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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 2015

CHAIRMAN’S STATEMENT

Dear Shareholders,

2015 was a challenging year. The severe fluctuation in the international oil and gas market with the continuous crash of crude oil and gas prices has placed a negative impact at Pearl Oriental Oil Limited (the “Company”) and its subsidiaries (the “Group”). Although the huge decrease in fair value of the Utah Gas and Oil Field was non-cash expenses with no impact on the cash flow, and there would be a benefit generated from asset appreciation of the Utah Gas and Oil Field as oil and gas prices rise again in the future, it has caused a significant loss of the Group last year.

Under this circumstance, for the financial year ended 31 December 2015, after-tax loss of the Group was HK\$1,486 million, but overall financial operations remained sound. The operations and development of the Company will be continually supported by my family as long as I still hold office of Chairman and when necessary.

After continuous depression, the price of oil and natural gas in the international market rebounded from the bottom with a promising outlook at the first quarter of this year. We are currently negotiating with potential investors who are in strong financial force and looking for new funds injection as soon as possible to boost the development, output and income of the Utah Gas and Oil Field. Meanwhile, the Management is seeking new business opportunities and projects that can bring new growth engine to the Group.

* *For identification purpose only*

I was unfortunately kidnapped and injured last year. Thanks to the high level of professionalism and expertise of Taiwan police, I was later rescued and escaped from danger. Over the past six months, I have had two cranial surgeries to drain the accumulated 1100 ml of blood clot in the head wounded by the kidnappers and I am still in treatment and rehabilitation. I would like to take this opportunity to express my sincere gratitude to all members of the community for their concern and encouragement, as well as to the Company's shareholders and colleagues for their unlimited support and help, for me to weather the storm of life, and the Company to march firmly forward in the face of adversity.

Facing the challenges, I will as always dedicate all my efforts to the Company and strive to bring the best returns for all shareholders with no fear. I wish the Group every success in 2016 and deeply believe that the Company will rise to a new higher level!

Chairman
Wong Kwan

31 March 2016

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 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue			
Sales of oil and natural gas	6	889	2,729
Sales of plastic recycling materials	6	–	94,638
Other income	7	2,881	1,690
		<u>3,770</u>	<u>99,057</u>
Expenses			
Cost of sales of plastic recycling materials		–	93,691
Exploration, repair and maintenance expenses of oil and natural gas		1,624	1,855
Depreciation, depletion and amortisation of oil and natural gas		634	626
Selling and distribution costs		54	208
Other operating expenses		475	1,526
Administrative expenses		26,486	35,525
		<u>29,273</u>	<u>133,431</u>
Loss from operations		(25,503)	(34,374)
Finance costs		(1,041)	–
Gain on deconsolidation of a subsidiary		–	423
Gain on disposal of property, plant and equipment		–	37
Written off of property, plant and equipment		(53)	–
Impairment loss on trade deposits paid		(28,396)	–
Impairment loss on loan receivables		–	(17,356)
Impairment loss on other receivables		–	(69,929)
Impairment loss on intangible assets		(1,909,456)	–
Reversal of impairment loss on loan receivables		10,000	–
Realised/unrealised loss on financial assets at fair value through profit or loss		(917)	(4,761)
		<u>(1,955,366)</u>	<u>(125,960)</u>
Loss before tax	8	(1,955,366)	(125,960)
Income tax credit	9	469,166	1,979
		<u>(1,486,200)</u>	<u>(123,981)</u>
Loss for the year		(1,486,200)	(123,981)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Release of exchange difference upon deconsolidation of a subsidiary		–	(357)
		<u>–</u>	<u>(357)</u>
Total comprehensive loss for the year		<u>(1,486,200)</u>	<u>(124,338)</u>

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit/(loss) attributable to:			
Owners of the Company		(1,487,577)	(123,125)
Non-controlling interests		1,377	(856)
		<u>(1,486,200)</u>	<u>(123,981)</u>
Total comprehensive income/(loss) attributable to:			
Owners of the Company		(1,487,577)	(123,482)
Non-controlling interests		1,377	(856)
		<u>(1,486,200)</u>	<u>(124,338)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share attributable to owners of the Company	<i>11</i>		
Basic		<u>(45.86)</u>	<u>(3.80)</u>
Diluted		<u>(45.86)</u>	<u>(3.80)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		88,426	89,201
Intangible assets	<i>12</i>	397,800	2,307,664
Goodwill		–	–
		<u>486,226</u>	<u>2,396,865</u>
Current assets			
Financial assets at fair value through profit or loss	<i>13</i>	–	19,997
Prepayments, deposits and other receivables		7,339	33,736
Bank balances and cash		17,459	2,489
		<u>24,798</u>	<u>56,222</u>
Current liabilities			
Other payables and accruals		11,700	16,477
Other unsecured loan		20,000	4,000
		<u>31,700</u>	<u>20,477</u>
Net current (liabilities)/assets		<u>(6,902)</u>	<u>35,745</u>
Total assets less current liabilities		<u>479,324</u>	<u>2,432,610</u>
Non-current liabilities			
Deferred tax liabilities		82,986	552,152
Asset retirement obligations		3,579	3,579
		<u>86,565</u>	<u>555,731</u>
Net assets		<u>392,759</u>	<u>1,876,879</u>
Equity			
Share capital	<i>14</i>	324,552	324,152
Reserves		90,555	1,576,452
Equity attributable to owners of the Company		415,107	1,900,604
Non-controlling interests		(22,348)	(23,725)
Total equity		<u>392,759</u>	<u>1,876,879</u>

Notes to the Consolidated Financial Statements:

For the year ended 31 December 2015

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 2015 were approved for issue by the board of directors on 31 March 2016.

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\$1,486,200,000 for the year ended 31 December 2015 (2014: HK\$123,981,000). 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 consolidated financial statements have been prepared on the historical cost basis except certain financial instruments that are measured at fair values.

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 2015:

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 Benefit Plans: Employee Contributions

The application of these new and revised HKFRSs 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 2012-2014 Cycle ¹
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exemption ¹
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
HKFRS 9	Financial Instruments ²
HKFRS 14	Regulatory Deferred Accounts ¹
HKFRS 15	Revenue from Contracts with Customers ²

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Available for application – the mandatory effective date will be determined when the outstanding phases of amendments to HKFRS 10 and HKAS 28 are finalised

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 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.

2015

	Plastic recycling materials HK\$'000	Oil and gas sales HK\$'000	Total HK\$'000
Segment revenue	<u>–</u>	<u>889</u>	<u>889</u>
Segment loss	<u>(25,954)</u>	<u>(1,911,965)</u>	<u>(1,937,919)</u>
Realised loss on financial assets at fair value through profit or loss			(917)
Reversal of impairment loss on loan receivables			10,000
Unallocated income			154
Unallocated expenses			(25,643)
Finance costs			<u>(1,041)</u>
Loss before tax			(1,955,366)
Income tax credit			<u>469,166</u>
Loss for the year			<u>(1,486,200)</u>
Segment assets	785	490,021	490,806
Unallocated assets			<u>20,218</u>
Total assets			<u>511,024</u>
Segment liabilities	6,011	5,520	11,531
Deferred tax liabilities			82,986
Unallocated liabilities			<u>23,748</u>
Total liabilities			<u>118,265</u>
Depreciation, depletion and amortisation	45	634	
Written off of property, plant and equipment	53	–	
Impairment loss on trade deposits paid	28,396	–	
Impairment loss on intangible assets	<u>–</u>	<u>1,909,456</u>	

2014

	Plastic recycling materials <i>HK\$'000</i>	Oil and gas sales <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>94,638</u>	<u>2,729</u>	<u>97,367</u>
Segment loss	<u>(3,171)</u>	<u>(4,868)</u>	(8,039)
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			<u>(115,273)</u>
Loss before tax			(125,960)
Income tax credit			<u>1,979</u>
Loss for the year			<u>(123,981)</u>
Segment assets	29,611	2,401,045	2,430,656
Unallocated assets			<u>22,431</u>
Total assets			<u>2,453,087</u>
Segment liabilities	8,928	5,703	14,631
Deferred tax liabilities			552,152
Unallocated liabilities			<u>9,425</u>
Total liabilities			<u>576,208</u>
Capital expenditure	–	12	
Depreciation, depletion and amortisation	<u>63</u>	<u>626</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		Specified non-current assets	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong (place of domicile)	–	94,638	101	649
United States of America ("USA")	889	2,729	486,125	2,396,216
	<u>889</u>	<u>97,367</u>	<u>486,226</u>	<u>2,396,865</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 in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets.

The Group's customer base includes three (2014: three) customers with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to HK\$889,000 which related to oil and gas sales segment (2014: HK\$34,431,000 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:

	2015 HK\$'000	2014 HK\$'000
Sales of oil and natural gas	889	2,729
Sales of plastic recycling materials	–	94,638
Total revenue	<u>889</u>	<u>97,367</u>

7. OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Bank interest income	3	32
Others	2,878	1,658
Total other income	<u>2,881</u>	<u>1,690</u>

8. LOSS BEFORE TAX

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Cost of sales of plastic recycling materials	–	93,691
Depreciation, depletion and amortisation	1,134	1,176
Operating lease charges in respect of land and buildings	3,942	4,643
Auditors' remuneration:		
– Annual audit	1,080	1,080
– Other assurance services	100	100
Impairment loss on intangible assets	1,909,456	–
Impairment loss on trade deposits paid	28,396	–
Impairment loss on loan receivables	–	17,356
Impairment loss on other receivables	–	69,929
Reversal of impairment loss on loan receivables	(10,000)	–
Realised/unrealised loss on financial assets at fair value through profit or loss	917	4,761
Employee benefit expense, including director emoluments:		
– Salaries and allowances	12,478	16,914
– Equity settled share-based payments	–	–
– Retirement scheme contributions	224	350
	<u> </u>	<u> </u>

9. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the year (2014: Nil). 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.

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Deferred tax – current year	<u>(469,166)</u>	<u>(1,979)</u>

10. DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: 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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company	<u>(1,487,577)</u>	<u>(123,125)</u>
	2015	2014
Number of shares		
Weighted average number of ordinary shares in issue used in basic loss per share calculation (<i>in thousands</i>)	<u>3,243,755</u>	<u>3,241,520</u>
Basic loss per share (<i>HK cents</i>)	<u>(45.86)</u>	<u>(3.80)</u>

During the year ended 31 December 2015, 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

	Oil and gas processing rights <i>HK\$'000</i>
Cost	
At 1 January 2014, at 31 December 2014, at 1 January 2015 and 31 December 2015	<u>2,818,920</u>
Accumulated amortisation and impairment	
At 1 January 2014	510,856
Amortisation for the year	<u>400</u>
At 31 December 2014 and at 1 January 2015	511,256
Amortisation for the year	408
Impairment for the year	<u>1,909,456</u>
At 31 December 2015	<u>2,421,120</u>
Net carrying amounts	
At 31 December 2015	<u>397,800</u>
At 31 December 2014	<u>2,307,664</u>

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
At fair value:		
Listed securities held for trading		
– Listed in Hong Kong	–	19,997

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. SHARE CAPITAL

	2015		2014	
	Number of shares '000	<i>HK\$'000</i>	Number of shares '000	<i>HK\$'000</i>
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	3,241,520	324,152	3,241,520	324,152
Share options exercised (<i>note</i>)	4,000	400	–	–
At 31 December	3,245,520	324,552	3,241,520	324,152

Note:

During the year ended 31 December 2015, 4,000,000 share options (which have been issued pursuant to the Company's share option scheme) have been exercised at an exercise price of HK\$0.52 per share, respectively, resulting in the issue of a total of 4,000,000 new ordinary shares in the Company with an aggregate gross proceeds of HK\$3,063,000 (including an amount transferred from share option reserve of approximately HK\$983,000). The net proceeds from the exercise of the share options were HK\$2,080,000.

MODIFICATION OF INDEPENDENT AUDITOR'S REPORT

The auditor modified its auditor's report on the consolidated financial statements for the year ended 31 December 2015 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\$1,486,200,000 during the year ended 31 December 2015. 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 2015 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK\$3,770,000 (2014: HK\$99,057,000) mainly contributed from the sales of oil and gas, and the decrease of revenue was mainly due to no revenue contribution from plastic recycling materials operations. Basic loss per share for the Year was HK\$45.86 cents (2014: HK\$3.80 cents). Loss per share was based on the weighted average of 3,244 million shares in issue in the Year.

The gross profit turnaround from HK\$1,195,000 in 2014 to gross loss HK\$1,369,000 for the Year, which is mainly due to significantly decreased oil and gas prices and no revenue contribution from plastic recycling materials operations and the gross loss margin was 154% (2014: gross profit margin 1.2%).

The loss attributable to the owners of the Company for the Year was HK\$1,487,577,000 (2014: HK\$123,482,000), mainly attributable to the impairment loss on fair value in the Group's intangible assets amount to HK\$1,909,456,000, which was resulted from significant decrease of oil and gas prices and lower production rate of oil and gas, and impairment loss on trade deposits paid amount to HK\$28,396,000.

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, 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's economic growth, decrease of crude oil price and tightened environmental protection policy adopted by Chinese government, the demand in recycled plastic market is scaling back and the price of recycled plastics has also been driven down, which resulted in a persistent downturn of the plastic recycling business in recent years. During the Year, the Group has no transactions on plastic trading avoiding potential losses out of prudence. As the Management cannot see any major improvement of the above mentioned factors as well as difficult situation of the recycled plastic market in the foreseeable future, the Company is considering to terminate the plastic recycling business in 2016 as it thinks fit in order to deploy resources focusing on oil and gas business and other possible new business opportunities of profitability.

Oil and Gas Business

There are six (6) shale gas producing wells in the Utah Gas and Oil Field with gas sale of around 13,774 thousand cubic feet in 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 sale of around 2,149 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 Company has focused its business on oil and gas exploration, production and field operations in the Utah Gas and Oil Field, which is mostly a gas field. Being cleaner and cheaper energy, gas has more advantages than other traditional energy like coal and oil and has therefore been given priority to develop by the government of the United States.

The Utah Gas and Oil Field is located in Uintah Basin of Utah, Midwestern of the United States which has very long history and good location for oil and gas business with matured infrastructure including water, electricity, roads and other logistic facilities around. The Company would like to develop the field by cooperating with investors of solid financial strength to increase production and income of gas and oil business.

Given the economy of the United States is recovering at a mediocre pace, the oil and gas market is still of good potential in futures. The oil and gas prices have rebounded from the bottom in the first quarter of 2016 with an outlook of promising. The Company 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 scale once the market environment improves. At the same time, the Company will explore and develop new business opportunities, bringing new growth engine for the Group.

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 taken legal actions aiming to recover the Net Initial Consideration.

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\$20 million other borrowings repayable within one year (2014: HK\$4 million). The Group’s cash and bank balances as at 31 December 2015 have increased to approximately HK\$17 million from HK\$2.5 million as at 31 December 2014. The current ratio (calculated on the basis of the Group’s current assets over current liabilities) has decreased to 0.78 as at 31 December 2015 (31 December 2014: 2.74).

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the number of employees of the Group was about 20 (2014: 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 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 87,225,600 shares pledged to the Company at HK\$0.20 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.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.

- 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) Code provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meeting. He should invite the chairman of the audit, remuneration, nomination committee and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Mr. Wong Kwan, the chairman of the Company and the chairman of the Nomination Committee of the Company, did not attend the 2014 AGM, due to he had his medical treatment oversea. Mr. Lam Kwan, the then chairman of each of the Audit Committee and the Remuneration Committee did not attend the 2014 AGM due to his own official engagement. However, arrangements including the attendance of another member of the Board had been in place to ensure the AGM was in order.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2015.

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.

On behalf of the Board
Pearl Oriental Oil Limited
Wong Hiu Tung
Executive Director

Hong Kong, 31 March 2016