東方明珠創業有限公司

Pearl Oriental Innovation Limited

Stock code : 0632

2011 Interim Report

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June **2011** **(Unaudited)** **HK$'000**	2010 (Unaudited) (Restated) HK$'000
Revenue	*3*	**244,971**	286,212
Cost of sales		**(235,391)**	(273,036)
Gross profit		**9,580**	13,176
Other income and gains		**90,556**	1,018
Gain on bargain purchase		**—**	741,098
Selling and distribution expenses		**(2,555)**	(2,829)
General and administrative expenses		**(33,299)**	(47,989)
Exploration, repair and maintenance expenses		**(5,439)**	—
Impairment of property, plant and equipment		**—**	(47,335)
Impairment of goodwill		**—**	(59,906)
Finance costs		**(20)**	(15)
Profit before tax	*4*	**58,823**	597,218
Income tax credit/(expense)	*5*	**2,434**	(675)
Profit for the Period		**61,257**	596,543
Attributable to:			
Owners of the Company		**67,515**	616,950
Non-controlling interests		**(6,258)**	(20,407)
		61,257	596,543
Earnings per share			
Basic	*7*	**3 cents**	38 cents
Diluted	*7*	**3 cents**	38 cents

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Six Months ended 30 June	
	2011 **(Unaudited)** **HK$'000**	2010 (Unaudited) HK$'000
Profit for the period	**61,257**	596,543
Other comprehensive income		
Exchange difference on translation of foreign operations	—	(5,510)
Income tax effect	—	—
Other comprehensive income for the period, net of tax	—	(5,510)
Total comprehensive income for the period	**61,257**	591,033
Attributable to:		
Owners of the Company	**67,515**	611,440
Minority interests	**(6,258)**	(20,407)
	61,257	591,033

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**942**	1,198
Exploration and evaluation assets		**52,645**	46,371
Intangible assets	*8*	**2,818,920**	1,960,140
Goodwill	*9*	**34,096**	34,096
Derivative financial instruments	*14*	**—**	664,253
Deferred tax assets	*15*	**7,865**	5,204
Total non-current assets		**2,914,468**	2,711,262
Current assets			
Inventories	*10*	**1,955**	6,912
Trade and bill receivables	*11*	**3,789**	1,771
Prepayments, deposits and other receivables	*11*	**256,654**	263,011
Cash and cash equivalents		**185,748**	374,932
Total current assets		**448,146**	646,626
Current liabilities			
Trade payables	*12*	**2,022**	4,502
Other payables and accruals	*12*	**10,841**	14,665
Interest-bearing bank borrowings, unsecured		**—**	1,399
Tax payable		**1,046**	820
Total current liabilities		**13,909**	21,386

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	Notes	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Net current assets		**434,237**	625,240
Total assets less current liabilities		**3,348,705**	3,336,502
Non-current liabilities			
Deferred tax liabilities	*15*	**686,049**	686,049
NET ASSETS		**2,662,656**	2,650,453
Equity			
Equity attributable to owners of the Company			
Issued Capital	*16*	**340,826**	198,697
Reserves		**2,329,614**	1,520,691
		2,670,440	1,719,388
Consideration shares to be issue		**—**	932,591
Non-controlling interests		**(7,784)**	(1,526)
TOTAL EQUITY		**2,662,656**	2,650,453

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

	Attributable to the owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Treasury shares HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Warrants reserves HK$'000	Accumulated losses HK$'000	Minority interest HK$'000	Total equity HK$'000
At 31 December 2010	**198,697**	**1,548,957**	**(10,556)**	**403,851**	**294**	**36,617**	**3,263**	**(461,735)**	**(1,526)**	**1,717,862**
Total comprehensive income for the period	—	—	—	—	—	—	—	67,515	(6,258)	61,257
Bonus issue	56,804	(56,804)	—	—	—	—	—	—	—	—
Final Dividend for 2010 Year	—	(56,804)	—	—	—	—	—	—	—	(56,804)
Share issue expenses	—	(34)	—	—	—	—	—	—	—	(34)
Consideration issue	84,781	847,810	—	—	—	—	—	—	—	932,591
Equity-settled share options arrangements	—	—	—	—	—	3,347	—	—	—	3,347
Share options exercised during the period	544	5,398	—	—	—	(1,505)	—	—	—	4,437
At 30 June 2011	**340,826**	**2,288,523**	**(10,556)**	**403,851**	**294**	**38,459**	**3,263**	**(394,220)**	**(7,784)**	**2,662,656**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited) *(continued)*

	Attributable to the owners of the Company										
	Issued capital HK$'000	Consideration shares to be issued HK$'000	Share premium HK$'000	Treasury shares HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
At 31 December 2009	115,922	—	697,201	(10,556)	403,851	2,450	4,890	(884,930)	328,828	16,159	344,987
Issue of new shares	47,136	1,170,000	408,450	—	—	—	—	—	1,625,586	—	1,625,586
Share issue expenses	—	—	(2,716)	—	—	—	—	—	(2,716)	—	(2,716)
Equity-settled Share options arrangements	—	—	—	—	—	—	205	—	205	—	205
Share option exercised during the period	1,120	—	7,251	—	—	—	(2,100)	—	6,271	—	6,271
Contribution from minority interest	—	—	—	—	—	—	—	—	—	9,000	9,000
Total comprehensive income for the period	—	—	—	—	—	(5,510)	—	616,950	611,440	(20,406)	591,034
At 30 June 2010	164,178	1,170,000	1,110,186	(10,556)	403,851	(3,060)	2,995	(267,980)	2,569,614	4,753	2,574,367

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Net cash flows generated from/(used in) operating activities	**7,585**	(27,864)
Net cash flows used in investing activities	**(142,948)**	(433,579)
Net cash flows used in before financing activities	**(135,363)**	(461,443)
Net cash flows (used in)/generated from financing activities	**(53,821)**	341,717
Decrease in cash and cash equivalents	**(189,184)**	(119,726)
Effect of changes in exchange rate	**—**	(1,636)
Cash and cash equivalents brought forward	**374,932**	224,314
Cash and cash equivalents carried forward	**185,748**	102,952

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The Group's unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to 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 unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010.

2. Principal accounting policies

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which are stated in the consolidated statement of financial position and measured at fair value.

The accounting policies used in these condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as described below.

In the current Period, the Group has applied the following new and revised standards, amendments and interpretations ("Int") ("new and revised HKFRSs") issued by the HKICPA.

2. Principal accounting policies *(continued)*

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised IFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustments have been recognized.

The Group has not early adopted the following new and revised standards or amendments that have been issued but are not yet effective.

HKFRS 1 (Amendment)	Disclosures — Severe hyperinflation and removal of fixed dates for first-time adopters[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 12 (Amendment)	Deferred tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013

2. Principal accounting policies *(continued)*

The Group is in the process of making an assessment of the impact of these new and revised standards and amendments upon initial application but is not yet in a position to state whether these new and revised standards and amendments would have a significant impact on its results of operations and financial position of the Group.

3. Operating Segment Information

	Revenue Six months ended 30 June		Loss from operations Six months ended 30 June	
	2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000	**2011 (Unaudited) HK$'000**	2010 (Unaudited) HK$'000
By principal activity:				
Discontinued operations — logistics	**—**	—	**—**	(353)
Sales of recycling material	**244,639**	286,212	**1,236**	(10,802)
Sales of oil and natural gas	**332**	—	**(7,186)**	—
	244,971	286,212		
Unallocated corporate expenses			**(19,993)**	(22,228)
Loss from operations			**(25,943)**	(33,383)
By geographical area:				
Hong Kong	**244,639**	284,857		
France	**—**	1,355		
USA	**332**	—		
	244,971	286,212		

4. Profit Before Tax

	Six months ended 30 June	
	2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
The Group's profit before tax is arrived at after charging:		
Depreciation and amortization	**309**	3,552
Equity-settled share option arrangement	**3,347**	205
And after crediting:		
Interest income from bank deposits	**10**	140
Interest income from loan receivable	**5,161**	490
Others	**126**	388
Disposal of available for sales investment	**85,178**	—

5. Income Tax Credit/(Expense)

	Six months ended 30 June	
	2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Current tax:		
Hong Kong Profits Tax	**227**	(675)
Deferred Tax	**(2,661)**	—
	(2,434)	(675)

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands, the Group is not subject to any income tax in Bermuda and the British Virgin Islands during the Period (2010: Nil).

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

6. Dividends

The 2010 final dividend of HK2 cents per share, totalling approximately HK$56,804,000, was paid in June 2011. The directors do not recommend the payment of an interim dividend for the Period (2010: Nil).

7. Earnings Per Share

(i) Basic earnings per share

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited) (Restated)
Profit for the purpose of calculating basic earnings per share (HK$'000)	**67,515**	616,950
Weighted average number of shares for the purpose of calculating basic earnings per share (in thousands)	**2,640,740**	1,628,275

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the Period has been adjusted to reflect the impact of the issue of bonus shares affected in June 2011.

(ii) Diluted earnings per share

Diluted earnings per share is presented as share options which were exercised after their respective vesting periods. The calculation of diluted earnings per share for the Period is based on the Group's profit attributable to the owners of the Company of HK$67,515,000 (2010: HK$616,950,000) and the weighted average number of ordinary shares for the purpose of diluted earnings per share during the Period of 2,669,149,403 (2010: 1,646,159,606).

8. Intangible Assets

Group

	Oil and gas Processing right (Unaudited) HK$'000
At 1 January 2011	**1,960,140**
Phase 2 acquisition through business combination	**858,780**
Amortisation provided during the Period	**—**
At 30 June 2011, net of amortisation	**2,818,920**
30 June 2011:	
Fair value	**2,818,920**
Accumulated amortisation	**—**
Net carrying amount	**2,818,920**

The above intangible assets represented the oil and gas processing right of the certain natural gas and oilfield properties which was located in the areas in the Uinta Basin, Uintah Country, Utah State, USA. The intangible assets are amortised using the units of production method based on the proved and probable reserves. None of amortization had been provided as the directors of the Company are of the opinion that the units of production at the end of the reporting Period are immaterial as compared to the proved and probable reserves.

9. Goodwill

	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Cost and carrying amount:		
Balance as at 1 January	**34,096**	121,945
Write-off of goodwill on liquidation of a subsidiary during the Period	**—**	(59,906)
Impairment during the Period	**—**	(27,943)
	34,096	34,096

Impairment testing of goodwill

Goodwill has been allocated to the relevant cash-generating units for impairment testing as follows:

	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Carrying amount of goodwill relevant to the sale of plastic recycling material in the IBE Group	**34,096**	34,096
	34,096	34,096

10. Inventories

	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Goods in transit	**1,477**	6,699
Material and Supplies	**478**	213
	1,955	6,912

11. Trade Receivables and Prepayments, Deposits and other Receivables

An ageing analysis of trade and other receivables (net of impairment losses for bad and doubtful debts) with as at the end of the reporting Period is as follows:

	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Less than 3 months	**3,789**	1,771
Prepayments, deposits and other receivables	**256,654**	263,011
	260,443	264,782

The Group maintains and closely monitors defined credit policies for its businesses and trade receivables in order to control the credit risk associated with trade receivables.

12. Trade and Other Payables and Accruals

The following is an aged analysis of accounts payable at the end of the reporting Period:

	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Less than 3 months	**925**	3,405
Over 3 months	**1,097**	1,097
	2,022	4,502
Other payables and accruals	**10,841**	14,665
	12,863	19,167

13. Capital Commitments

	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Authorized, but not contracted for:		
Proposed acquisition of a subsidiary	**8,461**	8,461
Development costs for the Utah Gas and Oil Field	**46,287**	58,000
	54,748	66,461

14. Derivative Financial Instruments

	At 30 June 2011 (Unaudited) HK$'000	At 31 December 2010 (Audited) HK$'000
Balance at 1 January	**664,253**	—
Recognition on inception	—	653,203
Change in fair value	—	11,050
Transfer to intangible assets	**(664,253)**	—
	—	664,253

The derivative financial instruments represented the acquisition right of remaining 30% ownership interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field (the "30% Acquisition Right").

On 11 March 2011, the 30% Acquisition Right was exercised by the Group at a consideration of US$25 million (approximately HK$195 million).

15. Deferred Tax

The movements in deferred tax liabilities and assets during the Period are as follows:

Group

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries HK$'000
At 31 December 2010 and 30 June 2011	686,049

	Tax losses HK$'000
Deferred tax assets	
At 31 December 2010 and 1 January 2011	(5,204)
Deferred tax credited to the income statement during the Period	(2,661)
At 30 June 2011	(7,865)

At 30 June 2011, the Group did not have any significant deductible temporary differences (2010: Nil).

16. Issued Capital

	Authorized Ordinary shares of HK$0.10 each	
	No. of shares ’000	HK$’000
At 30 June 2011 and 30 June 2010	200,000,000	20,000,000

	Issued and fully paid Ordinary shares of HK$0.10 each	
	No. of shares	HK$’000
At 1 January 2011	1,986,969,960	198,697
Exercise of share options *(Note a)*	5,440,000	544
Consideration issue *(Note b)*	847,810,000	84,781
Bonus issue *(Note c)*	568,042,792	56,804
At 30 June 2011	3,408,262,752	340,826

Notes:

(a) During the Period, a total of 5,440,000 shares have been issued as a result of the exercise of 3,000,000 and 2,440,000 share options at an exercise price of HK$0.56 and HK$1.13 per share respectively.

(b) During the Period, the Company has issued 847,810,000 consideration shares to the Vendors of the Utah Gas and Oil Field project namely Marvel Sunlight Limited, Charcon Assets Limited, which is wholly owned by Mr. Wong Kwan, and Dr. Lew for settlement of the consideration for the Phase 1 Acquisition pursuant to the Agreement.

(c) On 31 March 2011, the Directors recommended a bonus issue of shares to the ordinary equity holders of the Company on the basis of one bonus share for every five existing shares of the Company being held. The recommendation was approved by the shareholders of the Company at the annual general meeting held on 27 May 2011. The bonus shares which rank pari passu in all respects with ordinary shares of the Company were credited as fully paid by way of capitalization of an amount of approximately HK$56,804,000 in the share premium account of the Company.

Management Discussion and Analysis

RESULT AND REVIEW OF OPERATIONS

For the six months ended 30 June 2011 (the "Period"), the Group recorded a consolidated turnover of HK$244,971,000 (2010: HK$286,212,000), and the earnings attributable to the owners of the Company for the Period amounted to HK$67,515,000 (2010: HK$616,950,000). Basic earnings per share for the Period was HK3 cents (2010: restated HK38 cents). Earnings per share was based on the weighted average of 2,640.7 million shares in issue in first half of 2011.

The consolidated turnover was mainly contributed from the processing and sales of plastic recycling materials operations. Gross profit decreased from HK$13,176,000 in 2010 to HK$9,580,000 for the Period, which is in line with the decrease in consolidated turnover, and the gross profit margin was 3.9% (2010: 4.6%).

The other income and gains has increased to around HK$90.6 million (2010: HK$1 million) due to the receipt of proceeds from disposal of equity investment in China Coal Energy Holdings Limited during the Period.

BUSINESS REVIEW

Plastic Recycling Industry

Plastic recycling material operations contribute over 99% of the Group's consolidated turnover and cash flows from operating activities during the Period. The consolidated turnover of sales of recycling material decreased from HK$286,212,000 in 2010 to HK$244,639,000 during the Period, representing a decrease of 15%. This was mainly due to slowdown in demand of the recycling plastic materials and the keen competition of the market.

Oil and Gas Business

The Company has completed the Phase 2 acquisition, i.e. the remaining 30% Ownership Interest of the Utah Gas and Oil Field, in March 2011 and therefore the Group now owns 100% Ownership Interest of the Utah Gas and Oil Field.

There are three (3) shale gas producing wells in the Utah Gas and Oil Field with daily gas production of around 200 thousand cubic feet which is being sold to Anadarko's midstream operations. By the Period end, the total shale gas production is 13,915,000 cubic feet. Up to 29 August 2011, the total production of shale gas is 31,326,000 cubic feet, for which the average selling price is about US$3.8 to US$4.9 per thousand cubic feet. Workover of other wells are in progress and the target is to have six shale gas producing wells in total by the end of year 2011.

By the Period end, the total crude oil production is 514 Barrels ("Bbls") (around 73 tonnes). From 1 October 2010 to 29 August 2011, the total production of crude oil is 2,342 Bbls, for which the selling price was in a range of US$60 to US$90 per Bbl.

Green River Oil Formation in Utah

Green River ("GR") oil formation was found in 2010 while discovering Wasatch gas. The Utah Gas and Oil Field has started oil production since June 2011.

The first GR developing well was drilled in June 2011 from Well Thurston 7-9. The well has been perforated and started to well test from June to August 2011. The total accumulated crude oil produced is 1,230 Bbls. In order to improve crude oil production continuously, fractures at Well Thurston 7-9 has been successfully conducted in August 2011. It is expected that its oil production shall increase substantially to 200 Bbls/day at the initial period.

In addition, two more GR formation developing wells, Well DPG 41-9 just completed hydraulic fracture and will be back to production by end of August 2011, and Well Thurston 8-9 is planning to produce crude oil from September 2011. It is expected a stable average production rate for each well will be around 100Bbls/day.

By September 2011, there will be three (3) GR formation wells in producing oil. The estimated peak crude oil production rate will be more than 400Bbls/day which will be great contribution for the Group. Meanwhile, the Group is aggressively exploring and developing the vast widely area on South-western of lease block including Well Thuston 12-29.

Plains All American Pipeline, L.P., USA is the purchaser to collect Group's crude oil produced in the Utah Gas and Oil Field. The Utah Gas and Oil Field is under the assistance and management of the famous oil and gas engineering company, Halliburton. It is our management's view that the natural gas prices in the USA remain stable due to the fact that current supply is over demand, while oil price has been increasing, therefore the Group now focus to develop oil exploration and production for better economic results for the Group. However, the medium and long term outlook for natural gas price will be positive, due to the facts that the natural gas is very clean and safe energy and therefore it is encouraged by the government to use more and more in future.

EXPENDITURES INCURRED ON OIL & GAS PRODUCTION ACTIVITIES

During the Period, no exploration activity had taken place. In June and July of 2011, two (2) new wells have been drilled within the Utah Oil and Gas Field.

The Company is planning to conduct hydraulic fracture in order to increase the production of crude oil later on. Since there is a good potential of crude oil discovered in Green River Oil Formation, the Company is planning to enlarge the scale of exploration and drilling activities in whole lease area of the Utah Gas and Oil Field.

The expenditure incurred on the development and mining production activities during the Period were approximately HK$12 million in aggregate.

PROSPECTS

China's high demands for overseas oil

According to Energy Information Administration ("EIA") of USA, China produces over 4 million battles of crude oil every day, making it the fifth largest oil-producing country in the world by volume. However, China is still the second largest oil-consuming country just after the United States and consumes over 9 million Bbls each day, meaning that over 55% of China's oil consumption depends on external supply. In other words, China's oil resources are not self-sufficient and largely affected by the peripheral region.

China's intention to expand oil reserves

In terms of energy, although coal accounts for 70% of energy consumption in China, we cannot ignore the importance of oil, which significantly affects nearly all products. At present, oil reserves in the Mainland China are only enough for one month of consumption, which is far under the international standard of 90 days and therefore are in dire need of improvement in future. Oil is so important that money cannot buy when a crisis occurs.

In a long-term view, it is estimated that oil would be used out in about 40 years. Its decreasing nature will only keep pushing prices up.

Prospects of natural gas

At its recently held Energy Economy Press Conference, National Energy Administration of China stated that at the time of energy restructuring, traditional energies have to make way for new energies; China's energy strategy during the "twelfth five-year plan" period has already shifted from keeping supply to controlling the total consumption of energies; and the control on total energy consumption in a reasonable manner has been written into the proposals for the "twelfth five-year plan" period. In 2011, coal consumption will be affected by such macro-control policy, especially the development objective for renewable energies and such tasks as energy saving and waste reduction during the "twelfth five-year plan" period, which would slow down the growth of coal demand. Driven by relevant policies, the consumption of traditional fossil energies such as coal, electricity and oil will be curbed to a certain extent. On the other hand, the consumption of natural gas will maintain rapid growth.

National Energy Administration of China disclosed that the Central government has already prepared the "twelfth five-year plan" for shale gas. Shale gas is a major component of China's energy strategic plan. China will formulate the policies for the shale gas industry with clear entry requirements and standards stated, thus forming a development situation with orderly competition for shale gas. China will also strengthen its support to the policies so as to promote the rapid development of the shale gas industry.

In addition, China will perform the resources assessment work properly to thoroughly investigate the reserve of shale gas in China, and put more effort in scientific research to develop a shale gas exploration and development technology suitable for the geographic conditions in China, as well as achieving self-production and manufacture of major machineries for shale gas.

Shale gas is a kind of natural gas extracted from the shale bed and is a major component of non-conventional natural gas. China's recoverable resource reserves of shale gas is approximately 26 trillion cubic metres, which is more or less the same as the United States.

After the recent nuclear crisis in Japan in March 2011, natural gas is considered as the best alternative to nuclear power. Because natural gas, as well as nuclear power, is a clean energy with little greenhouse gas emission and air pollution as well as a short lead time. Besides, the recent years have witnessed aggressive efforts by many countries in the development of unconventional natural gas.

In addition, on 7 July 2011, the Environmental Protection Agency (EPA) of USA released the Cross-State Air Pollution Rule, an addendum to the Clean Air Act, with the goal of reducing sulfur dioxide (SO_2) and nitrogen oxide (NO_x) emissions from power plants. The required emissions reductions would take effect in 2012 and impact more than 1,000 power plants in 27 eastern states of USA. Based on these estimates, using EPA's Continuous Emissions Monitoring System (CEMS) data, analysts have estimated that gas demand from power would increase 35% by 2014. CEMS covers 97% of all oil, coal and natural gas-fired power generators across the USA. Accordingly, the ruling may force coal-fired power units to either be retired or converted to burn natural gas.

OUTLOOK

On 24 February 2011, the Company entered into a Memorandum of Understanding with an independent third party for the possible acquisition of oil fields in Kazakhstan ("Kazakhstan Oilfields"). Based on the evaluation prepared by an independent international oil consulting firm, the total 3P oil reserves (proved, probable and possible oil reserves) are over 700 million Bbls. At the moment, management team of Pearl Oriental and other independent professionals are conducting the due diligence on Kazakhstan Oilfields. We strongly believe that the Kazakhstan Oilfields have an excellent development potential in oil and expect to enter into the acquisition agreement with the vendor soon.

The Board believes that, given the recent commencement of oil production of the Group's gas and oil field in Utah, USA, the Group will further expand its portfolio of oil assets substantially through mergers and acquisitions so as to enhance the development potential of the Company.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of news shares and internally generated resources. At the Period end date, the Group did not have any bank borrowings (2010: Nil). The Group's cash and bank balances as at 30 June 2011 have decreased to approximately HK$186 million from HK$375 million as at 31 December 2010, mainly as a result of the payment for acquisition of 30% Ownership Interest in the Utah Gas amounted approximately HK$195 million in March 2011 and the receipt of further instalments of consideration for the disposal of equity interests in China Coal Energy Holdings Limited of HK$60,500,000 in aggregate (net proceeds after 3% expenses payable) from Mr. Zhang Jingyuan ("Mr. Zhang") in February 2011 and June 2011. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 32.22 as at 30 June 2011 (31 December 2010: 30.24).

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

SETTLEMENT OF LITIGATION

On 31 July 2010, the Company entered into a settlement agreement (the "Settlement Agreement") with Mr. Zhang, the joint venture party, to withdraw all legal claims against any parties to those litigations in Hong Kong and Mainland China and to dispose of 55.11% equity interest of China Coal Energy Holdings Limited ("China Coal") to Mr. Zhang. Upon completion of the disposal, the Company will have an aggregate net proceeds of HK$164.36 million to be received by instalments within 2 years. As a full provision of impairment loss in respect of China Coal has been made before, therefore, the disposal of equity interest of China Coal will bring a considerable amount of non-recurring gain to the Company. Up to the date hereof, the net proceeds from the first, second and third instalments of payment of HK$113.26 million in aggregate have been received by the Company pursuant to the Settlement Agreement.

The entering into the Settlement Agreement allows the Company to have considerable proceeds which are not only beneficial to strengthen financial capability of the Group, but also for Management to focus its energy and resources on developing oil and gas core business at full speed.

EVENTS AFTER THE REPORTING PERIOD

Litigations

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

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

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

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

The Company has been advised by its legal advisers that the Summons and the claims therein were unfounded and will be stringently defended by the Company.

(b) On 11 August, 2011, the Group successfully obtained a judgment together with legal costs from the High Court of Hong Kong for a declaration that Laurent Kim is the sole beneficial owner of 5,000,000 ordinary shares in the Company registered in the name of Kim Tran Christine.

Therefore, the Group is entitled to and will proceed to levy execution on these 5,000,000 ordinary shares (and 1,000,000 bonus shares entitlement) as soon as practicable in respect of the judgment that the Group has obtained for a sum of Euro 9,833,000 (equivalent to approximately HK$109,140,000) together with interest payable by Laurent Kim.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the number of employees of the Group was about 55. 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.

Additional Information Required under the Listing Rules

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2011, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long Positions

(a) Ordinary Shares of HK$0.10 Each of the Company

Number of Shares held in the Capacity of

Name of Directors	Beneficial Owner	Held by controlled corporation	Total number of shares held	Percentage of the issued share capital of the Company
Wong Kwan *(Note)*	—	900,402,000	900,402,000	26.42%
Johnny Yuen	360,000	—	360,000	0.01%
Lew Mon Hung	120,000,000	—	120,000,000	3.52%
Yu Jianmeng	2,400,000	—	2,400,000	0.07%
Baiseitov Bakhytbek	6,090,000	—	6,090,000	0.18%

Note: These Shares were held by Charcon Assets Limited ("Charcon"), which is wholly-owned by Mr. Wong Kwan.

(b) Share Options

Name of Directors	Capacity	Number of options held	Exercise period	Exercise price *(HK$)*
Wong Kwan	Beneficial owner	3,600,000	05/08/2009–14/07/2019	0.4666
	Beneficial owner	6,000,000	09/06/2010–14/07/2019	0.9416
Lew Mon Hung	Beneficial owner	3,600,000	03/12/2009–14/07/2019	0.6916
	Beneficial owner	6,000,000	09/06/2010–14/07/2019	0.9416
Johnny Yuen	Beneficial owner	6,000,000	09/06/2010–14/07/2019	0.9416
Yu Jianmeng	Beneficial owner	4,800,000	09/06/2010–14/07/2019	0.9416
Lam Ka Wai	Beneficial owner	6,000,000	09/06/2010–14/07/2019	0.9416
Fong Hing Chiu, Cyril	Beneficial owner	6,000,000	09/06/2010–14/07/2019	0.9416
Baiseitov Bakhytbek	Beneficial owner	18,000,000	05/10/2010–14/07/2019	1.3366
Chen Ping	Beneficial owner	5,000,000	21/06/2011–14/07/2019	0.9416

(c) Warrants

Name of the holder	Number of underlying shares held	Expiry date	Percentage of issued share capital of the Company
Orient Day Developments Limited *(Note)*	384,000,000	03/10/2013	11.27%

Note: Orient Day Developments Limited is wholly-owned by Mr. Wong Kwan.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 30 June 2011, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of substantial shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Charcon *(Note)*	Beneficial owner	900,402,000	26.42%
Ma Yueng Lin	Beneficial owner	672,000,000	19.72%

Note: Charcon is wholly owned by Mr. Wong Kwan.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules 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 Period.

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

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

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance. In the opinion of the Board, the Company has complied throughout the Period with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), which was in force on 1 January 2005, save for the following:

(a) The Chairman and the Managing Director are not subject to retirement by rotation pursuant to Bye-laws of the Company.

(b) Pursuant to Bye-law 87(1) of the Company, at each annual general meeting one-third of the Directors for the time being, (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that, the Chairman of the Board and/or the Managing Director of the Company shall not whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

(c) 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 Company does not have a separate Chairman and Chief Executive and Mr. Wong Kwan currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Lam Ka Wai, Graham (Chairman of the Audit Committee), Mr. Yu Jian Meng, and Mr. Chen Ping. The Committee has reviewed with management the accounting principles and practices adopted by the Group, and has reviewed the unaudited interim results for the six months ended 30 June 2011.

On behalf of the Board
Pearl Oriental Innovation Limited
Cheung Kwok Yu
Executive Director and Company Secretary

Hong Kong, 30 August 2011