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 2012

CHAIRMAN'S STATEMENT

Dear Shareholders,

The consolidated revenue of Pearl Oriental Oil Limited (the "Company" or "Pearl Oriental") and its subsidiaries (the "Group") for the financial year ended 31 December 2012 was HK$453.52 million, or loss of HK$303.87 million after tax. The main reason for the loss was the stubbornly low market price of natural gas in the United States. The revaluation of Utah Gas and Oil Field, wholly owned by the Group, resulted in an impairment loss on intangible assets of HK$396.42 million at the end of the year. Although oversupply has prevailed the natural gas market in the U.S., the current valuation of Utah Gas and Oil Field is US$296 million, considerably higher than the total cost of the mergers and acquisitions made by the Group in 2010, which amounted to US$225 million. Therefore, the prospect is cautiously optimistic.

Judging from the situation, the Board temporarily slowed down the aggressive exploitation plan at Utah Gas and Oil Field last year, and decided to concentrate its internal resources to identify and invest in oil fields, so as to rapidly scale up 2P oil reserves of the Group, thus, enhancing the value of the Company. Pearl Oriental entered into a conditional cooperation agreement in mid-January 2013, carrying out mergers and acquisitions procedures for oil fields in Russia. We expect to achieve good results in the next two months.

The continuing economic growth in China in the future drives up the demand for oil with steadily rising crude oil price in the international market. Under such circumstances, Pearl Oriental, as an independent oil corporation listed in Hong Kong, leveraging on the "one country, two systems" policy, accelerates the mergers and acquisitions of oil field assets with greater development potential, thus expanding sources for long-term and stable income and maximising commercial interests for the Company.

At the beginning of the new year, a law-enforcement authority investigated certain directors of the Company, and the directors involved have strongly denied the allegations against them. The Utah Gas and Oil Field assets owned by the Group are under sound and safe operation with continuous daily production of natural gas and crude oil. The Company has a healthy and strong financial position. As at 31 December 2012, the Company has no bank borrowings, and has cash reserve of HK$200 million, with its net current assets including amounts receivable exceeding HK$400 million. Management has great confidence that the operations of the Group in the future are stable and healthy.

In order to face new challenges and seize new opportunities, the Board of the Company underwent a series of reorganizations, appointing several new executive directors, including a new chief executive officer, who have extensive experience in corporate investment and management, which enabled a rapid establishment of a stronger management team with expertise and skills, so as to march steadily towards better corporate governance. I am very pleased that all of our staff are highly motivated and serving the Company whole-heartedly with diligence.

On behalf of Pearl Oriental, I would like to take this opportunity to express my sincere gratitude to the resigned colleagues, namely, Dr. Lew Mon Hung, Mr. Cheung Kwok Yu, Mr. Hilal Al-Busaidi, Mr. Lam Ka Wai, Graham, Mr. Wang Tong Sai and Mr. Yu Jianmeng, for their valuable contributions during their term of office. I would also like to extend my warmest welcome to Mr. Mohamad Ajami, Mr. Lam Kwan, Mr. Law Wing Tak, Jack, Mr. Wong Hiu Tung, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine, who joined the Company as members of the Board in the new year. It is my expectation that the management team and employees will work cordially together to strive for the sustainable and rapid growth of Pearl Oriental, and bring more excellent investment returns for the shareholders as a whole.

Wong Kwan
Chairman

Hong Kong, 27 March 2013

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 2012 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2012**	2011
		HK$'000	*HK$'000*
CONTINUING OPERATIONS			
Revenue			
Sales of oil and natural gas	*6*	**4,689**	7,479
Sales of plastic recycling materials	*6*	**439,487**	487,922
Other income	*7*	**9,344**	15,530
		453,520	510,931
Expenses			
Cost of sales of plastic recycling materials		**428,935**	475,038
Exploration, repair and maintenance expenses		**350**	5,800
Depreciation, depletion and amortisation		**1,385**	2,427
Selling and distribution costs		**1,966**	2,358
Other operating expenses		**3,828**	2,256
Administrative expenses		**52,957**	58,629
Equity-settled share option expenses		**–**	7,104
		489,421	553,612
Loss from operations		**(35,901)**	(42,681)
Finance costs	*8*	**–**	(27)
Gain on disposal of available-for-sale investments		**51,107**	85,178
Impairment loss on goodwill		**(5,587)**	(23,408)
Impairment loss on intangible assets		**(396,415)**	(110,334)
Impairment loss on loan receivable		**(14,651)**	–
Loss before tax	*9*	**(401,447)**	(91,272)
Income tax credit	*10*	**97,576**	25,109
Loss for the year		**(303,871)**	(66,163)

CONSOLIDATED INCOME STATEMENT

	Notes	**2012** *HK$'000*	2011 *HK$'000*
Attributable to:			
Owners of the Company		**(303,321)**	(59,204)
Non-controlling interests		**(550)**	(6,959)
		(303,871)	(66,163)
		HK cents	HK cents
Loss per share attributable to owners of the Company	*12*		
Basic		**(8.90)**	(1.96)
Diluted		**(8.90)**	(1.96)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2012 *HK$'000*	2011 *HK$'000*
Loss for the year	**(303,871)**	(66,163)
Other comprehensive income		
Exchange differences on translation of financial statements of foreign operations	**–**	63
Total comprehensive loss for the year	**(303,871)**	(66,100)
Attributable to:		
Owners of the Company	**(303,321)**	(59,141)
Non-controlling interests	**(550)**	(6,959)
	(303,871)	(66,100)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**86,767**	82,690
Intangible assets	*13*	**2,308,800**	2,706,600
Goodwill		**5,101**	10,688
Deferred tax assets		**7,543**	7,381
		2,408,211	2,807,359
Current assets			
Inventories and supplies		**–**	1,369
Trade receivables	*14*	**6,589**	6,623
Prepayments, deposits and other receivables		**201,727**	233,521
Tax recoverable		**47**	376
Bank balances and cash		**207,816**	168,861
		416,179	410,750
Current liabilities			
Trade payables	*15*	**162**	3
Other payables and accruals		**14,803**	13,633
		14,965	13,636
Net current assets		**401,214**	397,114
Total assets less current liabilities		**2,809,425**	3,204,473
Non-current liabilities			
Deferred tax liabilities		**565,656**	663,117
Assets retirement obligations		**2,301**	2,301
		567,957	665,418
Net assets		**2,241,468**	2,539,055
Equity			
Share capital	*16*	**340,826**	340,826
Reserves		**1,903,393**	2,206,714
Equity attributable to owners of the Company		**2,244,219**	2,547,540
Non-controlling interests		**(2,751)**	(8,485)
Total equity		**2,241,468**	2,539,055

NOTES:

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 Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The principal activities of the Company and its subsidiaries (the "Group") are processing and sales of plastic recycling materials, and natural gas and petroleum exploration, exploitation and production in certain natural gas and oilfield located in Uinta Basin, Uintah County, Utah, the United States of America ("Utah Gas and Oil Field").

The consolidated financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 27 March 2013.

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 significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised in note 3 below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 3.

The consolidated financial statements have been prepared on the historical cost basis except for buildings which are stated at fair values less accumulated depreciation and any impairment losses. The measurement bases are fully described in the accounting policies below.

The preparation of 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 financial statements and major sources of estimation uncertainty are discussed in note 4.

3. ADOPTION OF NEW OR AMENDED HKFRSS

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2012:

Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets
Amendments to HKAS 12	Income taxes – Deferred tax: Recovery of underlying assets

Amendments to HKFRS 7, Financial instruments: Disclosures 54

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 11, Joint arrangements	1 January 2013
HKFRS 12, Disclosure of interests in other entities	1 January 2013
HKFRS 13, Fair value measurement	1 January 2013
HKAS 27, Separate financial statements (2011)	1 January 2013
HKAS 28, Investments in associates and joint ventures	1 January 2013
Revised HKAS 19, Employee benefits	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial Liabilities	1 January 2013
HK(IFRIC) Int 20, Stripping costs in the production phase of a surface	1 January 2013
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9, Financial instruments	1 January 2015

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 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 impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows the management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors.

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 has identified the following reportable segments:

(a) Plastic recycling materials – procuring, processing and sales of recycling materials; and

(b) Oil and gas sales – exploring, exploitating, and sales of natural gas and oil.

2012

	Plastic recycling materials *HK$'000*	Oil and gas sales *HK$'000*	Total *HK$'000*
Segment revenue	**439,487**	**4,689**	**444,176**
Segment loss	**(6,827)**	**(400,496)**	**(407,323)**
Gain on disposal of available-for-sale investments			**51,107**
Unallocated income			**7,805**
Unallocated expenses			**(53,036)**
Loss before tax			**(401,447)**
Income tax credit			**97,576**
Loss for the year			**(303,871)**
Segment assets	**56,184**	**2,411,080**	**2,467,264**
Deferred tax assets			**7,543**
Unallocated assets			**349,583**
Total assets			**2,824,390**
Segment liabilities	**7,234**	**2,463**	**9,697**
Deferred tax liabilities			**565,656**
Unallocated liabilities			**7,569**
Total liabilities			**582,922**
Capital expenditure	**68**	**3,309**	
Depreciation, depletion and amortisation	**323**	**1,385**	
Impairment loss on goodwill	**5,587**	**–**	
Impairment loss on intangible assets	**–**	**396,415**	

2011

	Plastic recycling materials *HK$'000*	Oil and gas sales *HK$'000*	Total *HK$'000*
Segment revenue	487,922	7,479	495,401
Segment loss	(23,485)	(113,960)	(137,445)
Gain on disposal of available-for-sale investments			85,178
Unallocated income			15,530
Equity-settled share option expenses			(7,104)
Finance costs			(27)
Unallocated expenses			(47,404)
Loss before tax			(91,272)
Income tax credit			25,109
Loss for the year			(66,163)
Segment assets	62,530	2,805,128	2,867,658
Deferred tax assets			7,381
Unallocated assets			343,070
Total assets			3,218,109
Segment liabilities	6,704	5,109	11,813
Deferred tax liabilities			663,117
Unallocated liabilities			4,124
Total liabilities			679,054
Capital expenditure	–	33,947	
Depreciation, depletion and amortisation	329	2,427	
Impairment loss on goodwill	23,408	–	
Impairment loss on intangible assets	–	110,334	

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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**439,487**	487,922	**6,657**	11,400
United States of America ("USA")	**4,689**	7,479	**2,394,011**	2,788,578
	444,176	495,401	**2,400,668**	2,799,978

The geographical location of customers is based on the location at which the goods delivered. The geographical location of the non-current assets is based on physical location of the asset.

The Group's customer base includes one (2011: one) customer with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to this customer amounted to HK$146,153,000 (2011: HK$104,301,000).

6. REVENUE

Revenue, which is also the Group's turnover, represents sales of recycling materials and sales of natural gas and oil during the year:

	2012	2011
	HK$'000	*HK$'000*
Sales of plastic recycling materials	**439,487**	487,922
Sales of oil and natural gas	**4,689**	7,479
Total revenue	**444,176**	495,401

7. OTHER INCOME

	2012	2011
	HK$'000	*HK$'000*
Bank interest income	**539**	30
Other loan interest income	**5,485**	9,265
Compensation from settlement of litigations	**1,781**	3,769
Others	**1,539**	2,466
Total other income	**9,344**	15,530

8. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	–	27

9. LOSS BEFORE TAX

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

	2012	2011
	HK$'000	*HK$'000*
Depreciation, depletion and amortisation	**657**	2,995
Operating lease charges in respect of land and buildings	**5,770**	3,833
Auditors' remuneration:		
– Annual audit	**1,000**	1,300
– Other assurance services	–	30
Exchange losses, net	–	655
Impairment loss on intangible assets	**396,415**	110,334
Impairment loss on goodwill	**5,587**	23,408
Gain on disposal of available-for-sale investments	**(51,107)**	(85,178)

10. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit 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 countries in which the Group operates.

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**47**	–
Deferred tax	**(97,623)**	(25,109)
Total income tax credit	**(97,576)**	(25,109)

11. DIVIDENDS

(a) Dividends attributable to the year

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2012.

On 31 March 2011, the directors recommended a bonus issue of shares on the basis of one bonus share for every five existing ordinary shares. The bonus issue of shares was approved by the shareholders at the annual general meeting and the share capital of the Company was increased by HK$56,804,000 by capitalising the share premium during the year ended 31 December 2011.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2012	2011
	HK$'000	*HK$'000*
Final dividend in respect of previous year of nil cents (2011: HK2 cents) per ordinary share	**–**	56,804

12. LOSS PER SHARE

	2012	2011
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company	**(303,321)**	(59,204)

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue used in basic earnings per share calculation	**3,048,263**	3,026,953

During the year ended 31 December 2012, 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.

13. INTANGIBLE ASSETS

	Oil and gas processing right	
	2012	2011
	HK$'000	*HK$'000*
At 1 January		
Cost	**2,818,920**	2,624,393
Accumulated amortisation and impairment	**(112,320)**	–
Net carrying amount	**2,706,600**	2,624,393
Year ended 31 December		
Opening net carrying amount	**2,706,600**	2,624,393
Addition	**–**	194,527
Amortisation	**(1,385)**	(1,986)
Impairment	**(396,415)**	(110,334)
Closing net carrying amount	**2,308,800**	2,706,600
At 31 December		
Cost	**2,818,920**	2,818,920
Accumulated amortisation and impairment	**(510,120)**	(112,320)
Closing net carrying amount	**2,308,800**	2,706,600

14. TRADE RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**9,529**	9,563
Less: impairment	**(2,940)**	(2,940)
	6,589	6,623

The credit terms are generally one month. In regard to plastic recycling business, sales deposits are required from certain customers.

Based on the invoice dates, the ageing analysis of the trade and bill receivables was as follows:

	2012	2011
	HK$'000	*HK$'000*
Less than 90 days	**6,589**	6,623

15. TRADE PAYABLES

The normal credit period granted by its suppliers is 60 days. Based on the invoice dates, the ageing analysis of the trade payables was as follows:

	2012	2011
	HK$'000	*HK$'000*
0-90 days	**162**	3

16. SHARE CAPITAL

	2012		2011	
	Number of shares		Number of shares	
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	**200,000,000**	**20,000,000**	200,000,000	20,000,000
Issued and fully paid:				
At 1 January	**3,408,262**	**340,826**	1,986,969	198,697
Issue of consideration shares	**–**	**–**	847,810	84,781
Bonus issue of shares *(note)*	**–**	**–**	568,043	56,804
Exercise of share options	**–**	**–**	5,440	544
At 31 December	**3,408,262**	**340,826**	3,408,262	340,826

Note:

Pursuant to an ordinary resolution passed in the annual general meeting on 27 May 2011, one bonus share was issued for every existing five shares held by shareholders. The bonus shares rank pari passu with existing shares in all respects but they did not rank for the final dividend recommended by the Company in respect of the year ended 31 December 2010.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report:

"**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 13 in the consolidated financial statements regarding the oil and gas processing rights in Utah with a carrying value of approximately HK$2,309 million. The initial recognition amount was HK$2,819 million acquired through business combination during the years 2010 and 2011. Recent allegations on one of the executive directors and two resigned executive directors might indicate possible uncertainties on this transaction. We have performed a site inspection and reviewed the relevant documents of the acquisition and nothing came to our attention which indicated material misstatements of the intangible assets recognized in 2010. Despite the result of our review, should subsequent events reveal significant adjustments are necessary, consolidated financial position of the Group for the years ended 31 December 2011 and 2012, and the consolidated statement of comprehensive income for the years 2011 and 2012 may be varied."

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2012 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK$453,520,000 (2011: HK$510,931,000) mainly from the processing and sales of plastic recycling materials operation by China Environmental Resources Limited, which is 60% owned by the Group. Basic loss per share for the Year was HK8.90 cents (2011: HK1.96 cents). Loss per share was based on the weighted average of 3,408 million shares in issue in the Year.

The gross profit was HK$13,506,000 (2011: HK$12,136,000) for the Year, which represented an increase of approximately 11% over last year and the gross profit margin has increased from 2.1% to 3.0%.

The Group recorded a gain on disposal of available-for-sale investments totalling HK$51,107,000 (2011: HK$85,178,000) due to the receipt of proceeds from disposal of equity investment in China Coal Energy Holdings Limited during the Year.

The loss attributable to the owners of the Company for the Year was HK$303,321,000 (2011: HK$59,204,000), mainly due to the changes in fair value of HK$396,415,000 on ownership interest in the Utah Gas and Oil Field during the Year.

BUSINESS REVIEW

Oil and Gas Business

The Group owns 100% Ownership Interest of the Utah Gas and Oil Field which is located in the Uinta Basin, Uintah Country, USA. It covers an area of approximately 3,692 acres.

There are five (5) shale gas producing wells in the Utah Gas and Oil Field with gas production of around 89,000 thousand cubic feet during the Year which is being sold to Anadarko's or Questar's midstream operations.

On the other hand, there are four (4) oil producing wells with oil production of around 7,700 barrels during the Year. Plains All American Pipeline, L.P., USA is the purchaser to collect Group's crude oil produced in the Utah Gas and Oil Field.

Plastic Recycling Industry

The plastic recycling industry has been affected by the lingering European sovereign debt crisis in the Year. Our customers were adversely affected by the sluggish performance of the European market, which in turn reduced their demand for plastic recycling materials.

Plastic recycling material operations contributed over 97% of the Group's consolidated revenue during the Year. The consolidated turnover of sales of recycling materials decreased from HK$487,922,000 in 2011 to HK$439,487,000 during the Year, representing a decrease of 10%.

PROSPECTS

In light of very low natural gas prices in U.S. last year which rendered the Group's sales of natural gas at a lower level, management has taken appropriate measures to temporarily slowdown the oil & gas exploitation activities in Utah, and may consider to utilize part of the remaining funds in the Utah Gas and Oil Field and the Company's internal resources to invest in certain possible crude oil exploitation projects in Texas, U.S. in order to maximize return to the Shareholders. Despite the recent fall of natural gas price in U.S., the medium and long term outlook for natural gas remains positive.

The Group will further expand its portfolio of oil assets and scale of oil reserves substantially through mergers and acquisitions, including without limitation, a number of oil field development projects in Russia, Kazakhstan, South Sudan and Canada etc which are under negotiation, so as to enhance the development potential of the Company. The Group has a strong financial position and adequate cash reserves and also built an excellent professional petroleum management team. The Board and management are confident and capable to develop the Company as an oil investment and operating company with satisfactory results.

SETTLEMENT OF LITIGATION

(a) On 31 July 2010, the Company entered into a settlement agreement (the "Settlement Agreement") with Mr. Zhang Jingyuan ("Mr. Zhang"), the joint venture party, to withdraw all legal claims against any parties to those litigations in Hong Kong and Mainland China and to dispose of 55.11% equity interest of China Coal Energy Holdings Limited ("China Coal") to Mr. Zhang. Upon completion of the disposal, the Company will have an aggregate net proceeds of HK$164.36 million to be received by instalments within 2 years. As a full provision of impairment loss in respect of China Coal has been made before, therefore, the disposal of equity interest of China Coal will bring a considerable amount of non-recurring gain to the Company.

On 12 March 2012, the Company entered into a Supplemental Settlement agreement (the "Supplemental Settlement Agreement") with Mr. Zhang. Pursuant to the Supplemental Settlement Agreement, Mr. Zhang and the Company have agreed to amend the payment dates for the Fourth and the Fifth instalments on or before 10 May 2012. During the Year, all of the net proceeds HK$164.36 million in aggregate have already received by the Company pursuant to the Settlement Agreement.

(b) Grand Ascend Investments Limited ("Grand Ascend"), a wholly owned subsidiary of the Company issued an indorsement of claim on 27 October 2009 at the High Court of Hong Kong against Laurent Kim and Ung Phong as guarantors for damages in the sum of approximately Euro 9.83 million as a result of their breaches of profit guarantee under the agreement dated 29 July 2006 between them and Grand Ascend. In addition, Grand Ascend claimed against them and Christine Tran Kim, wife of Laurent Kim for an order of declarations that:

(i) Laurent Kim is the sole beneficial owner of 5,000,000 shares (the "Shares") in the Company registered in the name of Christine Tran Kim which have been issued by the Company as part of the consideration for the Group's acquisition of 50% shares in Euro Resources China Limited in 2007;

(ii) Grand Ascend is entitled to levy execution of judgment to be obtained on the Shares. On 11 August 2011, the Group successfully obtained a judgment together with legal costs from the High Court of Hong Kong for a declaration that Laurent Kim is the sole beneficial owner of 6,000,000 ordinary shares (of which included 1,000,000 bonus shares issued by the Company on 9 June 2011) in the Company registered in the name of Kim Tran Christine.

The Group has already obtained a charging order absolute on these 6,000,000 ordinary shares in March 2012 and will proceed to levy execution thereon as soon as practicable in respect of the judgment that the Group has obtained for a sum of Euro 9,833,000 (equivalent to approximately HK$100,833,000) together with interest payable by Laurent Kim.

(c) On 4 August 2011, an originating summons (the "Summons") was delivered to management of the Company. The Summons have been taken out against the Company by Dransfield Holdings Limited (in liquidation) ("DHL"), a subsidiary which has been disposed of by the Group in around July 2005.

By the Summons, DHL alleged that the then intra-group transfer of the entire share capital of Good Value Holdings Limited (a former subsidiary of the Company) in around August 2003 was an unfair preference of the Company and was invalid, and DHL claimed against the Company for a sum of RMB 93,000,000.

Reference is made to the Company's announcement dated 23 August 2005 in respect of a legal action instituted by Horace Yao Yee Cheung, Habile International Holdings Limited and Makdavy Holding Limited (the "Previous Legal Action"). The subject matters of the Previous Legal Action have happened before the existing Board of Directors which has formed in May 2006. The Company has successfully appealed against a judgment regarding the Previous Legal Action as announced by the Company on 13 April 2010.

The subject matters of the Summons appear to be substantially the same and/or closely related to those of the Previous Legal Action.

On 29 May 2012, the Company successfully obtained a judgment from the High Court of Hong Kong to strike out the claim and dismiss the action. On 12 July 2012, the Company obtained an order from the High Court of Hong Kong that DHL requires to pay the Company for the costs of the Summons.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances it operations with issue of news shares and internally generated resources. At the Year end date, the Group did not have any borrowings (2011: Nil). Furthermore, the Group's cash and bank balances as at 31 December 2012 have increased to approximately HK$208 million from HK$169 million as at 31 December 2011 as a result of the receipt of final instalment of consideration for the disposal of equity interests in China Coal of HK$51,107,000 in aggregate (net proceeds after 3% expenses payable) from Mr. Zhang in June 2012. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 27.81 as at 31 December 2012 (31 December 2011: 30.12).

During the Year, 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 31 December 2012, the number of employees of the Group was about 60 (2011: 60). 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 the Model Code set out in Appendix 10 of the Listing Rule 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 standard set out in the Model Code during the Year.

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance.

On 1st April 2012, the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") (the "Former Code") was amended and renamed as Corporate Governance Code and Corporate Governance Report (the "New Code"). The Company has adopted the code provisions as stated in the New Code in substitution for and to the exclusion of the Former Code with effect from 1st April 2012. In the opinion of the Board, the Company has complied throughout the Year with the Former Code and the New Code, save for the following:

Code provision A.2.1 of the Former Code and the New Code stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Before 13 March 2013, the Company did not have a separate Chairman and Chief Executive Officer and Mr. Wong Kwan held both positions. With effect from 13 March 2013, Mr. Wong Kwan has resigned as Chief Executive Officer while remain as Chairman. On the same day, Mr. Law Wing Tak, Jack was appointed as Chief Executive Officer. The Board believes that the above mentioned segregation of the roles of the Chairman and the Chief Executive Officer would comply with the New Code and further enhance the best practice of the corporate governance of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2012.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises four executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Mr. Mohamad Ajami, Mr. Law Wing Tak, Jack and Mr. Wong Hiu Tung; two non-executive Directors, namely Mr. Baiseitov Bakhytbek and Mr. Chen Ping; and three independent non-executive Directors, namely Mr. Lam Kwan, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine.

On behalf of the Board
Pearl Oriental Oil Limited
Law Wing Tak, Jack
Executive Director and Chief Executive Officer

Hong Kong, 27 March 2013

* *For identification purpose only*