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# 東方明珠石油有限公司\*

## Pearl Oriental Oil Limited

*(the “Company”)*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 632)**

### **RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **CHAIRMAN’S STATEMENT**

Dear Shareholders,

For the year ended 31 December 2014, the consolidated revenue of Pearl Oriental Oil Limited (“Pearl Oriental” or the “Company”) and its subsidiaries (the “Group”) reached HK\$99.1 million. After-tax loss of the Group was HK\$124.3 million, HK\$38.3 million or 23.6% less as compared with that of HK\$162.6 million in 2013. Loss in year 2014 includes provision for loan and other receivables at around HK\$87.3 million. The management is confident that it may recover part of the other receivables will recover and record as the income of this year.

The international oil market suffered severe fluctuation last year with a crash of crude oil price. It is fortunate that price of natural gas remained relatively stable. The oil gas field in Utah, U.S.A. which is wholly owned by the Group mainly produces natural gas. As of the end of December 2014, the oil gas field was valued by independent international surveyors at US\$298 million, far higher than US\$225 million when the Company acquired it in 2010, with the appreciation of US\$73 million or 32.4%. This can serve as solid proof that the Board of directors (the “Board”) has made right decision in such acquisition. As a stakeholder in the oil gas field deal, I feel deeply satisfied to see this investment brought values on the book after so many years even in the oil price crisis in the last year.

Pearl Oriental currently has a sound financial position and the net asset value was about HK\$1.9 billion. The operations and development of the Group will be continually supported by my family as long as I still hold office of chairman and when necessary.

A consensus has been reached in the Board to broaden our shareholders group in order to fortify the Company’s financial strength and accelerate development. We are currently consulting reputational potential investors and looking for new funds injection to boost the development and output of the oil gas field in Utah and seeking new business opportunities and projects that can bring better investment returns to Pearl Oriental.

\* *For identification purpose only*

I am still in overseas now for my medical treatment. I feel exceptionally thankful for the endeavor and assistance of the Board and management team that sustain and vitalize the Group. In facing severe challenge, I do not regret all I have done in the past, nor do I dread what may come forth ahead. I shall exert all my strength to act for the best interest of the Company and public shareholders. I want to express my sincere gratitude to all shareholders for your ceaseless love and support. I am convinced that through our united efforts we must bring Pearl Oriental to the brightest prospects!

*Chairman*  
**Wong Kwan**

30 March 2015

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 2014 as follows:

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

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>Revenue</b>			
Sales of oil and natural gas	6	2,729	4,660
Sales of plastic recycling materials	6	94,638	403,753
Other income	7	1,690	1,064
		<u>99,057</u>	<u>409,477</u>
<b>Expenses</b>			
Cost of sales of plastic recycling materials		93,691	394,048
Exploration, repair and maintenance expenses		1,855	2,770
Depreciation, depletion and amortisation		626	972
Selling and distribution costs		208	1,085
Other operating expenses		1,526	8,310
Administrative expenses		35,525	60,146
Equity-settled share option expenses		–	26,567
		<u>133,431</u>	<u>493,898</u>
<b>Loss from operations</b>		<b>(34,374)</b>	<b>(84,421)</b>
Gain on deconsolidation of a subsidiary		423	–
Gain on disposal of property, plant and equipment		37	–
Impairment loss on goodwill		–	(5,101)
Impairment loss on loan receivables		(17,356)	(1,752)
Impairment loss on other receivables		(69,929)	–
Unrealised loss on financial assets at fair value through profit or loss		(4,761)	(75,323)
		<u>(125,960)</u>	<u>(166,597)</u>
<b>Loss before tax</b>	8	<b>(125,960)</b>	<b>(166,597)</b>
Income tax credit	9	1,979	3,983
		<u>(123,981)</u>	<u>(162,614)</u>
<b>Loss for the year</b>		<b>(123,981)</b>	<b>(162,614)</b>
<b>Other comprehensive loss</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Release of exchange difference upon deconsolidation of a subsidiary		(357)	–
		<u>(357)</u>	<u>–</u>
<b>Total comprehensive loss for the year</b>		<b><u>(124,338)</u></b>	<b><u>(162,614)</u></b>

	<i>Notes</i>	<b>2014</b> <b><i>HK\$'000</i></b>	2013 <i>HK\$'000</i>
Loss attributable to:			
Owners of the Company		<b>(123,125)</b>	(161,427)
Non-controlling interests		<b>(856)</b>	(1,187)
		<u><b>(123,981)</b></u>	<u>(162,614)</u>
Total comprehensive loss attribute to:			
Owners of the Company		<b>(123,482)</b>	(161,427)
Non-controlling interests		<b>(856)</b>	(1,187)
		<u><b>(124,338)</b></u>	<u>(162,614)</u>
		<b><i>HK cents</i></b>	<i>HK cents</i>
<b>Loss per share attributable to owners of the Company</b>	<i>11</i>		
Basic		<u><b>(3.80)</b></u>	<u>(4.91)</u>
Diluted		<u><b>(3.80)</b></u>	<u>(4.91)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>Notes</i>	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
<b>Non-current assets</b>			
Property, plant and equipment		<b>89,201</b>	89,955
Intangible assets	<i>12</i>	<b>2,307,664</b>	2,308,064
Goodwill		–	–
Loan receivables		–	5,756
		<u><b>2,396,865</b></u>	<u>2,403,775</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	<i>13</i>	<b>19,997</b>	47,669
Prepayments, deposits and other receivables		<b>33,736</b>	144,931
Bank balances and cash		<b>2,489</b>	1,180
		<u><b>56,222</b></u>	<u>193,780</u>
<b>Current liabilities</b>			
Trade payables	<i>14</i>	–	5
Other payables and accruals		<b>16,477</b>	19,692
Other unsecured loan		<b>4,000</b>	–
		<u><b>20,477</b></u>	<u>19,697</u>
<b>Net current assets</b>		<u><b>35,745</b></u>	<u>174,083</u>
<b>Total assets less current liabilities</b>		<u><b>2,432,610</b></u>	<u>2,577,858</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>552,152</b>	554,131
Asset retirement obligations		<b>3,579</b>	3,579
		<u><b>555,731</b></u>	<u>557,710</u>
<b>Net assets</b>		<u><b>1,876,879</b></u>	<u>2,020,148</u>
<b>Equity</b>			
Share capital	<i>15</i>	<b>324,152</b>	324,152
Reserves		<b>1,576,452</b>	1,699,934
		<u><b>1,900,604</b></u>	<u>2,024,086</u>
Equity attributable to owners of the Company		<b>1,900,604</b>	2,024,086
Non-controlling interests		<b>(23,725)</b>	(3,938)
		<u><b>1,876,879</b></u>	<u>2,020,148</u>

## **Notes to the Consolidated Financial Statement:**

*For the year ended 31 December 2014*

### **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, oil and natural gas and petroleum exploration, exploitation and production in certain natural gas and oil field 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 2014 were approved for issue by the board of directors on 30 March 2015.

### **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 Group incurred a loss of approximately HK\$123,981,000 for the year ended 31 December 2014. The directors are taking steps to improve the Group’s liquidity and financial performance, they have also obtained financial support from a director’s wife.

On the basis that the Group’s operating results and cash flows will be improved through the implementation of the measures described above, the directors are satisfied that the Group will be able to meet in full its financial obligation when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 certain financial instruments that are measured at fair values. The measurement bases are fully described in the accounting policies below.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

### 3. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied a number of new and revised HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2014:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011)	Investment Entities
HK (IFRIC) – Interpretation 21	Levies

The application of these new and revised HKFRSs and new interpretation of HK (IFRIC) 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 these consolidated financial statements.

The Group has not early adopted the following new and revised HKFRSs that have been issued but not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>2</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>2</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>1</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>2</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>2</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exemption <sup>2</sup>
Amendments HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>2</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 14	Regulatory Deferred Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the Group's financial performance and positions and/or on the disclosures set out in these consolidated financial statements.

#### **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 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, exploiting, and sales of oil and natural gas.

### 2014

	<b>Plastic recycling materials HK\$'000</b>	<b>Oil and gas sales HK\$'000</b>	<b>Total HK\$'000</b>
<b>Segment revenue</b>	<b>94,638</b>	<b>2,729</b>	<b>97,367</b>
<b>Segment loss</b>	<b>(3,171)</b>	<b>(4,868)</b>	<b>(8,039)</b>
Unrealised loss on financial assets at fair value through profit or loss			(4,761)
Gain on deconsolidation of a subsidiary			423
Unallocated income			1,690
Unallocated expenses			(115,273)
Loss before tax			(125,960)
Income tax credit			1,979
Loss for the year			<b>(123,981)</b>
<b>Segment assets</b>	<b>29,611</b>	<b>2,401,045</b>	<b>2,430,656</b>
Unallocated assets			22,431
Total assets			<b>2,453,087</b>
<b>Segment liabilities</b>	<b>8,928</b>	<b>5,703</b>	<b>14,631</b>
Deferred tax liabilities			552,152
Unallocated liabilities			9,425
Total liabilities			<b>576,208</b>
Capital expenditure	–	12	
Depreciation, depletion and amortisation	63	626	
Impairment loss on goodwill	–	–	

2013

	Plastic recycling materials <i>HK\$'000</i>	Oil and gas sales <i>HK\$'000</i>	Total <i>HK\$'000</i> (Restated)
<b>Segment revenue</b>	<u>403,753</u>	<u>4,660</u>	<u>408,413</u>
<b>Segment loss</b>	<u>(6,168)</u>	<u>(9,914)</u>	(16,082)
Unrealised loss on financial assets at fair value through profit or loss			(75,323)
Equity-settled share option expenses			(26,567)
Unallocated income			75
Unallocated expenses			<u>(48,700)</u>
Loss before tax			(166,597)
Income tax credit			<u>3,983</u>
Loss for the year			<u>(162,614)</u>
<b>Segment assets</b>	49,516	2,402,290	2,451,806
Unallocated assets			<u>145,749</u>
Total assets			<u>2,597,555</u>
<b>Segment liabilities</b>	6,731	3,584	10,315
Deferred tax liabilities			554,131
Unallocated liabilities			<u>12,961</u>
Total liabilities			<u>577,407</u>
Capital expenditure	85	3,791	
Depreciation, depletion and amortisation	63	972	
Impairment loss on goodwill	<u>5,101</u>	<u>–</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	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Hong Kong (place of domicile)	94,638	403,753	649	6,944
United States of America ("USA")	2,729	4,660	2,396,216	2,396,831
	<u>97,367</u>	<u>408,413</u>	<u>2,396,865</u>	<u>2,403,775</u>

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 three (2013: two) customers with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to HK\$34,431,000 (2013: HK\$197,813,000) which related to plastic recycling materials segment.

## 6. REVENUE

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

	2014 HK\$'000	2013 HK\$'000
Sales of oil and natural gas	2,729	4,660
Sales of plastic recycling materials	94,638	403,753
Total revenue	<u>97,367</u>	<u>408,413</u>

## 7. OTHER INCOME

	2014 HK\$'000	2013 HK\$'000
Bank interest income	32	75
Others	1,658	989
Total other income	<u>1,690</u>	<u>1,064</u>

## 8. LOSS BEFORE TAX

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Depreciation, depletion and amortisation	1,176	1,578
Operating lease charges in respect of land and buildings	4,643	5,625
Auditors' remuneration:		
– Annual audit	1,080	1,050
– Other assurance services	100	650
Exchange losses, net	–	1,350
Impairment loss on intangible assets	–	–
Impairment loss on goodwill	–	5,101
Impairment loss on loan receivables	17,356	1,752
Impairment loss on other receivables ( <i>note</i> )	69,929	–
Unrealised loss on financial assets at fair value through profit or loss	4,761	75,323
Employee benefit expense, including director emoluments:		
– Salaries and allowances	16,914	25,600
– Equity settled share-based payments	–	26,567
– Retirement scheme contributions	350	646
	<u>          </u>	<u>          </u>

*Note:* The amount related to deposits paid for Russia's project.

## 9. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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.

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit tax – under-provision in respect of prior year	–	–
Deferred tax – current year	<u>(1,979)</u>	<u>(3,983)</u>
Total income tax credit	<u>(1,979)</u>	<u>(3,983)</u>

## 10. DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

## 11. LOSS PER SHARE

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Loss</b>		
Loss for the year attributable to owners of the Company	<u>(123,125)</u>	<u>(161,427)</u>
	2014	2013
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue used in basic loss per share calculation ('000)	<u>3,241,520</u>	<u>3,289,487</u>
Basic loss per share ( <i>HK cents</i> )	<u>(3.80)</u>	<u>(4.91)</u>

During the year ended 31 December 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.

## 12. INTANGIBLE ASSETS

	<b>Oil and gas processing rights</b> <i>HK\$'000</i>
<b>Cost</b>	
At 1 January 2013, at 31 December 2013, at 1 January 2014 and 31 December 2014	<u>2,818,920</u>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2013	510,120
Amortisation for the year	<u>736</u>
At 31 December 2013 and at 1 January 2014	510,856
Amortisation for the year	<u>400</u>
At 31 December 2014	<u>511,256</u>
<b>Net carrying amounts</b>	
At 31 December 2014	<u>2,307,664</u>
At 31 December 2013	<u>2,308,064</u>

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
At fair value:		
Listed securities held for trading		
– Listed in Hong Kong	<u>19,997</u>	<u>47,669</u>

The fair values of the Group's financial assets at fair value through profit or loss were determined based on the quoted market bid prices available on the relevant exchanges at the end of the reporting period.

### 14. 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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0-90 days	<u>–</u>	<u>5</u>

All amounts are short-term and hence the carrying values of the trade payables are considered to be a reasonable approximation of fair value.

### 15. SHARE CAPITAL

	2014		2013	
	Number of shares '000	<i>HK\$'000</i>	Number of shares '000	<i>HK\$'000</i>
<b>Authorised:</b>				
Ordinary shares of HK\$0.1 each	<u>200,000,000</u>	<u>20,000,000</u>	<u>200,000,000</u>	<u>20,000,000</u>
<b>Issued and fully paid:</b>				
At 1 January	3,241,520	324,152	3,408,263	340,826
Share repurchase ( <i>note</i> )	–	–	(166,743)	(16,674)
<b>At 31 December</b>	<u>3,241,520</u>	<u>324,152</u>	<u>3,241,520</u>	<u>324,152</u>

*Note:*

Pursuant to an ordinary resolution passed in the annual general meeting on 22 May 2012, the Company was authorised to repurchase its shares.

## **16. COMPARATIVE FIGURES**

In previous year, the Group's deferred tax assets of approximately HK\$11,345,000 was presented in the face of the consolidated statement of financial position. In current year, the comparative amount of such deferred tax assets has been net off against the deferred tax liabilities to conform with the current year's presentation.

## **MODIFICATION OF INDEPENDENT AUDITOR'S REPORT**

The auditor modified its auditor's report on the consolidated financial statements for the year ended 31 December 2014 in respect of uncertainties relating to going concern.

### **Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 2 above which indicates that the Group incurred a loss of approximately HK\$123,981,000 during the year ended 31 December 2014. This condition, along with the matters as set forth above, indicate the existence of uncertainty which may cast doubt about the Group's ability to continue as a going concern.

As described in Note 2 above, the directors are taking steps to improve the Group's liquidity and financial performance, they have also obtained financial support from a director's wife.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS AND REVIEW OF OPERATIONS**

For the year ended 31 December 2014 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK\$99,057,000 (2013: HK\$409,477,000) mainly contributed from the processing and sales of plastic recycling materials and the sales of oil and gas. Basic loss per share for the Year was HK\$3.80 cents (2013: HK\$4.91 cents). Loss per share was based on the weighted average of 3,242 million shares in issue in the Year.

The gross profit was HK\$1,195,000 (2013: HK\$10,623,000) for the Year, which represented an decrease of approximately 88.8% over last year and the gross profit margin has decreased from 2.6% to 1.2%.

The loss attributable to the owners of the Company for the Year was HK\$123,482,000 (2013: HK\$161,427,000), mainly attributable to the impairment of the initial consideration paid to Levant Energy Limited pursuant to the S&P Agreement dated 7 June 2013 amount to HK\$69,929,000 and impairment on loan receivable amount to HK\$17,356,000.

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 Year, 100,000,000 pledged Shares have been sold and the net proceeds of HK\$22.9 million have been applied towards the general working capital of the Group.

## **BUSINESS REVIEW**

### **Plastic Recycling Business**

In view of the strict requirements for environmental protection in the People's Republic of China, a highly competitive plastic materials market and volatile price fluctuation, years of continuing loss making and to reduce its operational cost, the Group, has scaled down the operation, and now appointed an agent for trading business of plastic recycling materials instead.

The turnover of sales of plastic recycling materials decreased to HK\$94,638,000 during the Year from HK\$403,753,000, representing a drop of 76.6%.

### **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 sale of around 12,846.92 thousand cubic feet in 2014 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 sale of around 3,900 barrels during the Year. 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**

The international oil market suffered severe fluctuation in 2014 with a crash of crude oil price. However, it is fortunate that the natural gas price remain relatively stable. Management will make appropriate adjustments to the development strategies in the future if there are favorable changes in natural gas price in U.S.

In order to enhance the operation efficiency, the Group has taken up operations of Utah Gas and Oil Field in April 2014. In other words, the oil and gas field is now directly operated by the operational and technical team of the Company, which is more favorable to control the operation costs, accumulate operation experience of the Utah Gas and Oil Field and possibly to increase return in future.

In addition, a petrophysical study relating to Utah Gas and Oil Field has been conducted in 2014 by independent professional engineers. The study shows that some new oil and gas pay zones have been identified in the Utah Gas and Oil Field, positively indicating certain new potentials of the field subject to further confirmation by perforating and fracturing on the existing wells.

The Company will continuously evaluate the situation and consider plans to cooperate with strategic partners to raise funds for properly expediting development progress of the Utah Gas and Oil Field.



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 Year end date, the Group had HK\$4 million other borrowings repayable within one year (2013: Nil). The Group’s cash and bank balances as at 31 December 2014 have increased to approximately HK\$2.5 million from HK\$1 million as at 31 December 2013. The current ratio (calculated on the basis of the Group’s current assets over current liabilities) has decreased to 2.74 as at 31 December 2014 (31 December 2013: 9.84).

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 2014, the number of employees of the Group was about 30 (2013: 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, the Company has sold 100,000,000 shares pledged to the Company at HK\$0.25 per share.

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 Year.

## **CORPORATE GOVERNANCE PRACTICES**

The board of Directors of the Company (the "Board") is 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 of the Listing Rules, save for the following:

- i) Code Provision A.1.1 requires that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the Year, two regular Board meetings and one irregular Board meeting were held. Although the Board meetings held during the Year were not convened on a quarterly basis, the Board considered that sufficient meetings had been held as business operations were under the management and the supervision of the executive Directors. In addition, senior management of the Group provided to the Directors the information on the activities and development in the business of the Group from time to time and, when required, ad hoc Board meetings will be held;
- ii) Code provision A.2.7 of the Corporate Governance Code stipulates that the Chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. Nevertheless, from time to time, non-executive director of the Company express his view directly to the Chairman via other means including correspondences and emails. The Company is of the view that there is efficient communication between non-executive directors and the Chairman; and
- iii) Under code provision A.5.2, the nomination committee should review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy; and make recommendations to the board on the appointment or reappointment of directors and succession planning for directors, in particular the chairman

and the chief executive. During the Year, no nomination committee meeting was held while the nomination committee dealt with matters by way of circulation. In 2014 the nomination committee performed work as summarised below:

- (i) reviewed the structure, size and diversity of the Board;
- (ii) reviewed and confirmed the independence of the independent non-executive directors;
- (iii) reviewed and recommended to the Board the retiring Directors to stand for re-election by the Shareholders at the 2014 annual general meeting; and
- (iv) reviewed and recommended to the Board the re-designation of Directors, and appointment of alternate Directors and Director.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2014.

## **BOARD OF DIRECTORS**

As at the date hereof, the Board comprises four executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Mr. Law Wing Tak, Jack, Mr. Wong Hiu Tung and Mr. Zhou Li Yang; one non-executive Director, namely Mr. Baiseitov Bakhytbek; 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, 30 March 2015