlon Vantage Capital Limited ("Burberlon"), demanding the Company to repay a total sum of approximately HK$32 million within three weeks. If the Company does not repay such amount within three weeks, Burberlon may present a winding up petition against the Company.

The Company is seeking legal advice on both matters.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the number of employees of the Group was approximately 10. 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 Issuers (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, save for the following:

i) Responsibilities between chairman and chief executive

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 among 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.

ii) Insufficient number of independent non-executive directors

As the majority of the votes cast against Resolutions Nos. 2(i)(b), 2(i)(c), 2(i)d, 2(i)(e) and 2(i)(f), Resolutions 2(i)(b), 2(i)(c), 2(i)d, 2(i)(e) and 2(i)(f) have not been passed by the Shareholders of the Company at the 2018 Annual General Meeting held on 29 June 2018 (the "2018 AGM"). As a result, Mr. Lum Pak Sum ("Mr. Lum"), Mr. Chan Sung Wai ("Mr. Chan"), Mr. Koo Luen Bong ("Mr. Koo"), Mr. Chau Wing Man ("Mr. Chau") and Mr. Wang Jing Ting ("Mr. Wang") cease to be Independent Non-executive Directors of the Company after the 2018 AGM. Consequently, Mr. Lum ceased to be the chairman of the Audit Committee, member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Koo ceased to be the chairman of the Remuneration Committee, member of the Audit Committee and the Nomination Committee of the Company. Mr. Chan, Mr. Chau and Mr. Wang ceased to be members of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Immediately after the 2018 AGM and as at the date of this announcement,

(1) since the number of Independent Non-executive Directors is less than three and represents less than one-third of the Board, the Company is not in compliance with Rules 3.10(1) and 3.10(A) of the Listing Rules;

(2) since the number of members of the Audit Committee is less than three, the Company is not in compliance with Rule 3.21 of the Listing Rules;

(3) since the Remuneration Committee does not comprise of a majority of Independent Non-executive Directors, the Company is not in compliance with Rule 3.25 of the Listing Rules; and

(4) since the Nomination Committee does not comprise of a majority of Independent Non-executive Directors, the Company is not in compliance with code provision A.5.1 of the Corporate Governance Code.

As time is required to identify suitable candidates to be Independent Non-executive Directors in order to comply with the Listing Rules and the Corporate Governance Code, the Company will try its best endeavors to comply with the Listing Rules and the Corporate Governance Code as soon as possible.

Furthermore, there is no Audit Committee as at the date of this announcement, the unaudited interim results for the six months ended 30 June 2018 is reviewed by external auditor.

Save as disclosed above, for the six months ended 30 June 2018, the Company complied with the code provisions of the Code.

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 2018, 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 three executive Directors, namely Ms. Fan Amy Lizhen, Mr. Cheung Kam Shing, Terry and Mr. Tang Yau Sing.

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

Hong Kong, 31 August 2018