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 2018

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 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*5*	**74,036**	35,594
Cost of sales		**(75,781)**	(36,754)
Gross loss		**(1,745)**	(1,160)
Other income		**220**	1,702
Administrative expenses		**(38,392)**	(25,616)
Impairment loss on intangible assets	*11*	**–**	(344,545)
Impairment loss on property, plant and equipment		**–**	(49,861)
Loss on disposal of subsidiaries		**–**	(21,585)
Finance costs	*6*	**(19,645)**	(6,194)
Loss before tax	*7*	**(59,562)**	(447,259)
Income tax credit	*8*	**860**	95,590
Loss and total comprehensive loss for the year		**(58,702)**	(351,669)

* *For identification purpose only*

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Attributable to:			
Owners of the Company		**(58,415)**	(351,633)
Non-controlling interests		**(287)**	(36)
		(58,702)	(351,669)
Loss per share (HK cents)	*10*		
– Basic and diluted		**(1.80)**	(10.83)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**42,734**	38,038
Intangible assets	*11*	**255,944**	256,000
		298,678	294,038
Current assets			
Trade receivables	*12*	**–**	2,541
Prepayments, deposits and other receivables		**19,344**	6,666
Bank balances and cash		**993**	4,503
		20,337	13,710
Current liabilities			
Trade payables	*13*	**–**	5,993
Other payables and accruals		**39,588**	7,051
Unsecured loans	*14*	**102,093**	58,300
Obligations under finance lease due within one year		**120**	–
Tax payable		**2**	2
		141,803	71,346
Net current liabilities		**(121,466)**	(57,636)
Total assets less current liabilities		**177,212**	236,402
Non-current liabilities			
Deferred tax liabilities		**34,984**	35,844
Obligations under finance lease due after one year		**372**	–
Asset retirement obligations		**3,579**	3,579
		38,935	39,423
Net assets		**138,277**	196,979
Equity			
Share capital		**324,552**	324,552
Reserves		**(187,418)**	(129,003)
Equity attributable to owners of the Company		**137,134**	195,549
Non-controlling interests		**1,143**	1,430
Total equity		**138,277**	196,979

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

For the year ended 31 December 2018

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").

In the opinion of the directors of the Company, the Company's parent and ultimate holding company is Charcon Assets Limited, a company incorporated in the British Virgin Islands.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is same as the functional currency of the Group and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements for the year ended 31 December 2018 were approved for issue by the board of directors on 29 March 2019.

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 3.

Going concern basis

The Group reported a net loss attributable to the owners of the Company of approximately HK$58 million for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of approximately HK$121 million and with balance of cash and cash equivalents amounting to approximately HK$1 million.

As disclosed in note 14 of this announcement, unsecured loans of approximately HK$25 million and HK$2 million were overdue as at 31 December 2018. These loans were 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.

The management of the Company has taken the following steps to improve the Group's financial position:

(1) Share subscription

As per the Company's announcement dated 13 February 2019, funds will be raised pending the release of an announcement relating to subscriptions of shares of the Company which involves matters under the Code on Takeovers and Mergers issued by the Securities and Futures Commission.

(2) Additional loans borrowings and renewal of unsecured loans

Out of the unsecured loans at 31 December 2018, HK$50 million and HK$20 million were due to a lender which falling due on 28 January 2019 and 7 February 2019 respectively. These loans were further extended to 28 February 2019 and 31 March 2019 by agreements dated 28 January 2019, 1 February 2019 and 28 February 2019 respectively.

On 10 January 2019 and 16 January 2019, the Company entered into two new loan agreements of HK$5 million each with this lender. These loans falling due on 7 February 2019 were further extended to 28 February 2019 and 31 March 2019 by agreements dated 1 February 2019 and 28 February 2019 respectively to finance the Company's daily operation.

On 28 March 2019, the Company further entered into an extension agreement with this lender for the renewal of above unsecured loans totaling of HK$80 million up to 31 March 2020.

(3) Monitoring of the Group's operating cash flows

The Group has taken various measures to tighten cost controls over operating costs and expenses with the aim to attain profitable and positive cash flow operations. The directors are taking steps to improve the Group's liquidity and financial performance including active cost-saving and other measures to improve the Group's operating cash flows and financial position.

(4) Financial support from a director of the Company

In addition, a director of the Company has confirmed to provide financial support to the Group to meet its financial obligations as they fall due, if required.

The directors of the Group have reviewed the Group's cash flow projections prepared by management. The cash flow projections covered a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2018 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements for the year ended 31 December 2018.

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 HKICPA for the first time in the current year:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK(IFRIC) 22	Foreign currency transactions and advance consideration

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.

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements, comparative information continue to be reported under HKAS 39. There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, the classification for all of the Group's financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including bank balances and trade and other receivables)

For further details on the Group's accounting policy for accounting for credit losses, see note 2.3(f)(i) to the consolidated financial statements of the 2018 annual report.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

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 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective date not yet determined
3 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 16 "Leases"

As disclosed in note 2.3 (i) to the consolidated financial statements of the 2018 annual report, currently the Group classifies leases into operating leases and finance leases, and accounts for the lease arrangements according to the nature of the lease.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

Other than HKFRS 16 "Leases", 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.

Trading of oil-related products business acts as a principal

The Group assesses its business relationship with suppliers and customers in respect of the trading of oil-related products business and determines that the Group acts as a principal.

The factors taken into account by the management include:

(i) The Group has the primary responsibility for fulfilling the promise to provide the specified goods.

(ii) The Group has inventory risk before the specified goods have been transferred to a customer and the Group is exposed to significant inventory risk.

(iii) The Group has discretion in establishing the price for the oil-related products with the customers.

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.

2018

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– United States of America ("USA")	191	–	191
– Sales of oil-related products:			
recognised at a point in time			
– Hong Kong	–	73,845	73,845
Segment revenue	191	73,845	74,036
Segment (loss)/profit	(2,585)	230	(2,355)
Unallocated income			100
Unallocated expenses			(37,662)
Finance costs			(19,645)
Loss before tax			(59,562)
Income tax credit			860
Loss for the year			(58,702)
Segment assets	297,446	12,628	310,074
Unallocated assets			8,941
Total assets			319,015
Segment liabilities	5,490	12,402	17,892
Deferred tax liabilities			34,984
Unallocated liabilities			127,862
Total liabilities			180,738
Depreciation, depletion and amortization	279	–	

2017

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
Revenue			
– Sales of oil and gas:			
recognised at a point in time			
– USA	395	–	395
– Sales of oil-related products:			
recognised at a point in time			
– Hong Kong	–	35,199	35,199
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	–	
Depreciation, depletion and amortisation	279	–	

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	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**73,845**	35,199	**4,366**	33
USA	**191**	395	**294,312**	294,005
	74,036	35,594	**298,678**	294,038

The geographical location of customers is based on the location at which the goods are 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 five (2017: two) customers with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these five customers were amounted to HK$20,085,000, HK$14,921,000, HK$11,569,000, HK$9,228,000 and HK$8,348,000 respectively (2017: HK$15,078,000 and HK$13,663,000 respectively) and all of them were related to trading of oil-related products segment.

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expenses on unsecured loans	**8,933**	6,194
Debts settlement expenses	**10,692**	–
Finance charges on obligations under finance lease	**17**	–
Interest on bank overdraft	**3**	–
	19,645	6,194

7. LOSS BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Depreciation, depletion and amortisation	**2,269**	387
Operating lease charges in respect of land and buildings	**3,657**	2,451
Auditors' remuneration:		
– Annual audit	**800**	780
– Other assurance services	**150**	150
Impairment loss on other receivables	**–**	1,680
Gain on disposal of property, plant and equipment	**–**	(199)
Legal and professional fees	**7,755**	1,230
Financial advisory fee	**1,458**	–
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**16,330**	14,852
– Retirement scheme contributions	**190**	200

8. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the year (2017: Hong Kong Profits Tax was arrived at 16.5% on the estimated 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.

	2018	2017
	HK$'000	*HK$'000*
Current tax expense	**–**	2
Deferred tax credit	**(860)**	(95,592)
	(860)	(95,590)

9. DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

10. LOSS PER SHARE

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

	2018	2017
Loss for the year attributable to owners of the Company *(HK$'000)*	**(58,415)**	(351,633)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic loss per share *(HK cents)*	**(1.80)**	(10.83)

During the years ended 31 December 2018 and 31 December 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.

11. INTANGIBLE ASSETS

	Oil and gas processing rights *HK$'000*
Cost	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,818,920
Accumulated amortisation and impairment	
At 1 January 2017	2,218,320
Amortisation for the year	55
Impairment for the year	344,545
At 31 December 2017 and 1 January 2018	2,562,920
Amortisation for the year	56
At 31 December 2018	2,562,976
Net carrying amounts	
At 31 December 2018	255,944
At 31 December 2017	256,000

12. TRADE RECEIVABLES

At 31 December 2017, all trade receivables are from trading of oil-related products segment with an ageing period, by invoice date, within 30 days at the year end are not past due and are expected to be recovered within one year. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

13. TRADE PAYABLES

At 31 December 2017, all trade payables are from trading of oil-related products segment with an ageing period, by invoice date, within 30 days at the year end and are expected to be settled within one year.

14. UNSECURED LOANS

	HK$'000
At 1 January 2017	33,000
Proceeds from unsecured loans	78,300
Repayment of unsecured loans	(53,000)
At 31 December 2017 and 1 January 2018	58,300
Proceeds from unsecured loans	114,253
Repayment of unsecured loans	(70,460)
At 31 December 2018	102,093

Unsecured loans of HK$70,000,000 (2017: HK$58,300,000) carrying interest at 12% (2017: 8% to 13%) per annum are repayable within one year.

As at 31 December 2018, unsecured loans of HK$25,000,000 and HK$1,990,000 were overdue and carried interest rate of 16% per annum. These loans were still outstanding up to the date of this announcement (2017: Nil).

Included in unsecured loans were amount of HK$4,480,000 (2017: Nil) and HK$623,000 (2017: Nil) due to directors Ms. Fan Amy Lizhen and Mr. Tang Yau Sing respectively. Except for the amount of HK$4,000,000 due to Ms. Fan Amy Lizhen carrying interest at 8% per annum and repayable within one year, all the remaining balances were interest free and repayable on demand.

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 2018:

OPINION

We have audited the consolidated financial statements of PEARL ORIENTAL OIL LIMITED (the "Company") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018, 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.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2.1 to the consolidated financial statements which indicates that the Group reported a net loss of attributable to the owners of the Company of approximately HK$58 million for the year ended 31 December 2018 and as at 31 December 2018, the Group had net currant liabilities of approximately HK$121 million, and with balance of cash and cash equivalents amounting to approximately 1 million and as at 31 December 2018, unsecured loans of approximately HK$27 million were overdue and still outstanding up to the date of this report. As stated in note 2.1, these conditions indicate the existence of a material uncertainties 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 2018 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of approximately HK$74,036,000 (2017: approximately HK$35,594,000) mainly contributed from the trading of oil-related products business. Basic loss per share for the Year was HK$1.80 cents (2017: HK$10.83 cents). Loss per share was based on the weighted average of 3,245 million shares (2017: 3,245 million shares) in issue in the Year.

Gross loss for the Year amounted approximately HK$1,745,000 (2017: approximately HK$1,160,000), 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 approximately HK$58,415,000 because the Company had a gross loss but with huge finance costs and legal and professional fees of approximately HK$19,645,000 and HK$7,755,000 respectively. The loss attributable to owners of the Company for the year ended 31 December 2017 was approximately HK$351,633,000, mainly attributable to the impairment loss on carrying amount of the Group's intangible assets amount to approximately HK$344,545,000, impairment loss on carrying amount of the Group's property, plant and equipment amount to approximately HK$49,861,000.

BUSINESS REVIEW

Trading Business

After careful consideration and for the purpose of maximizing shareholders' return, the Group started the trading of oil-related products business to extend its business to down-stream of the production chain since 2017.

Oil and Gas Business

During the Year, the Utah Gas and Oil Field recorded gas sale of around 3,371 thousand cubic feet, which was sold to Anadarko's midstream operations and other purchasers. On the other hand, oil sale was around 873 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

For the future trend of oil and gas, according to the oil price in 2018, the oil price remained low at USD50 to USD70 per barrel. In terms of the quotes of US Henry Hub, the oil price remained at USD2.5 to USD2.9 per thousand mile and square, which is at a low level. However, the tension of trade relations between China and the US is easing up. As such, the oil price is expected to increase gradually. Therefore, we will intensify the development efforts on gas fields in the US to enhance economic efficiency.

Looking ahead in 2019, due to multiple negotiations of the trade war between China and the US from the second half of 2018 to the beginning of 2019, the trade war is alleviated gradually and has no significant impact on our Company. In 2019, the global supply of oil and gas will be smooth. The growth in the first half year will be steady and the price is expected to be positively stable. In 2018, both crude oil processing volume and the nominal consumption of oil in China were over 600 million tonnes. The degree of external reliance on the oil price was almost 70%. The importation of gas was 90.385 million tonnes, which significantly increased 31.9% year-on-year. The importation of gas of China is expected to be 143.0 billion cubic metre. It would bring numerous opportunities to the integration and combination of the oil and gas industry.

To continue the objective last year, the Company has focused its business on oil and gas exploration, production and field operations in the Utah Gas and Oil Field, which is mainly 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 bring in new investors, develop and mine oil and gas in the US, drill and maintain oil wells, increase production, sales and injection of resources, strictly 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 issue of new shares, borrowings and internally generated resources. At the Year end date, the Group had approximately HK$102 million unsecured loans repayable within one year (2017: approximately HK$58 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 0.14 as at 31 December 2018 (31 December 2017: 0.19).

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.

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 2018, the number of employees of the Group was about 21 (2017: 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:

(1) 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 has been left vacant since his resignation. All duties of Chief Executive Officer are shared among Executive Directors. Ms. Xiao Li was appointed as the Chief Executive Officer and Executive Director of the Company with effect form 28 November 2018.

(2) Insufficient number of independent non-executive directors

As the majority of the votes cast against Resolutions Numbers 2(i)(b) to 2(i)(f), these Resolutions 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. In addition, Mr. Lam Kwan and Mr. Chan Kwan Pak, both of whom were Independent Non-executive Directors, retired at the 2018 AGM.

Immediately after the 2018 AGM and upto 2 October 2018:

(a) 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;

(b) 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;

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

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

Subsequently, three and six Independent Non-executive Directors were appointed on 3 October 2018 and 28 November 2018 respectively to re-comply with the relevant Listing Rules and code provision.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2018.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

The detailed results containing all the information required by paragraph 45 of Appendix 16 of the Listing Rules will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

By Order of the Board
Pearl Oriental Oil Limited
Liu Gui Feng
Charlady and Executive Director

Hong Kong, 29 March 2019

As at the date hereof, the Board comprises six executive Directors, namely Ms. Liu Gui Feng, Ms. Fan Amy Lizhen, Ms. Xiao Li, Mr. Cheung Kam Shing, Terry, Mr. Tang Yau Sing and Mr. Lin Qing Yu; and nine independent non-executive Directors, namely Mr. Xing Yong, Mr. Shi Wen Jiang, Mr. Chen Zhong Min, Mr. Jiang Cai Yi, Mr. Zhang Yue Yang, Mr. He Jun, Ms. Chen Xue Hui, Ms. Hu Jing and Ms. Lyu Jia Lian.