



東方明珠石油有限公司
Pearl Oriental Oil Limited

Stock code : 0632



2019
Interim Report

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

		Six months ended 30 June	
		2019	2018
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	78,697	37,650
Cost of sales		(79,094)	(39,128)
Gross loss		(397)	(1,478)
Other income		–	8
Administrative expenses		(17,306)	(16,891)
Finance costs		(7,615)	(3,502)
Loss before tax	4	(25,318)	(21,863)
Income tax credit	5	352	–
Loss and total comprehensive loss for the period		(24,966)	(21,863)
Attributable to:			
Owners of the Company		(25,009)	(21,625)
Non-controlling interests		43	(238)
		(24,966)	(21,863)
Loss per share (HK cents)			
– Basic and diluted	7	(15.4)	(13.3)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	41,606	42,734
Right-of-use asset	8	4,514	–
Intangible assets		255,944	255,944
		302,064	298,678
Current assets			
Trade receivables	9	1,331	–
Prepayments, deposits and other receivables	10	20,941	19,344
Bank balances and cash		260	993
		22,532	20,337
Current liabilities			
Other payables and accruals	11	49,526	39,588
Unsecured loans	12	118,503	102,093
Obligations under finance lease due within one year		–	120
Leases liabilities		3,397	–
Tax payable		2	2
		171,428	141,803
Net current liabilities		(148,896)	(121,466)
Total assets less current liabilities		153,168	177,212
Non-current liabilities			
Deferred tax liabilities		34,632	34,984
Obligations under finance lease due after one year		–	372
Lease liabilities		1,646	–
Asset retirement obligations		3,579	3,579
		39,857	38,935
Net assets		113,311	138,277
Equity			
Share capital	13	324,552	324,552
Reserves		(212,427)	(187,418)
Equity attributable to owners of the Company		112,125	137,134
Non-controlling interests		1,186	1,143
Total equity		113,311	138,277

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						Sub-total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Treasury shares HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000			
At 31 December 2018 (Audited)	324,552	2,222,586	(10,556)	403,851	22,032	(2,825,331)	137,134	1,143	138,277
Total comprehensive loss for the period	-	-	-	-	-	(25,009)	(25,009)	43	(24,966)
At 30 June 2019 (Unaudited)	324,552	2,222,586	(10,556)	403,851	22,032	(2,850,340)	112,125	1,186	113,311
At 31 December 2017 (Audited)	324,552	2,222,586	(10,556)	403,851	28,954	(2,773,838)	195,549	1,430	196,979
Total comprehensive loss for the period	-	-	-	-	-	(21,625)	(21,625)	(238)	(21,863)
Share options lapsed	-	-	-	-	(4,956)	4,956	-	-	-
At 30 June 2018 (Unaudited)	324,552	2,222,586	(10,556)	403,851	23,998	(2,790,507)	173,924	1,192	175,116

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(15,247)	(6,088)
Net cash used in investing activities	–	(7,551)
Net cash generated from financing activities	14,514	10,690
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(733)	(2,949)
Cash and cash equivalents at beginning of period	993	4,503
	<hr/>	<hr/>
Cash and cash equivalents at end of period	260	1,554
	<hr/>	<hr/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Directors have given careful consideration to the going concern of the Group in light of the fact that (i) the Group had net current liabilities of approximately HK\$148,896,000 as at 30 June 2019 (As at 31 December 2018: approximately HK\$121,466,000); and (ii) upon the completion of the subscription of 7,300,000,000 new shares of HK\$0.1 each ("Share(s)") of the Company at the subscription price of HK\$0.02 (the "Subscription Price") per new Share by Xin Hua Petroleum (Hong Kong) Limited ("Xin Hua") and the subscription of 1,700,000,000 new Shares at the Subscription Price by Noble Pioneer Limited ("Noble"), respectively on 8 July 2019, a total of HK\$180,000,000 new funds was successfully raised by the Company (the "Share Subscriptions"), among of which HK\$80,000,000 was by set-off with the outstanding unsecured loan principal provided by Xin Hua and the relevant accumulative accrued interest in the amount of approximately HK\$5,638,000 was waived accordingly. Taken into account of these considerations, the Directors are of the opinion that the Group will have sufficient funds to meet in full its financial obligations as and when they fall due.

2. CHANGES IN ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the Period have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, the accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the Period are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised HKFRSs effective as of 1 January 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to HKFRS 9 HKFRS 16	Prepayment Features with Negative Compensation Leases
Amendments to HKAS 19 Amendments to HKAS 28	Plan, Amendment, Curtailment or Settlement Long-term Interests in Associates and Joint Ventures
HK(IFRIC)-Int 23 Annual Improvements 2015-2017	Uncertainty over Income Tax Treatments Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 Cycle

Other than as explained below regarding the impact of HKFRS 16 “Leases”, the new and revised standards are not relevant to the preparation of the Group’s unaudited condensed consolidated interim financial statements for the Period. The nature and impact of the new and revised HKFRS are described below:

Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 “Leases”, HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”, HK(SIC)-Int 15 “Operating Leases – Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of HKFRS 16 (continued)

(a) *Changes in the accounting policies*

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of HKFRS 16 (continued)

(a) *Changes in the accounting policies* (continued)

(ii) *Lessee accounting* (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of HKFRS 16 (continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liabilities are initially recognised at the present value of the lease payments payable over the lease terms. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease terms are reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease terms would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates used for determination of the present value of the remaining lease payments was approximately HK\$6,107,000.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use asset to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (ii) when measuring the right-of-use asset at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of HKFRS 16 (continued)

(c) *Transitional impact* (continued)

The following table reconciles the operating lease commitment as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitment at 31 December 2018	6,850
Less: total future interest expenses	<u>(743)</u>
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	6,107
Add: finance lease liabilities recognised as at 31 December 2018	<u>492</u>
Total lease liabilities recognised at 1 January 2019	<u>6,599</u>
Analysed as:	
Current	3,207
Non-current	<u>3,392</u>
	<u>6,599</u>

The right-of-use asset in relation to leases previously classified as operating leases has been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that leases recognised in the statement of financial position at 31 December 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of HKFRS 16 (continued)

(c) *Transitional impact* (continued)

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in “other property, plant and equipment”, except for the motor vehicle, and presents lease liabilities separately in the unaudited condensed consolidated interim statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group’s unaudited condensed consolidated interim statement of financial position:

	Carrying amount at 31 December 2018 <i>HK\$'000</i>	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 January 2019 <i>HK\$'000</i>
Line items in the unaudited condensed consolidated interim statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	6,107	6,107
Total non-current assets	298,678	6,107	304,785
Lease liabilities (current)	–	3,087	3,087
Current liabilities	141,803	3,087	144,890
Net current liabilities	(121,466)	(3,087)	(124,553)
Total assets less current liabilities	177,212	3,020	180,232
Lease liabilities (non-current)	–	3,020	3,020
Total non-current liabilities	38,935	3,020	41,955
Net assets	138,277	–	138,277

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of HKFRS 16 (continued)

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payment HK\$'000	Total minimum lease payment HK\$'000	Present value of the minimum lease payment HK\$'000	Total minimum lease payment HK\$'000
Within 1 year	3,397	3,793	3,207	3,793
After 1 year but within 2 years	<u>1,646</u>	<u>1,699</u>	<u>3,392</u>	<u>3,595</u>
	<u>5,043</u>	<u>5,492</u>	<u>6,599</u>	<u>7,388</u>
Less: total future interest expenses		<u>(449)</u>		<u>(789)</u>
Present value of lease liabilities		<u>5,043</u>		<u>6,599</u>

(e) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use asset and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's unaudited condensed consolidated interim statement of profit or loss for the Period, as compared to the results if HKAS 17 had been applied during the period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of HKFRS 16 (continued)

(e) Impact on the financial result, segment results and cash flows of the Group (continued)

In the unaudited condensed consolidated interim statement of cash flow for the Period, the Group as a lessee is required to split rentals paid under capitalised lease into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating lease under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the unaudited condensed consolidated interim statement of cash flow for the Period.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) exploring, exploiting and sales of oil and natural gas ("Oil and gas sales"), and (ii) trading of oil-related products.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and geographical location of customers is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products of service lines		
– Sales of oil and gas	104	119
– Sales of oil-related products	78,593	37,531
	78,697	37,650
Disaggregated by geographical location of customers		
– United States of America ("USA")	104	119
– Hong Kong	78,593	37,531
	78,697	37,650

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

2019

Six months 30 June 2019

	Oil and gas sales <i>HK\$'000</i>	Trading of oil-related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	104	78,593	78,697
Segment (loss)/profit	(1,637)	308	(1,329)
Unallocated expenses			(16,374)
Finance costs			(7,615)
Loss before tax			(25,318)
Income tax credit			352
Loss for the period			(24,966)

At 30 June 2019

	Oil and gas sales <i>HK\$'000</i>	Trading of oil-related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	299,975	13,651	313,626
Unallocated assets			10,970
Total assets			324,596
Segment liabilities	6,537	12,465	19,002
Deferred tax liabilities			34,632
Unallocated liabilities			157,651
Total liabilities			211,285

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

2018

Six months 30 June 2018

	Oil and gas sales <i>HK\$'000</i>	Trading of oil-related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	119	37,531	37,650
Segment loss	(1,450)	(187)	(1,637)
Unallocated expenses			(16,724)
Finance costs			(3,502)
Loss before tax			(21,863)
Income tax credit			–
Loss for the period			(21,863)

At 31 December 2018

	Oil and gas sales <i>HK\$'000</i>	Trading of oil-related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	297,416	12,628	310,074
Unallocated assets			8,941
Total assets			319,015
Segment liabilities	5,490	12,402	17,892
Deferred tax liabilities			34,984
Unallocated liabilities			127,862
Total liabilities			180,738

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION (continued)

Disaggregation of revenue (continued)

The Group's revenue from external customers and its non-current assets are divided into the following geographical areas:

	Revenue from external customers		Specified non-current assets	
	Six months ended 30 June 2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
- Hong Kong (place of domicile)	78,593	37,531	7,865	4,366
- USA	104	119	294,199	294,312
	<u>78,697</u>	<u>37,650</u>	<u>302,064</u>	<u>298,678</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. LOSS BEFORE TAX

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Note)	(Reclassified)
The Group's loss before tax is arrived at after charging:		
Depreciation of property, plant and equipment	1,128	623
Depreciation of right-of-use asset	1,593	–
Operating lease charges in respect of land and buildings	–	2,300
Employee benefit expense, including director emoluments:		
– Salaries and allowances	4,794	8,320
– Retirement scheme contributions	79	98
	7,594	11,341

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. INCOME TAX CREDIT

	Six months ended 30 June	
	2019	2018
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Deferred tax	<u>352</u>	<u>–</u>

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the Period (2018: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for both periods at the rates of taxation prevailing in the countries in which the Group operates.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the Period (2018: Nil).

7. LOSS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited) (Restated)
Loss for the period attributable to owners of the Company (HK\$'000)	(25,009)	(21,625)
Weight average number of ordinary shares in issue ('000)	<u>162,270</u>	<u>162,270</u>
Basic loss per share (HK cents)	<u>(15.4)</u>	<u>(13.3)</u>

During the six months ended 30 June 2019 and 2018, 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

a) Property, plant and equipment

During the year ended 31 December 2018, addition to motor vehicles financed by new finance lease was approximately HK\$638,000. At the six months ended 30 June 2019, the net book value of motor vehicles held under finance lease was approximately HK\$398,000 (year ended 31 December 2018: approximately HK\$494,000).

b) Right-of-use asset

As discussed in note 2, the Group initially applied HKFRS 16 and adjusted the opening balances at 1 January 2019 to recognise right-of-use asset relating to leases which were previously classified as operating leases under HKAS 17.

The Group is required to make fixed monthly payments of the office rentals during the contract period. As at 30 June 2019, the Group recognised both right-of-use asset and lease liabilities of approximately HK\$4,514,000 and HK\$4,610,000 respectively.

9. TRADE RECEIVABLES

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Trade receivables	1,331	–

As at 30 June 2019, all trade receivables were from trading of oil-related products segment with credit terms of 30 days. These receivables were expected to be recovered within one year. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. TRADE RECEIVABLES (continued)

The following is an aged analysis of trade receivables net of loss allowance presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
31 to 60 days	1,022	–
61 to 90 days	309	–
	<u>1,331</u>	<u>–</u>

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Prepayments	6,921	5,317
Rental and other deposits paid	1,089	1,089
Deposit paid for acquiring Russia oil fields (note (a))	69,929	69,929
Trade deposits paid (note (b))	40,704	40,704
Other receivables	2,303	2,310
	<u>120,946</u>	<u>119,349</u>
Less: Impairment loss on other receivable (notes (a) and (c))	(71,609)	(71,609)
Less: Impairment loss on trade deposits paid (note (b))	(28,396)	(28,396)
	<u>20,941</u>	<u>19,344</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(continued)

Notes:

- (a) On 7 June 2013, the Group, through a wholly-owned subsidiary, entered into a sales and purchases agreement (the "S & P Agreement") with Levant Energy Limited ("Levant"), an independent third party, to acquire 23.10% of the total share capital of Timan Oil & Gas plc ("Timan") which held two onshore oilfields in Russia and two offshore exploration blocks in the Caspian Sea of Russia. US\$10,000,000 (equivalent to approximately HK\$77,706,000) was paid in cash as deposit. Details please refer to the Company's announcement dated 28 June 2013.

As the conditions precedent to closing under the S & P Agreement were not satisfied (nor waived by the Group) on or before 30 September 2013, the S & P Agreement has terminated without reaching any agreement as to extension. Levant agreed to enter into discussions with the Group concerning the repayment of the initial consideration paid under the S & P Agreement, in the amount of US\$10,000,000, less an amount equal to the costs and expenses incurred by Levant referred to in the S & P Agreement. Details please refer to the Company's announcements dated 15 October 2013 and 21 December 2013.

To date, the Company has received US\$500,000 out of the initial consideration paid under the S & P Agreement. In 2014, the Company considered that the remaining balance should be fully impaired for conservative accounting purpose. The Company is still chasing for the return of the remaining balance.

- (b) In 2015, plastic recycling business has experienced a significant downturn and no sales transactions were made to avoid potential losses. In view of the overall environment for this business segment, the Group decided to provide full impairment on the related trade deposits. At 31 December 2018, the remaining balance of approximately HK\$12,308,000 was deposit paid for trading of oil-related products during the year.
- (c) Included in the above provision for impairment of other receivables is a provision of HK\$1,680,000 for receivables from an individual that was in default on principal payments and the amount is not expected to be recovered in the foreseeable future.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>
Accruals	13,187	6,805
Accrued directors' fee and salaries	8,269	8,332
Accrued debts settlement expenses	2,910	6,910
Contract liabilities	12,402	12,402
Interests payables	10,567	3,293
Other payables	2,191	1,846
	<u>49,526</u>	<u>39,588</u>

The carrying amounts of other payables and accruals at the end of the Period approximate their fair values. All of the other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

12. UNSECURED LOANS

During the Period, total amount of HK\$16,890,000 additional unsecured loans were obtained including in the net cash flow of financing activities.

At 30 June 2019, unsecured loans carried interest at 8-12% per annum and repayable within one year (as at 31 December 2018: interest at 12% per annum and repayable within one year), of which, the amounts of HK\$1,650,000 and HK\$4,623,000 are borrowed from Mr. Lin Qing Yu, the executive director, and Ms. Fan Amy Lizhen, the former executive director who retired on 28 June 2019, respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.10 each	
	<i>No. of shares</i> <i>'000</i>	<i>HK\$'000</i>
At 31 December 2018, at 1 January 2019 and at 30 June 2019	<u>200,000,000</u>	<u>20,000,000</u>
	Issued and fully paid ordinary shares of HK\$0.10 each	
	<i>No. of shares</i> <i>'000</i>	<i>HK\$'000</i>
At 31 December 2018, at 1 January 2019 and at 30 June 2019	<u>3,245,520</u>	<u>324,552</u>

- (a) Subsequent to the end of the Period, on 8 July 2019 a total of 9,000,000,000 subscription shares (the “Share Subscriptions”) of the Company were issued at the subscription price of HK\$0.02 per subscription share, pursuant to the ordinary resolutions in relation to the subscriptions of shares of the Company, by Xin Hua and Noble, passed by the shareholders of the Company at the special general meeting (the “SGM”) of the Company held on 12 June 2019 and subsequently adjourned to 24 June 2019.
- (b) Subsequent to the end of the Period, following the completion of the Share Subscriptions, on 10 July 2019, a capital reorganisation (the “Capital Reorganisation”) of the Company was taken effect pursuant to the special resolution passed by the shareholders of the Company at the SGM, of which (i) the nominal value of each then issued share of the Company (the “Share(s)”) was reduced from HK\$0.10 to HK\$0.01 (the “Capital Reduction”); (ii) immediately following the Capital Reduction, each of the authorised but unissued Shares of nominal value of HK\$0.10 each was subdivided into 10 new Shares of nominal value of HK\$0.01 each (the “Share Subdivision”); and (iii) a share consolidation on the basis that every 20 issued and unissued Shares of nominal value of HK\$0.01 each were consolidated into one consolidated Share of nominal value of HK\$0.20 each in the share capital of the Company (the “Share Consolidation”).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. RELATED PARTIES TRANSACTION

Save as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, during the Period, the Group had the following significant transactions and balances with its related parties:

Directors' material interests in transactions and arrangement

	As at 30 June 2019 (Unaudited) HK\$'000	As at 30 June 2018 (Unaudited) HK\$'000
Interest expenses on unsecured loans paid to directors		
– Ms. Fan Amy Lizhen*	233	–
– Mr. Lin Qing Yu	47	–
	<u>280</u>	<u>–</u>

* Ms. Fan Amy Lizhen, the former executive director of the Company who retired on 28 June 2019.

15. EVENTS AFTER THE REPORTING PERIOD

As detailed in note 13 in the unaudited condensed consolidated interim financial statements, the Share Subscriptions of the Company and the Capital Reorganisation were completed on 8 July 2019 and 10 July 2019 respectively.

16. COMPARATIVE FIGURES

Certain comparative figures set out in the unaudited condensed consolidated interim statement of profit or loss and other comprehensive income for the Period have been reclassified to conform with current period's presentation.

The reclassification has no impact on the Group's financial positions as at 1 January 2019 and 30 June 2019 and the Group's financial performance and cash flow for the year ended 31 December 2018 and the six months ended 30 June 2019.

MANAGEMENT DISCUSSION & ANALYSIS

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2019, the Group focused on its principal business of (i) exploring, exploiting and sales of oil and natural gas (the “Oil and Gas Business”) and (ii) trading of oil-related products (the “Trading Business”).

For the Period, the Group recorded a consolidated revenue of approximately HK\$78,697,000 (2018: HK\$37,650,000), and the loss attributable to the owners of the Company amounted to approximately HK\$25,009,000 (2018: HK\$21,625,000). Basic loss per share for the Period was HK15.4 cents (2018: HK13.3 cents). Loss per share was based on the weighted average of approximately 162.3 million of shares in issue after the Capital Reorganisation.

The consolidated revenue was mainly contributed from the Trading Business. Gross loss for the Period amounted approximately HK\$397,000 (2018: HK\$1,478,000), which was mainly due to the small scale of economics of the Group’s oil and gas business.

Loss for the Period was approximately HK\$24,966,000 (2018: HK\$21,863,000). The increase was mainly due to the increase in finance costs of unsecured loans of the Group as compared to that of the corresponding period last year.

BUSINESS REVIEW

Trading Business

During the Period, the Group recorded a revenue of approximately HK\$78,593,000 (2018: HK\$37,531,000) contributing from the trading of oil-related products, representing an increase of approximately 109.4% as compared to that of the corresponding period last year. Following the completion of the share subscriptions by Xin Hua and Noble on 8 July 2019, new operating funds were raised and new Directors with extensive business network and experience in the trading of petroleum and petrochemical products were appointed by the Company. The management is optimistic to further strengthen the trading business in the coming periods, especially on those products with high profit margins.

Oil and Gas Business

There are six (6) shale gas producing wells in the Utah Gas and Oil Field with a sale of around 812 thousand cubic feet during the Period (2018: 1,865 thousand cubic feet) which is mainly sold to Anadarko’s midstream operations. On the other hand, there is one (1) oil producing well with a sale of around 441 barrels (2018: 480 barrels) during the Period. Plains All American Pipeline, L.P., USA is the purchaser to collect the Group’s crude oil produced in the Utah Gas and Oil Field.

MANAGEMENT DISCUSSION & ANALYSIS

EXPENDITURES INCURRED ON OIL & GAS PRODUCTION ACTIVITIES

During the Period, no exploration activity had taken place. The expenditures incurred on the mining production activities during the Period were approximately HK\$815,000 (2018: HK\$589,000) in aggregate.

SHARE SUBSCRIPTIONS

On 13 February 2019, the Company, Xin Hua and Noble entered into a share subscription agreement (the “First Subscription Agreement”), pursuant to which, the Company conditionally agreed to allot and issue and each of Xin Hua and Noble conditionally agreed to subscribe for 7,300,000,000 and 1,700,000,000 new shares of HK\$0.1 each of the Company respectively, constituting an aggregate of 9,000,000,000 new shares of the Company (the “Subscription Share(s)”), in each case at an subscription price of HK\$0.02 per Subscription Share.

As supplemented to the First Subscription Agreement, on 29 March 2019, the Company, Xin Hua and Noble entered into a supplemental agreement (the “Supplemental Agreement”), pursuant to which the parties thereto agreed to cancel Noble’s subscription of new shares under the First Subscription Agreement, while the subscription by Xin Hua of 7,300,000,000 Subscription Shares remained unchanged.

On 3 April 2019, the Company and Noble entered into a second subscription agreement (the “Second Subscription Agreement”), pursuant to which the Company conditionally agreed to allot and issue and Noble conditionally agreed to subscribe for 1,700,000,000 new shares of the Company at an issue price of HK\$0.02 per Subscription Share.

On 24 June 2019, the shareholders of the Company duly passed all the relevant resolutions in relation to the allotment and issuance of Subscription Shares under the special mandate at the SGM. On 8 July 2019, the Share Subscriptions were completed, and a total of HK\$180,000,000 new funds was successfully raised by the Company, among of which HK\$80,000,000 was by set-off with the outstanding unsecured loan principal provided by Xin Hua and the relevant accumulative accrued interest in the amount of approximately HK\$5,638,000 was waived accordingly, and Xin Hua also became the controlling shareholder of the Company (for more details, please refer to the announcements of the Company dated 16 April 2019 and 8 July 2019, and the circular of the Company dated 21 May 2019).

MANAGEMENT DISCUSSION & ANALYSIS

PROSPECTS

Oil prices (WTI) remained at US\$50 to US\$70 per barrel in 2018. International oil prices have been stabilising at around US\$55 per barrel since 2019 despite the recent China-US trade war. The consumption and import of oil into China has been growing. In 2018, both crude oil processing volume and the nominal consumption of oil in China were over 600 million tonnes. The degree of external reliance on the oil was almost 70%. The importation of gas was approximately 90 million tonnes, which significantly increased approximately 32% year-on-year. The importation of gas of China for 2019 is expected to be approximately 143 billion cubic metre. It would bring numerous opportunities to the integration and combination of the oil and gas industry. Given the China-US trade war is pending to be resolved, the global demand/supply of oil has been adjusting to the market factors and it is expected that international oil prices are likely to stabilise in the future.

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. The Utah Gas and Oil Field is located in Uintah Basin of Utah, Midwestern of the United States which has very long history and good location for oil and gas business with mature infrastructure and oil field service facility including water, electricity, roads, pipeline network and other logistic facilities around. As the U.S. government encourages the development of the domestic oil and gas industry, the oil and gas market environment is expected to improve continuously. Nevertheless, the markets are still confronted with ongoing uncertainties and challenges. Therefore, the management of the Group will continue to keep a close eye on and make assessment of the market situation from time to time. To reduce investment risk, and as opportunities arise, the management may also consider seeking new co-operators and/or investors with solid financial strength to expand the Group's gas and oil business.

Upon the completion of the Share Subscriptions in early July 2019, the financial position of the Group has been improved significantly. Most of the new Directors recently appointed by the Company have extensive business network and experience in the production and distribution of petroleum and petrochemical products. The management is formulating both the short-term and long-term business plan to make use of the resources of the Group and concentrate on high value-added projects and products so as to maximise the value of the Company as well as shareholders' wealth. At the same time, the management will explore other new business opportunities, bringing new growth and momentum to the Group in the near future.

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with debt financing. As at 30 June 2019, the Group had approximately HK\$118,503,000 unsecured loans repayable within one year (As at 31 December 2018: HK\$102,093,000). The Group's cash and bank balances as at 30 June 2019 have decreased to approximately HK\$260,000 from HK\$993,000 as at 31 December 2018, mainly due to weak cash generation from operating activities. The current ratio (calculated on the basis of the Group's current assets over current liabilities) was to 0.13 as at 30 June 2019 (As at 31 December 2018: 0.14).

During the Period, the Group conducted its business transactions principally in US dollars and Hong Kong dollars. 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.

CAPITAL REORGANISATION

Pursuant to the special resolutions passed by the shareholders of the Company at the SGM held on 24 June 2019, in relation to, among others, the Capital Reorganisation, of which (i) the Capital Reduction, whereas the nominal value of each then issued Share would be reduced from HK\$0.10 to HK\$0.01; (ii) the Share Subdivision, whereas immediately following the Capital Reduction, each of the authorised but unissued Shares of nominal value of HK\$0.10 each would be subdivided into 10 new Shares of nominal value of HK\$0.01 each; and (iii) the Share Consolidation, whereas subject to and effective following completion of the Share Subscription by Xin Hua (or both Share Subscriptions, as the case may be), a share consolidation on the basis that every 20 issued and unissued Shares of nominal value of HK\$0.01 each were consolidated into one consolidated Share of nominal value of HK\$0.20 each in the share capital of the Company.

The Capital Reorganisation took effect from 10 July 2019 (for more details, please refer to the announcement of the Company dated 16 April 2019 and circular of the Company dated 21 May 2019).

MANAGEMENT DISCUSSION & ANALYSIS

LITIGATION

- (a) On 22 October 2018, one of the shareholders of the Company, namely Mr. Chung Keng (“Mr. Chung”) commenced legal proceedings at the Court of First Instance of the High Court (the “Court of First Instance”) to seek leave to commence a derivative action (the “Derivative Action”) for and on behalf of the Company against two Directors, Ms. Fan Amy Lizhen (“Ms. Fan”) and Mr. Tang Yau Sing (“Mr. Tang”), for breach of directors’ duties owed to the Company. During the hearing held before the Court of First Instance on 2 May 2019, the Court of First Instance granted Mr. Chung leave to commence the Derivative Action against Ms. Fan and Mr. Tang for and on behalf of the Company. Mr. Chung has in the name of the Company commenced the Derivative Action against Ms. Fan and/or Mr. Tang.

Given that the Derivative Action has not yet been trialled, it is premature to predict the outcome of the Derivative Action and therefore the Directors consider that no provision is required at this stage.

- (b) On 3 May 2019, the Company received a monetary claim of approximately HK\$1 million from an ex-employee of the Company with an allegation that, among others, the Company had to pay wages, through the Labour Tribunal. As at the date of this report, the dispute has been settled.

As at the date of this report, save as the above, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the number of employees of the Group was approximately 12. 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.

MANAGEMENT DISCUSSION & ANALYSIS

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

(a) Directors' Interests in Shares and Underlying Shares

As at the 30 June 2019, none of the Directors and the chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) ("SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' and Other Persons' Interest in Shares and Underlying Shares

As at 30 June 2019, to the best knowledge of the Directors and chief executives of the Company, the following persons (other than Directors or chief executives of the Company) had interests or short position, in the Shares and underlying Shares, as recorded in the register required to be kept by the Company under Section 336 of the SFO:

MANAGEMENT DISCUSSION & ANALYSIS

Long positions in Shares and underlying Shares

Name of Shareholder	Capacity	Number of Shares/ underlying Shares held	Approximate percentage of shareholding ⁽⁵⁾
Chen Junyan ⁽¹⁾	Interest in controlled corporation	7,300,000,000	224.93%
Chen Yaxin ⁽¹⁾	Interest in controlled corporation	7,300,000,000	224.93%
Yu Zhibo ⁽¹⁾	Interest in controlled corporation	7,300,000,000	224.93%
Daqing Xinhua ⁽¹⁾	Interest in controlled corporation	7,300,000,000	224.93%
Xin Hua	Beneficial Owner	7,300,000,000	224.93%
Noble ⁽²⁾	Beneficial Owner	1,700,000,000	52.38%
Fan Amy Lizhen ⁽²⁾	Interest in controlled corporation	1,700,000,000	52.38%
Charcon Assets Limited ⁽³⁾	Beneficial Owner	704,530,000	21.71%
Mid-East Petroleum Group Ltd ⁽⁴⁾	Beneficial Owner	400,000,000	12.33%
So Kuen Kwok	Beneficial Owner	325,211,000	10.02%

Notes:

- (1) Pursuant to the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement), 7,300,000,000 Subscription Shares were to be allotted and issued to Xin Hua, which is owned as to approximately 46.28% and 53.72% by Ms. Chen Junyan and Daqing Xinhua Asphalt Co., Ltd* (大慶市新華瀝青有限責任公司) ("Daqing Xinhua"), respectively. Daqing Xinhua is owned as to approximately 65% and 35% by Mr. Yu Zhibo and Mr. Chen Yaxin, respectively.
- (2) Pursuant to the Second Subscription Agreement, 1,700,000,000 Subscription Shares were to be allotted and issued to Noble. Ms. Fan Amy Lizhen, the ex-vice chairlady of the Company and an ex-executive Director, wholly owns Noble.
- (3) Charcon Assets Limited is a company wholly owned by Mr. Wong Yuk Kwan. Based on the latest filing made on 18 July 2017, Charcon Assets Limited held 704,530,000 Shares and is a substantial shareholder of the Company as at 30 June 2019.
- (4) According to the annual return of Mid-East Petroleum Group Ltd made up to 16 November 2018, the sole shareholder of Mid-East Petroleum Group Ltd is Wong Ching Chung (黃清松).
- (5) The percentages are calculated based on the total number of 3,245,519,752 issued Shares as at 30 June 2019.

Save as disclosed above, the Directors are not aware of any other person who, as at 30 June 2019, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT DISCUSSION & ANALYSIS

SHARE OPTION SCHEME

On 15 July 2009, the Company adopted a share option scheme (the “Share Option Scheme”) whereby the Directors may grant options to eligible employees, including directors of any companies in the Group to subscribe for shares in Company upon and subject to a maximum number of shares available for issue thereunder, which shall not exceed 10% of the Shares in issue as at the refreshment date. Also, the number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company’s issued shares or otherwise it must be approved by the shareholders of the Company.

The Share Option Scheme was set up for the primary purpose of providing incentives to directors, eligible employees and consultants and expired on 14 July 2019.

The options vest from the date of grant and are exercisable at any time from the date of acceptance of the offer and the earlier of up to 10 years from the date of grant and 14 July 2019. The exercise price determined by the Directors will be at least the higher of (i) the closing price of the Company’s shares on the date of grant; (ii) the average closing price of the Company’s shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company’s shares. Each option gives the holder the right to subscribe for one ordinary share of the Company.

The following discloses the movements of the Company’s share options during the six months ended 30 June 2019:

Grantee	Date of grant	Period during which options are exercisable	Outstanding as at 1 January 2019	Granted during the period	Exercise during the period	Lapsed during the period	Outstanding as at 30 June 2019	Exercised price per share option HK\$
Consultants	9 June 2010	9 June 2010-14 July 2019	22,200,000	-	-	-	22,200,000	0.9416
	10 April 2013	1 September 2013-14 July 2019	3,000,000	-	-	-	3,000,000	0.52
Employees	9 June 2010	9 June 2010-14 July 2019	24,090,000	-	-	-	24,090,000	0.9416
	27 June 2011	27 June 2011-14 July 2019	3,000,000	-	-	-	3,000,000	0.9416
	10 April 2013	1 September 2013-14 July 2019	22,600,000	-	-	-	22,600,000	0.52
			<u>74,890,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,890,000</u>	

MANAGEMENT DISCUSSION & ANALYSIS

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by the Directors during the Period.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

i) Responsibilities between chairman and chief executive

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

The chief executive officer of the Company ("Chief Executive Officer"), Ms. Xiao Li, resigned from the post with effect from 17 June 2019 and the position was left vacant since her resignation until the appointment of Mr. Chen Bin as executive Director and Chief Executive Officer by the Company with effect from 19 July 2019. All duties of Chief Executive Officer were shared among the executive Directors prior to the appointment of Mr. Chen Bin.

MANAGEMENT DISCUSSION & ANALYSIS

ii) Insufficient number of independent non-executive directors

As the majority of the votes cast against resolutions Nos. 3(i)(e), 3(i)(f), 3(i)(g), 3(i)(h), 3(i)(i), 3(i)(j), 3(i)(k), 3(i)(l) and 3(i)(m), these resolutions have not been passed by the shareholders of the Company at the annual general meeting of the Company held on 28 June 2019 (the “2019 AGM”). As a result, Mr. Xing Yong, Mr. Shi Wen Jiang, Mr. Chen Zhong Min, Mr. Jiang Cai Yi, Mr. Zhang Yue Yang, Mr. He Jun, Ms. Chen Xue Hui, Ms. Hu Jing and Ms. Lyu Jia Lian ceased to be independent non-executive Directors after the 2019 AGM. Consequently, Ms. Chen Xue Hui ceased to be the chairlady of Audit Committee (“Audit Committee”) of the Company, member of Remuneration Committee (“Remuneration Committee”) and Nomination Committee (“Nomination Committee”) of the Company; Ms. Hu Jing ceased to be the chairlady of the Remuneration Committee, member of the Audit Committee and the Nomination Committee; and Mr. Xing Yong, Mr. Shi Wen Jiang, Mr. Chen Zhong Min, Mr. Jiang Cai Yi, Mr. Zhang Yue Yang, Mr. He Jun and Ms. Lyu Jia Lian ceased to be members of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Immediately after the 2019 AGM,

- (1) the Company did not have any independent non-executive Director, which fell below the minimum number and proportion required under Rule 3.10 and Rule 3.10A of the Listing Rules respectively;
- (2) the Company also did not have a chairman or any member in its Audit Committee which failed to comply with Rule 3.21 of the Listing Rules;
- (3) the Remuneration Committee did not have a chairman who is an independent non-executive Director as required under Rule 3.25 of the Listing Rules; and
- (4) the Company no longer fulfills the requirement of having a majority of independent non-executive Directors for the Nomination Committee as stipulated in code provision A.5.1 of the CG Code.

iii) non-attendance of annual general meeting by chairman of board committees and special general meeting by independent non-executive directors

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairladies and members of the Audit Committee and Remuneration Committee could not attend the annual general meeting of the Company held in June 2019. In addition, all independent non-executive

MANAGEMENT DISCUSSION & ANALYSIS

Directors could not attend a special general meeting held during the Period to approve the transaction that required independent shareholders' approval as provided for in the said code provision.

Subsequent to the end of the Period, following the appointment of Mr. Cao Wei, Mr. Xu Guoqiang and Ms. Zhong Bifeng as independent non-executive Directors and the change of composition of the Board Committees with effect from 14 August 2019, the Company has complied with Rule 3.10 and Rule 3.25 of the Listing Rules and code provisions A.5.1 of the CG Code.

As time is required to identify suitable candidates to be independent non-executive Director and chairman of the Audit Committee in order to comply with Rule 3.10A and Rule 3.21 of the Listing Rules, the Company will try its best endeavors to comply with the Listing Rules as soon as possible.

Save as disclosed above, for the six months ended 30 June 2019, the Company complied with the code provisions of the CG Code.

CHANGE OF DIRECTORS' INFORMATION

Upon specific enquiry by the Company and following confirmations from the Directors, save as disclosed hereunder, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published annual report. The change of Directors' information is set out below:

Directors	Changes in positions held with the Company
Ms. Xiao Li	Resigned as executive Director and Chief Executive Officer and ceased to be member of both Remuneration Committee and Nomination Committee with effect from 17 June 2019
Ms. Fan Amy Lizhen	Retired as executive Director and vice chairlady of the Company, and ceased to be member of both Remuneration Committee and Nomination Committee with effect from 28 June 2019
Ms. Chen Xue Hui	Retired as independent non-executive Director and ceased to be member and chairlady of Audit Committee and member of both Remuneration Committee and Nomination Committee with effect from 28 June 2019
Ms. Hu Jing	Retired as independent non-executive Director and ceased to be member and chairlady of Remuneration Committee, and member of both Audit Committee and Nomination Committee with effect from 28 June 2019

MANAGEMENT DISCUSSION & ANALYSIS

Directors	Changes in positions held with the Company
Mr. Xing Yong, Mr. Shi Wen Jiang, Mr. Chen Zhong Min, Mr. Jiang Cai Yi, Mr. Zhang Yue Yang, Mr. He Jun and Ms. Lyu Jia Lian	Retired as independent non-executive Directors and ceased to be members of Audit Committee, Remuneration Committee and Nomination Committee with effect from 28 June 2019
Ms. Chen Junyan and Mr. Yun Guangrui	Appointed as executive Directors with effect from 15 July 2019
Mr. Yu Jiyuan	Appointed as executive Director with effect from 15 July 2019 and member of Nomination Committee with effect from 14 August 2019
Mr. Chen Bin	Appointed as executive Director and Chief Executive Officer with effect from 19 July 2019, and member of Remuneration Committee with effect from 14 August 2019
Ms. Liu Gui Feng	Ceased to be member and chairlady of Nomination Committee and member of Remuneration Committee with effect from 14 August 2019
Mr. Cheung Kam Shing, Terry	Ceased to be member of both Remuneration Committee and Nomination Committee with effect from 14 August 2019
Mr. Tang Yau Sing	Ceased to be member of Remuneration Committee with effect from 14 August 2019
Mr. Cao Wei	Appointed as independent non-executive Director, member and chairman of Nomination Committee and member of Audit Committee with effect from 14 August 2019
Mr. Xu Guoqiang	Appointed as independent non-executive Director, members of Nomination Committee, Audit Committee and Nomination Committee with effect from 14 August 2019
Ms. Zhong Bifeng	Appointed as independent non-executive Director, member and chairlady of Remuneration Committee and member of Audit Committee with effect from 14 August 2019

MANAGEMENT DISCUSSION & ANALYSIS

DIRECTORS' RESPONSIBILITY OF FINANCIAL REPORTING

The Directors acknowledge their responsibility for the preparation of financial statements of the Company for each financial period with a true and fair presentation of the financial position of the Group. The Company's financial statements are prepared in accordance with all statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and the related interpretations, adjustments and estimates made are prudent and reasonable and the financial statements have been prepared on a going concern basis.

The Directors are aware of conditions, as disclosed in basis of preparation of the unaudited condensed consolidated interim financial statements, indicating the Group's ability to continue as a going concern is dependent on the ongoing availability of funds to the Group. Taken into account these considerations, the Directors are of the opinion that the Group will have sufficient funds to meet in full its financial obligations as and when they fall due.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises eight executive Directors, namely Ms. Liu Gui Feng, Mr. Chen Bin, Mr. Cheung Kam Shing, Terry, Mr. Tang Yau Sing, Mr. Lin Qing Yu, Ms. Chen Junyan, Mr. Yu Jiyuan and Mr. Yun Guangrui; and three independent non-executive Directors, namely Mr. Cao Wei, Mr. Xu Guoqiang and Ms. Zhong Bifeng.

By Order of the Board
Pearl Oriental Oil Limited
Liu Gui Feng
Chairlady

Hong Kong, 30 August 2019

* *for identification purpose only*