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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 2015

The board (the “Board”) of directors (the “Directors”) of Pearl Oriental Oil Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2015 (the “Period”) together with comparative figures for the previous corresponding period. The interim results have not been audited but have been reviewed by the Audit Committee of the Company.

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
	Notes		
<b>Revenue</b>			
Sales of oil and natural gas	3	519	1,558
Sales of plastic recycling materials	3	–	89,518
Other income	4	10,156	398
		<u>10,675</u>	<u>91,474</u>
<b>Expenses</b>			
Cost of sales of plastic recycling materials		–	88,623
Exploration, repair and maintenance expenses		1,102	1,210
Depreciation, depletion and amortisation		258	472
Selling, marketing and distribution costs		13	187
Other operating expenses		273	850
Administrative expenses		14,009	22,555
		<u>15,655</u>	<u>113,897</u>

\* For identification purpose only

		<b>Six months ended 30 June</b>	
		<b>2015</b>	<b>2014</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<i>Notes</i>		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Loss from operations</b>		<b>(4,980)</b>	<b>(22,423)</b>
Finance costs		<b>(993)</b>	–
Gain on deconsolidation of a subsidiary		–	423
Realised loss in financial assets at fair value through profit or loss		<b>(917)</b>	–
Unrealised gain/(loss) in financial assets at fair value through profit or loss		<b>2,320</b>	<b>(5,904)</b>
<b>Loss before tax</b>	<b>5</b>	<b>(4,570)</b>	<b>(27,904)</b>
Income tax credit	<b>6</b>	<b>877</b>	<b>1,227</b>
<b>Loss and total comprehensive loss for the period</b>		<b>(3,693)</b>	<b>(26,677)</b>
Attributable to:			
Owners of the Company		<b>(4,242)</b>	<b>(25,806)</b>
Non-controlling interests		<b>549</b>	<b>(871)</b>
		<b>(3,693)</b>	<b>(26,677)</b>
<b>Loss per share attributable to owners of the Company</b>	<b>8</b>		
– Basic ( <i>HK cents</i> )		<b>(0.13)</b>	<b>(0.80)</b>
– Diluted ( <i>HK cents</i> )		<b>(0.13)</b>	<b>(0.80)</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2015 (Unaudited) HK\$'000	At 31 December 2014 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment		88,821	89,201
Intangible assets	9	<u>2,307,517</u>	<u>2,307,664</u>
		<u>2,396,338</u>	<u>2,396,865</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	10	4,000	19,997
Prepayment, deposits and other receivables		32,424	33,736
Bank balances and cash		<u>30,494</u>	<u>2,489</u>
		<u>66,918</u>	<u>56,222</u>
<b>Current liabilities</b>			
Other payables and accruals		13,136	16,477
Other unsecured loan		<u>20,000</u>	<u>4,000</u>
		<u>33,136</u>	<u>20,477</u>
<b>Net current assets</b>		<u>33,782</u>	<u>35,745</u>
<b>Total assets less current liabilities</b>		2,430,120	2,432,610
<b>Non-current liabilities</b>			
Deferred tax liabilities		551,275	552,152
Asset retirement obligations		<u>3,579</u>	<u>3,579</u>
		<u>554,854</u>	<u>555,731</u>
<b>Net assets</b>		<u>1,875,266</u>	<u>1,876,879</u>
<b>Equity</b>			
Share capital	11	324,552	324,152
Reserves		<u>1,573,890</u>	<u>1,576,452</u>
Equity attributable to owners of the Company		1,898,442	1,900,604
Non-controlling interests		<u>(23,176)</u>	<u>(23,725)</u>
<b>Total equity</b>		<u>1,875,266</u>	<u>1,876,879</u>

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The Group's unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014.

### 2. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis except certain financial instruments that are measured at fair values.

The accounting policies used in preparing the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2014 except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations as disclosed below.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle
Amendments to HKAS 19	Defined Benefits Plans: Employee Contributions

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

### 3. SEGMENT INFORMATION

The Group has identified the following reportable segments:

- (a) Plastic recycling materials – procuring, processing and sales of recycling materials; and
- (b) Oil and gas sales – exploring, exploiting and sales of oil and natural gas.

	Segment revenue		Segment (loss)/profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of plastic recycling materials	–	89,518	(42)	(3,152)
Sales of oil and natural gas	<u>519</u>	<u>1,558</u>	<u>(1,622)</u>	<u>(3,169)</u>
	<u><b>519</b></u>	<u><b>91,076</b></u>		
Unallocated income			<b>10,154</b>	–
Unallocated expenses			<u>(13,470)</u>	<u>(16,102)</u>
Loss from operations			<b>(4,980)</b>	(22,423)
Finance costs			<b>(993)</b>	–
Gain on deconsolidation of a subsidiary			–	423
Realised loss in financial assets at fair value through profit or loss			<b>(917)</b>	–
Unrealised gain/(loss) in financial assets at fair value through profit or loss			<u><b>2,320</b></u>	<u>(5,904)</u>
Loss before tax			<u><b>(4,570)</b></u>	<u>(27,904)</u>

	As at 30 June 2015 (Unaudited)			As at 31 December 2014 (Audited)		
	Plastic recycling materials <i>HK\$'000</i>	Oil and gas sales <i>HK\$'000</i>	Total <i>HK\$'000</i>	Plastic recycling materials <i>HK\$'000</i>	Oil and gas sales <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	29,576	2,399,867	2,429,443	29,611	2,401,045	2,430,656
Unallocated assets			33,813			22,431
Total assets			<u>2,463,256</u>			<u>2,453,087</u>
Segment liabilities	8,928	5,717	14,645	8,928	5,703	14,631
Deferred tax liabilities			551,275			552,152
Unallocated liabilities			22,070			9,425
Total liabilities			<u>587,990</u>			<u>576,208</u>

The Group's revenue from external customers and its non-current assets (other than deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	Six months ended 30 June		At 30 June	At 31 December
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong (place of domicile)	–	89,518	379	649
United States of America	519	1,558	2,395,959	2,396,216
	<u>519</u>	<u>91,076</u>	<u>2,396,338</u>	<u>2,396,865</u>

#### 4. OTHER INCOME

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reversal of impairment loss on loan receivables	10,000	–
Others	156	398
	<u>10,156</u>	<u>398</u>

## 5. LOSS BEFORE TAX

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group's loss before tax is arrived at after charging/(crediting):		
Depreciation, depletion and amortization	530	748
Gain on deconsolidation of a subsidiary	–	(423)
Operating lease charges in respect of land and buildings	2,056	3,123
Realised loss in financial assets at fair value through profit or loss	917	–
Unrealised (gain)/loss in financial assets at fair value through profit or loss	(2,320)	5,904
Staff costs, including director emoluments	7,230	10,196

## 6. INCOME TAX CREDIT

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	–	–
Deferred Tax	877	1,227
	877	1,227

Hong Kong Profits Tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the period. 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.

## 7. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the period (2014: Nil).

## 8. LOSS PER SHARE

### (i) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$4,242,000 (2014: loss HK\$25,806,000) and the weighted average number of ordinary shares of 3,241,973,000 (2014: 3,241,520,000) in issue during the period.

### (ii) Diluted loss per share

During the period ended 30 June 2015 and 2014, 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.

## 9. INTANGIBLE ASSETS

	<b>Oil and gas processing rights HK\$'000</b>
<b>Cost</b>	
At 1 January 2014, at 31 December 2014 and at 30 June 2015	2,818,920
<b>Accumulated amortisation and impairment</b>	
At 1 January 2014	510,856
Amortisation for the year	400
At 31 December 2014 and at 1 January 2015	511,256
Amortisation for the period	147
At 30 June 2015	511,403
<b>Net carrying amounts</b>	
At 30 June 2015	2,307,517
At 31 December 2014	2,307,664

The intangible assets represents oil and gas processing rights in Utah, the United States of America. The intangible assets are amortised upon the commercial production of oil and natural gas on a unit-of-production basis over the total proved reserves.

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>At 30 June 2015 (Unaudited) HK\$'000</b>	<b>At 31 December 2014 (Audited) HK\$'000</b>
At fair value:		
Listed securities held for trading		
– Listed in Hong Kong	4,000	19,997



## 11. SHARE CAPITAL

<b>Authorized ordinary shares of HK\$0.10 each</b>		
	<i>No. of shares</i>	
	<i>'000</i>	<i>HK\$'000</i>
At 31 December 2014, at 1 January 2015 and at 30 June 2015	200,000,000	20,000,000
<b>Issued and fully paid ordinary shares of HK\$0.10 each</b>		
	<i>No. of shares</i>	
	<i>'000</i>	<i>HK\$'000</i>
At 31 December 2014 and at 1 January 2015	3,241,520	324,152
Issue of shares upon exercise of share option ( <i>Note</i> )	4,000	400
At 30 June 2015	3,245,520	324,552

*Note:*

Share options were exercised to subscribe for 4,000,000 ordinary shares of HK\$0.1 each in the Company on 10 June 2015 and 11 June 2015 at exercise price of HK\$0.52 per share, resulting in a total cash consideration of HK\$2,080,000.

## **MANAGEMENT DISCUSSION & ANALYSIS**

### **RESULT AND REVIEW OF OPERATIONS**

For the six months ended 30 June 2015 (the “Period”), the Group recorded a consolidated turnover of HK\$519,000 (2014: HK\$91,076,000), and the loss attributable to the owners of the Company for the Period amounted to HK\$4,242,000 (2014: HK\$25,806,000). Basic loss per share for the Period was HK0.13 cents (2014: HK0.80 cents). Loss per share was based on the weighted average of 3,241.97 million of shares in issue in first half of 2015.

The consolidated turnover was mainly contributed from the sales of oil and gas. Gross profit turnaround from HK\$771,000 in 2014 to gross loss HK\$841,000 for the Period, which is mainly due to the persistently low crude oil price and no revenue contribution from plastic recycling materials operations and the gross loss margin was 162% (2014: gross profit margin 0.8%).

Loss for the Period was HK\$3,693,000 (2014: HK\$26,677,000). The decrease was mainly due to decrease in staff costs and legal and professional fee in the Period.

In March 2013, settlement agreements have been entered into between the Company and certain debtors (the “Settlement Agreements”). Pursuant to the Settlement Agreements, the debtors have agreed to irrevocably surrender and deliver the pledged Shares to the Company. During the Period, 87,225,600 pledged Shares have been sold and the net proceeds of HK\$17.4 million have been applied towards the general working capital of the Group.

### **BUSINESS REVIEW**

#### **Plastic Recycling Business**

Due to the slowing down of China economic growth and decrease in crude oil price, the demand in plastic market is scaling back and the price of plastics has also driven down. During the Period, the Group has no transactions on plastic trading avoiding potential losses out of prudence.

#### **Oil and Gas Business**

The Group owns 100% ownership interest of the Utah Gas and Oil Field.

There are three (3) shale gas producing wells in the Utah Gas and Oil Field with gas production of around 10,797 thousand cubic feet in the first half of 2015 which is being sold to Anadarko’s midstream operations and other purchasers. On the other hand, there are two (2) oil producing wells with oil production of around 1,135 barrels during the Period. Plains All American Pipeline, L.P., USA is the purchaser to collect the Group’s crude oil produced in the Utah Gas and Oil Field.

## **EXPENDITURES INCURRED ON OIL & GAS PRODUCTION ACTIVITIES**

During the Period, no exploration activity had taken place. The expenditures incurred on the development and mining production activities during the Period were approximately HK\$2.6 million in aggregate.

There was constant and durable oil and gas production in the Utah Gas and Oil Field during the Period.

## **PROSPECTS**

In the second half of the year, the outlook for global economy is continually recovering at a mediocre pace but the market might be highly volatile given the increasing of economic uncertainty. The Group will continue to strike the balance between prudence and aggressiveness when implementing its strategy in a pragmatic manner and actively looking for strategic partners and development opportunities, paving the way for expanding current businesses once the market environment improves.

According to the announcements of the Company dated 28 June 2013, 15 October 2013, 21 December 2013 and 8 August 2014 in relation to a very substantial acquisition of the Company of part of an oil and gas exploration and production company with oil reserves mainly located in Russia, the Group entered into a share purchase agreement (the “S&P Agreement”) with Levant Energy Limited (the “Seller”), an independent third party, on 7 June 2013.

As the conditions precedent under the S&P Agreement had not been satisfied, the S&P Agreement was terminated in October 2013. To date, the Company has received US\$500,000 out of the initial consideration paid to the Seller under the S&P Agreement, in the amount of US\$10,000,000 less an amount equal to the costs and expenses of the Seller referred in the S&P Agreement. Management has been discussing with the Seller regarding the repayment of the remaining sum being US\$9,500,000 less the said costs and expenses (the “Net Initial Consideration”) but without success yet.

Therefore the Company has already engaged legal advisers to review the circumstances, and will consider to take legal and other actions to recover the Net Initial Consideration as it may think fit.

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

The Group generally finances its operations with issue of new shares and internally generated resources. At the Period end date, the Group had HK\$20 million other borrowings repayable within one year (2014: 4 million). The Group's cash and bank balances as at 30 June 2015 have increased to approximately HK\$30.5 million from HK\$2.5 million as at 31 December 2014, mainly as a result of sale of 87,225,600 Shares pledged to the Company and the receipt of HK\$10,000,000 loan repaid to the Group. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 2.02 as at 30 June 2015 (31 December 2014: 2.74).

During the Period, the Group conducted its business transactions principally in US dollars, Renminbi and Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2015, the number of employees of the Group was approximately 30. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and travelling allowances and discretionary bonuses.

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

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issues (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by the Directors during the Period.

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

During the Period, the Company has sold 87,225,600 shares pledged to the Company at HK\$0.20 per share by private arrangement.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Period.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Board is committed to achieving high standard of corporate governance.

In the opinion of the Board, the Company has complied throughout the Period with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, except for the following deviation:

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

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

## **REVIEW BY THE AUDIT COMMITTEE**

The Audit Committee consists of three independent non-executive Directors, namely Mr. Lam Kwan (Chairman of the Audit Committee), Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and has reviewed the unaudited interim results for the six months ended 30 June 2015.

## **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 2015, 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, Mr. Wong Yuk Kwan (alias: Wong Kwan), Mr. Wong Hiu Tung and Mr. Zhou Li Yang; and three independent non-executive Directors, namely, Mr. Lam Kwan, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine.

By Order of the Board  
**Pearl Oriental Oil Limited**  
**Wong Hiu Tung**  
*Executive Director*

Hong Kong, 28 August 2015