東方明珠石油有限公司
Pearl Oriental Oil Limited

Stock Code: 0632

ANNUAL REPORT 2011

Contents

Corporate Information

DIRECTORS

Executive Directors:

Wong Yuk Kwan (alias: Wong Kwan) *(Chairman)*
Lew Mon Hung
Cheung Kwok Yu

Non-Executive Directors:

Baiseitov Bakhytbek
Chen Ping

Independent Non-Executive Directors:

Wang Tong Sai
Yu Jianmeng
Lam Ka Wai, Graham

SOLICITORS

Hastings & Co.
Lau Kwong & Hung

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Shanghai Commercial Bank

COMPANY SECRETARY

Cheung Kwok Yu

AUDITORS

Grant Thornton Jingdu Tianhua

AUTHORISED REPRESENTATIVES

Wong Kwan
Cheung Kwok Yu

REGISTERED OFFICE:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE:

Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

John C.R. Collis

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

WEBSITE AND OTHER INFORMATION

For more information on the Company, please find us on the World-Wide-Web at www.pearloriental.com

To access the Company on Bloomberg, please type "632 HK".

Financial Highlights

	Notes	2011 *HK$'000*	2010 *HK$'000* (Restated)
For the year ended 31 December			
Revenue		**495,401**	555,242
Operating Loss		**(35,577)**	(78,341)
(Loss)/Profit for the year		**(66,163)**	391,474
Net (Loss)/Profit attributable to shareholders		**(59,204)**	423,195
(Loss)/Earnings per share			
Basic (cents)			
— For (loss)/profit for the year		**(1.96)**	22.77
— For (loss)/profit from continuing operations		**(1.96)**	22.77
Diluted (cents)			
— For (loss)/profit for the year		**(1.96)**	22.49
— For (loss)/profit from continuing operations		**(1.96)**	22.49
Average shareholders' equity		**2,599,760**	1,024,108
Average capital employed		**3,270,487**	1,873,895
At 31 December			
Total indebtedness	1	**—**	—
Shareholders' equity		**2,539,055**	2,650,453
Capital employed	2	**3,204,473**	3,336,502
Ratio			
Return on average capital employed (%)	3	**(2.0%)**	20.9%
Return on average equity (%)	4	**(2.3%)**	41.3%
Total debt to total capital (%)	5	**N/A**	N/A

Notes:

1. Total indebtedness = total non-current bank borrowings

2. Capital employed = shareholders' funds + non-controlling interests + non-current liabilities

3. Return on average capital employed = (loss)/profit for the year/average capital employed

4. Return on average equity = net profit/(loss) attributable to shareholders/average shareholders' equity

5. Total debt to total capital = debt/(shareholders' funds + non-controlling interests + debt)

Chairman's Statement

Dear Shareholders,

The consolidated revenue of Pearl Oriental Oil Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2011 (the "Year") was HK$510.93 million. The loss after tax for the Year was HK$66.16 million, and loss per share was HK1.96 cents.

The main reason of the loss was that the market price of natural gas in the United States has been decreasing during the Year. Hence the fair value of the oil and gas processing right of the Utah Gas and Oil Field has been adjusted resulting in an impairment loss on intangible assets totalling HK$110.33 million for which no cash payment has been made. Excluding the impairment of intangible assets and goodwill, net cash inflow of approximately HK$42.47 million has been generated for the Group during the Year.

Other than the stable business operation in recycled plastic, the Group is endeavoring in oil and gas development. During the Year, the Utah Gas and Oil Field had a good start of exploitation and has successful trial production of crude oil and natural gas. Since oil has been found in the Green River Oil Formation, the Group has decided to focus on the exploitation of oil. Around 10,000 barrels of crude oil have been produced in the second half of the Year. The average selling price of crude was US$73 per barrel during the Year, which has increased to US$85 per barrel in early 2012. Volume of natural gas production in the second half of the Year was approximately 72,880 thousand cubic feet with an average price per thousand cubic feet of US$3.80, which has dropped to US$3.10 per thousand cubic feet in early 2012. The Group will enhance the technology of its oil exploitation, and will also seek and explore more oil resources in the Utah Gas and Oil Field.

Management is now negotiating and conducting detailed due diligence for the potential acquisitions of several new oil projects in the areas such as North America, Kazakhstan, South Sudan, Indonesia and Thailand, respectively. We wish the Group can further enlarge its oil reserves through successful mergers and acquisitions in 2012 and increase production of crude oil rapidly in order to bring more economic benefits to the Group.

We have established a team of petroleum experts who are experienced in oil exploration and operations. Given the circumstances including positive anticipation of improving environment in the global oil market, the Group's better financial position without any bank borrowings, a strong net cash reserve and net assets around HK$2.54 billion, together with other favourable factors such as strategic partnerships with major petroleum enterprises and good cooperation relationship with relevant government authorities in the target countries, the Group is in a very advantageous position. By concentrating the Company's resources and efforts fully in the oil and gas business, the Board and Management have strong confidence and wisdom to create more value for our shareholders and bring an excellent return for the Company.

I would like to take this opportunity to thank all of our shareholders, colleagues and business partners for their full support to the Board.

Wong Kwan
Chairman and Chief Executive
30 March 2012, Hong Kong

Profiles of Directors and Senior Management

PROFILES OF DIRECTORS

Executive Directors

MR. WONG KWAN (CHAIRMAN)

Aged 64, is currently the Chairman and chief executive of the Company, Mr. Wong is a well known entrepreneur in Hong Kong. He is a veteran in the capital market, investment and property development fields and has over 30 years of experience in diversified investment, operation and management in Hong Kong, China and overseas. Mr. Wong is also well known in the Asian business world with extensive business connections in the Asia Pacific region. Mr. Wong is responsible for the overall strategic planning and business development of the Company.

DR. LEW MON HUNG (DEPUTY CHAIRMAN)

Aged 63, Dr. Lew Mon Hung is a renowned figure in political and economical sectors in China and Hong Kong. Dr. Lew is currently a committee member of the National committee of the Chinese People's Political Consultative Conference and a member of the Executive Committee Commission on Strategic Development of HKSAR, Chairman of Smart Strategy Limited. The popular publications of Dr. Lew are《期貨決勝一百零八篇 "Winning Futures 108 Chapters"》and《指點江山 "National Commentary"》.

Dr. Lew has more than 30 years of experience in financial investment and corporate management; and has remarkable results in corporate finance, mergers and acquisitions. For the past 10 years, Dr. Lew had successfully arranged fund raisings of over HK$10 billion for a few Hong Kong listed companies which has established good foundations for the continuous development of those listed companies.

MR. CHEUNG KWOK YU

Aged 42, Mr. Cheung has over 15 years of working experience in international accounting firms and law firms and listed companies in direct investment, accounting, legal, corporate finance and mergers and acquisitions. Mr. Cheung is a Chartered Financial Analyst charterholder and a professional accountant in Hong Kong, and is also qualified as a solicitor in Hong Kong. He has a Master degree in Applied Finance from Macquarie University in Sydney and a Bachelor of Arts degree in Accountancy from Hong Kong Polytechnic University. Mr. Cheung is currently the Financial Controller and Company Secretary of Pearl Oriental.

Non-executive Directors ("NEDs")

MR. BAISEITOV BAKHYTBEK (DEPUTY CHAIRMAN)

Aged 53, Mr. Baiseitov is the present President of the Association of Kazakhstan Banks, founder, major shareholder and Chairman of Bank CenterCredit ("BCC"). Mr. Baiseitov is currently the Vice-chairman of the International Banking Council of Commonwealth of Independent States and Eastern Europe and used to be Co-chairman of Kazakhstan-US Business Council. Mr. Baiseitov is a very well known and highly respected member of the business community of Middle Asia. Mr. Baiseitov has over 20 years of significant and comprehensive experience in management, and development of major investment projects in financial, energy and natural resources sectors. Mr. Baiseitov represented BCC to sign the "Strategic Cooperation Agreement" with Pearl Oriental. Mr. Baiseitov will have great contribution for the future development of the Company's core business in oil and gas and energy resources.

Profiles of Directors and Senior Management

MR. CHEN PING

Aged 57, Mr. Chen is a famous entrepreneur and scholar and currently Chairman of Sun Television Cybernetworks Enterprise Limited (陽光文化網絡電視企業有限公司) which owns SUN TV (陽光衛視). He is an influential person in the Mainland China and international media industry. Mr. Chen has founded and as a Chairman of TideTime Group Limited (泰德時代集團有限公司) which produced advanced electronics and high-technology products, and has successfully developed various business activities in Europe, U.S.A. and Russia, etc.

Mr. Chen has been the analyst for various governmental think tanks including Institute of Research for Chinese Enterprises Development (中國企業發展研究所) and Shanghai Centre for Economic & Social Strategic Studies (上海科技經濟社會戰略研究中心) in 1980s and contributed a lot to the reform of China.

Independent Non-executive Directors ("INEDs")

MR. WANG TONG SAI

Aged 62, Mr. Wang is a successful international banker with over 36 years extensive experience in international financial sector. He joined Hong Kong and Shanghai Banking Corporation Limited ("HSBC") in 1973, and was served as the Chief Executive Officer in charge of Mainland China and succeeded in establishing HSBC as the largest foreign bank in Mainland China. He also held position as Regional President West Coast USA of HSBC. From 2006 to 2009, Mr. Wang was appointed as President of China Minsheng Bank, being the first Hong Kong banker to take up such a position in a major national domestic bank in Mainland China. Mr. Wang has obtained a Degree in Business Administration from the Chinese University of Hong Kong and is currently the Asia Pacific Senior Adviser of McKinsey & Company.

MR. YU JIAN MENG

Aged 60, Mr. Yu has extensive personal connections and commercial relationships in China. He has over 30 years' experience in press publication, telecom technology, tourism, financial investment and industrial development. He was the Chief Reporter of Xinhua News Agency in Putong, Shanghai and the President of Xinhua Agency East Development Company. Since 1999, he was appointed as the President of Shanghai SIIT Development Holdings Ltd, President of China in Investment and Development of Star Cruise Group and the Executive Director of VODone Ltd. Mr. Yu is currently the Director and CEO of WorldVest Capital Ltd. Mr. Yu holds a Master Degree in Economics from East China Normal University, in jointly course with the University of Hawaii. He was awarded the Senior Economist by Xinhua News Agency.

MR. LAM KA WAI, GRAHAM

Aged 44, Mr. Lam graduated from University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is an associate member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lam has 18 years experience in investment banking and auditing. He has held senior managerial positions in international well-known accounting firm KMPG and various investment banks in Hong Kong. Mr. Lam is currently the Managing Director and Head of Corporate Finance Department of Guangdong Securities.

PROFILES OF SENIOR MANAGEMENT

MR. RALPH CURTON, CEO OF THURSTON ENERGY OPERATING COMPANY LLC

Mr. Ralph Curton has over 40 years of experiences in the operation and management in the oil and natural gas industry. In the 70's, Mr. Curton invested 50,000 productive acres in oil and natural gas enterprise in East Texas and Louisiana, and had successfully developed more than 300 oil and gas wells. Over the years, Mr. Curton has established close relationships with U.S. well-known oilfield engineering services company, Halliburton and natural gas exploration enterprise, Anadarko. Mr. Curton is the CEO of Thurston Energy Operating Company LLC ("Thurston Energy"). Thurston Energy is responsible for the oil exploitation and business development of Utah Gas and Oil Field which is wholly owned by Pearl Oriental. The majority of members of the Board of Directors of Thurston Energy are appointed by Pearl Oriental.

MR. ZHANG JIAYOU, SENIOR GEOLOGIST

Mr. Zhang Jiayou is responsible for oil and gas field exploration, evaluation and development of Pearl Oriental. Mr. Zhang graduated from China University of Petroleum (Eastern China) majoring in geological exploration of petroleum and natural gas, and has been awarded as qualified petroleum engineer. Mr. Zhang worked as reservoir engineer in China Petrochemical Corporation (Sinopec) and Helix RDS for 6 years. He also worked as geologist and project manager for several international petroleum engineering and technical firms for 8 years among which he took the position of chief geologist and project manager of ESSCA for 6 years. Mr. Zhang is very experienced in and capable of employing the modern and advanced technologies for exploration, modeling, seismic data analysis, field development plan and enhancing oil recovery etc.

MR. ZHANG KAI, PROJECT MANAGER

Mr. Zhang Kai is responsible for oil and gas field development and production management of Pearl Oriental. Mr. Zhang graduated from Jianghan Petroleum University (currently named as Yangtze University) in 1992, majoring in petroleum development engineering, and has been awarded as qualified petroleum engineer. Mr. Zhang worked for China National Offshore Oil Corporation (CNOOC) and its cooperating group with AGIP, Chevron and Texaco named CACT Operator Group, and Devon Energy for 19 years consecutively with rich technical and managerial experience in drilling, oil and gas field.

MR. CHEUNG MO KIT, MANAGING DIRECTOR OF CHINA ENVIRONMENTAL RESOURCES LIMITED

Mr. Cheung has over 30 years solid experience in environmental plastic industry. Mr. Cheung founded IB Group in 1978, engaging in the processing of plastic waste materials and trading of recycled plastics. IB Group has also established recycled plastic factories in PRC and Malaysia. After years of development, IB Group has extensive sales network in PRC and supply network in Japan. The annual turnover of IB Group exceeds HK$487 million. The strategic restructuring of IB Group and Euro Resources will bring rapid business development potential to China Environmental.

DR. JOHNNY HON, SENIOR CONSULTANT

Dr. Hon is the founder and Chairman of The Global Group. He undertakes diversified international investment activities in different areas. Dr. Hon was a private banker with ABN AMRO Bank, and has gained expertise in financial planning, lending, portfolio management, tax structuring and trust formation. Dr. Hon is a qualified financial adviser and Associate (ACSI) of the Chartered Institute for Securities & Investment of the United Kingdom.

Dr. Hon is a member of the Heilongjiang Provincial Committee of the Chinese People's Political Consultative Conference (CPPCC) and is currently the Ambassador-at-Large and Honorary Consul of Grenada in Hong Kong. He also serves on committees of numerous Hong Kong charities.

Dr. Hon graduated from King's College London with a degree in Biomedical Science. He also completed a Ph.D. in Psychiatry at Hughes Hall at Cambridge University and holds postgraduate qualifications from the School of Oriental and African Studies at London University and from Harvard University.

MR. JOHNNY YUEN, SENIOR CONSULTANT

Professor Johnny Yuen with more than 30 years of property investment and management experiences is one of the management experts in the first group returning from the United States to China at the end of 1985. He is currently both the President and Chairman of United International Hotel Investment Group and United Hotel Consultancy Co. Ltd, also the Chairman of Les Amis D' Escoffier Society, Asia-Pacific region. Professor Yuen also serves as the life member of U.S. Republican Presidential Task Force and was appointed as Professor, Doctoral Adviser by the prestigious Sichuan University. He has been the management consultants for more than 100 hotels and large commercial real estate projects in China. He has been honoured successively with the "Foreign Expert Friendship Award of People's Republic of China", the "Outstanding Contribution Award of Guangzhou City" and "30 Years of China's Reform and Opening-up 100 Most Influential People of China Hotel Industry" etc government awards. Professor Yuen has served as Executive Director of Pearl Oriental for many years.

MR. YEUNG MAN CHIT, FINANCE MANAGER

Mr. Yeung has over 15 years of experience in auditing, accounting & finance, taxation and corporate compliance. Mr. Yeung holds a Bachelor Degree in Accountancy from Hong Kong Polytechnic University. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Prior to joining the Group, he has served financial positions in other Hong Kong listed companies for over 10 years.

Management Discussion and Analysis

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2011 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK$510,931,000 (2010: HK$558,494,000) mainly from the processing and sales of plastic recycling materials operation by China Environmental Resources Limited, which is 60% owned by the Group. Basic loss per share for the Year was HK1.96 cents (2010: restated basic earnings per share HK22.77 cents). Loss per share was based on the weighted average of 3,027 million shares in issue in the Year.

The gross profit was HK$12,136,000 (2010: restated HK$11,860,000) for the Year, which represented an increase of approximately 2.3% over last year and the gross profit margin has increased from 2.1% to 2.4%.

The Group recorded a gain on disposal of available-for-sale investments totalling HK$85,178,000 (2010: Nil) due to the receipt of proceeds from disposal of equity investment in China Coal Energy Holdings Limited ("China Coal") during the Year.

The loss attributable to the owners of the Company for the Year was HK$59,204,000 (2010: profit attributable to owners of the Company was HK$423,195,000), mainly due to the changes in fair value of HK$110,334,000 on ownership interest in the Utah Gas and Oil Field during the Year. 2010 profit attributable to owners of the Company mainly contributed from the gain on bargain purchase HK$604,703,000.

BUSINESS REVIEW

Oil and Gas Business

The Group 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 250 thousand cubic feet which is being sold to Anadarko's or Questar's midstream operations.

Green River Oil Formation was found in 2010 while discovering Wasatch gas. The Utah Gas and Oil Field has started oil production since June 2011. Plains All American Pipeline, L.P., USA is the purchaser to collect Group's crude oil produced in the Utah Gas and Oil Field.

Plastic Recycling Industry

Plastic recycling material operations contributed over 98% of the Group's consolidated revenue during the Year. The consolidated turnover of sales of recycling materials decreased from HK$555,196,000 in 2010 to HK$487,922,000 during the Year, representing a decrease of 12%. The decrease in turnover was mainly due to the adverse changes in the recycling materials trading market resulting from the intense competition and the customers resistance to price increases in 2011.

OPERATION REVIEW AND UPDATE ON RESERVES

During the Year, no exploration activity had taken place. The Group utilized the reliable and professional local oil field services company in Utah, on one hand, drilling of two (2) new wells for the development of yield oil in shallow pay zone at a depth of around 2,700 to 4,000 feet of Green River Formation and on the other hand for gas pay zone at depth of around 6,000 feet of Wasatch formation. Five (5) wells were under working over and completion.

The Utah Gas and Oil Field has obtained constant and durable oil and gas productions since June 2011 till up to now.

The expenditure incurred on the development and mining production activities during the Year were approximately US$5,070,000 (equivalent to approximately HK$39,547,000) in aggregate.

During the Year, a total of 10,047 Bbls crude oil and 82,702 Mcf gas was produced from the Utah Gas and Oil Field.

According to the independent technical expert report prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers, the total net probable and possible reserves of the Utah Gas and Oil Field as at 24 May 2010 ("the ITR") were estimated to be:

Oil & Condensate	1,857,600 barrels
Natural gas	454,518,000 Mcf

To the best of the Company's knowledge, as at 31 December 2011, there was no material difference on the reserves of the Utah Gas and Oil Field from those reported in the ITR.

In addition, the gross prospective oil resources from the Green River Oil Formation as at 31 December 2011 have been estimated to be around 400,000 barrels. These estimates are based on resource definitions from the Society of Petroleum Engineers : Petroleum Resources Management System (PRMS), March 2007.

SETTLEMENT OF LITIGATIONS

(a) On 31 July 2010, the Company entered into a settlement agreement (the "Settlement Agreement") with Mr. Zhang Jingyuan ("Mr. Zhang"), the joint venture party, to withdraw all legal claims against any parties to those litigations in Hong Kong and Mainland China and to dispose of 55.11% equity interest of China Coal 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.

    On 12 March 2012, the Company entered into a Supplemental Settlement Agreement (the "Supplemental Settlement Agreement") with Mr. Zhang. Pursuant to the Supplement Settlement Agreement, Mr. Zhang and the Company have agreed to amend the payment dates for the Fourth and the Fifth instalments on or before 10 May 2012.

    The entering into the Settlement Agreement and the Supplemental Settlement Agreement allow 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.

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

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

(ii) Grand Ascend is entitled to levy execution of judgment to be obtained on the Shares.

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

The Group has already obtained a charging order absolute on these 6,000,000 ordinary shares in March 2012 and will proceed to levy execution thereon as soon as practicable in respect of the judgment that the Group has obtained for a sum of Euro 9,833,000 (equivalent to approximately HK$98,800,000) together with interest payable by Laurent Kim.

PROSPECTS

China's high demands for overseas oil

According to Energy Information Administration ("EIA") of USA, China produces over 4 million Bbls 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 2012, 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 nuclear crisis happened 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. To sum up, despite the recent fall of natural gas price, the medium and long term, outlook for natural gas remain positive.

OUTLOOK

The Board believes that, given the commencement of oil production of the Group's Utah Gas and Oil Field, the Group will actively expand its portfolio of oil assets substantially through mergers and acquisitions so as to enhance the development potential of the Company.

LITIGATION

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 RMB93,000,000.

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 was 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.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of news shares and internally generated resources. At the Year end date, the Group did not have any borrowings (2010: Nil). Furthermore, the Group's cash and bank balances as at 31 December 2011 have decreased to approximately HK$169 million from HK$375 million as at 31 December 2010 as a result of the payment for acquisition of 30% Ownership Interest in the Utah Gas and Oil Field amounted to approximately HK$195 million in March 2011 and the receipt of further instalments of consideration for the disposal of equity interests in China Coal of HK$85,178,000 in aggregate (net proceeds after 3% expenses payable) from 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 decreased to 30.12 as at 31 December 2011 (31 December 2010: 30.24).

Due to the capital flooded in the banking system of Hong Kong, the interest rate of saving deposit has been remaining at a very low level for a long period, the Group has safe short-term loan receivables with an average interest rate of 5.33% per annum totalling HK$175,000,000, which the Group could enjoy higher interest earnings. Together with the cash and bank balances of HK$169,000,000 as abovementioned, the disposable cash reserves of the Group is HK$344,000,000, and will be used as working capital of the Group and/or for acquisitions of new oil projects.

Moreover, on 12 March 2012, the Group had entered a Supplemental Settlement Agreement with Mr. Zhang and we expect the Group will early receive proceeds of around HK$50,000,000 on or before 10 May 2012.

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the number of employees of the Group was about 60 (2010: 60). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and travelling allowances and discretionary bonuses.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 21 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 26.

The board of directors (the "Board" or the "Directors") do not recommend the payment of final dividend for the Year (2010: HK2 cents per share).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2011, HK$2,138,258,000 distributable reserves were available for distribution to the equity shareholders of the Company.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reason therefor are set out in note 30 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Wong Kwan	
Lew Mon Hung	
Cheung Kwok Yu	
Zhou Li Yang	(resigned on 25 May 2011)
Johnny Yuen	(resigned on 1 September 2011)

Non-Executive Directors:

Baiseitov Bakhytbek	
Chen Ping	(re-designated from independent non-executive Director on 1 September 2011)

Independent Non-Executive Directors:

Yu Jianmeng	
Fung Hing Chiu, Cyril	(resigned on 1 July 2011)
Lam Ka Wai, Graham	
Chen Ping	(appointed on 21 June 2011 and re-designated to non-executive Director on 1 September 2011)
Wang Tong Sai	(appointed on 1 September 2011)

In accordance with Clause 86(2) of the Company's Bye-Laws, Mr. Chen Ping and Mr. Wang Tong Sai so appointed by the Board to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting.

In accordance with Clause 87(1) of the Company's Bye-Laws, each of Dr. Lew Mon Hung, Mr. Yu Jianmeng and Mr. Lam Ka Wai, Graham will retire as director by rotation at the forthcoming annual general meeting and being eligible, offer himself/herself for re-election as Director. All other remaining Directors continue in office. Save as disclosed above, no Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 5 to 8 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the executive Directors of the Company has each entered into a service contract with the Company. All the abovementioned service contracts are continuous until terminated by either party giving to the other not less than six months notice in writing or otherwise in accordance with its terms.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 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**	**Approximate percentage to the issued share capital of the Company**
Wong Kwan *(Note)*	—	817,530,000	817,530,000	23.99%
Lew Mon Hung	204,872,000	—	204,872,000	6.01%
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, 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
Yu Jianmeng	Beneficial owner	4,800,000	09/06/2010-14/07/2019	0.9416
Lam Ka Wai, Graham	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
Wang Tong Sai	Beneficial owner	4,800,000	01/09/2011-14/07/2019	1.03

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2011.

(C) Warrants

Name of the holder	Number of underlying shares held	Expiry date	Approximate percentage of issued share capital of the Company
Orient Day Developments Limited *(Note)*	384,000,000	24/10/2013	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 31 December 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:

Long Positions

Name of substantial shareholders	Capacity	Number of shares/underlying shares held	Approximate percentage to the issued share capital of the Company
Charcon Assets Limited *(Note)*	Beneficial owner	817,530,000	23.99%
Ma Yueng Lin	Beneficial owner	672,000,000	19.72%
Orient Day Developments Limited *(Note)*	Beneficial owner	384,000,000	11.27%

Note: Charcon Assets Limited and Orient Day Developments Limited are wholly owned by Mr. Wong Kwan.

Save 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 31 December 2011.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year are detailed in note 38 to the financial statements. Save as disclosed above, the Group did not have any connected transactions during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights, under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customers and five largest customers taken together accounted for 21% and 46% respectively of the Group's total sales for the year. The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 98% and 100% respectively of the Group's total purchases for the year.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

AUDITORS

Grant Thornton Jingdu Tianhua was appointed as auditor of the Group with effect from 3 January 2012 to fill the casual vacancy following the resignation of Ascenda Cachet CPA Limited. The financial statements for the year ended 31 December 2011 have been audited by Grant Thornton Jingdu Tianhua.

Grant Thornton Jingdu Tianhua has incorporated its practice and will practice in name of Grant Thornton Hong Kong Limited. A resolution will be submitted to the annual general meeting to appoint Messrs. Grant Thornton Hong Kong Limited as the auditors of the Company.

By order of the Board

Cheung Kwok Yu
Executive Director & Company Secretary

30 March 2012

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of shareholders of the Company are published in the Company's website. The Group firmly believes the importance of communicating with the investment community and the shareholders in attaining a high level of transparency. The general meetings of the Company provide a platform for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the Audit Committee or if, in their absence, other members of the respective committees, and where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The Company endeavours to provide timely and accurate information to the investors to enhance the business development strategy and direction of the Group.

The Group will continue to maintain a close relationship with investors and develop greater understanding about the Group for international investors, to enhance investors' confidence in the Group.

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance. In the opinion of the Board, the Company has complied throughout the year ended 31 December 2011 (the "Year") 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 is 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 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) The holding of four regular board meetings.

(d) The segregation of the role of Chairman and chief executive.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the Model code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the Year ended 31 December 2011.

BOARD OF DIRECTORS

The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the oversight of the realization of the objectives set by the Board and the day-to-day operations of the Group.

As at 31 December 2011, the Board comprises eight members, three of whom are executive Directors, two of whom are non-executive Directors (the "Non-executive Directors") and three are independent non-executive Directors (the "Independent Non-executive Directors"). More than one-third of the Board is Independent Non-executive Directors and one of them has appropriate professional qualifications on accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

To promote effective communication, the Company maintains a website at www.pearloriental.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

During the Year, two (2) board meetings have been held, the attendance of each director, on named basis and by category at Board meetings, Audit Committee meetings and Remuneration Committee meetings is set out below:

	Meetings attended/held		
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Executive Directors:			
Wong Kwan *(Chairman & Chief Executive)*	2/2	N/A	N/A
Lew Mong Hung	2/2	N/A	N/A
Cheung Kwok Yu	2/2	N/A	N/A
Zhou Li Yang *(Note 1)*	1/2	N/A	N/A
Johnny Yuen *(Note 2)*	2/2	N/A	N/A
Non-executive Directors:			
Baiseitov Bakhytbek	0/2	N/A	N/A
Chen Ping *(Note 3)*	0/2	0/1	1/1
Independent Non-executive Directors:			
Yu Jianmeng *(Member of Audit Committee and Remuneration Committee)*	2/2	2/2	1/1
Fung Hing Chiu, Cyril *(Note 4)*	1/2	1/1	N/A
Lai Ka Wai, Graham *(Chairman of Audit Committee and Remuneration Committee)*	2/2	2/2	1/1
Wang Tong Sai *(Member of Audit Committee and Remuneration Committee) (Note 5)*	N/A	N/A	N/A

Notes:

(1) Resigned on 25 May 2011.

(2) Resigned on 1 September 2011.

(3) Appointed as an Independent Non-executive Director on 21 June 2011 and re-designated to Non-executive Director on 1 September 2011.

(4) Resigned on 1 July 2011.

(5) Appointed on 1 September 2011.

To the best knowledge of the Board, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 December 2011. All of them are free to exercise their individual judgments.

CHAIRMAN AND CHIEF EXECUTIVE

The executive Director, Wong Kwan, served as the Chairman and Chief Executive of the Company. The Company did not appoint another individual to act as the Chief Executive for the Year ended 31 December 2011 and up to the date of this report. This constitutes a deviation from code provision A.2.1. The Board believes that having the same person performing the roles of both Chairman and Chief Executive does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group.

REMUNERATION OF DIRECTORS

The Remuneration Committee has three members, comprising Messrs. Yu Jianmeng, Wang Tong Sai and Lam Ka Wai, Graham, all Independent Non-executive Directors. The Remuneration Committee is chaired by Mr. Lam Ka Wai, Graham.

The Remuneration Committee has clear terms of reference and is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

NOMINATION OF DIRECTORS

The Board has approved to set up a Nomination Committee on 30 March 2012 with clear terms of reference. The Nomination Committee has four members, comprising Messrs. Yu Jianmeng, Wang Tong Sai and Lam Ka Wai, Graham, all Independent Non-executive Directors and Mr. Wong Kwan, executive Director and chairman of the committee.

The principal role of the committee is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

INTERNAL CONTROL

The Board acknowledges its responsibility to ensure that a sound and effective internal control system, which serves as an integral part of the Company's management system, is maintained. The Board is responsible for approving and reviewing internal control policy, while the responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with the management. An internal control system is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- encouraging internal reporting on serious concern about malpractice
- conducting internal independent review by internal audit function

The Company places great value upon creating an environment where employees maintain the highest standard of integrity. To this end, the Board encourages the raising of concerns by employees about internal malpractice directly to the Board which will review complaints and decide how the investigation should be conducted.

AUDITORS' REMUNERATION

For the year ended 31 December 2011, Grant Thornton Jingdu Tianhua, the existing external auditors provided the following services to the Group:

	HK$'000
Annual audit services	1,050

AUDIT COMMITTEE

As at 31 December 2011, the Audit Committee currently comprises the three Independent Non-executive Directors, namely Mr. Lam Ka Wai, Graham (chairman of the Audit Committee), Mr. Yu Jianmeng and Mr. Wang Tong Sai.

The Audit Committee held two (2) meetings during the Year. The Audit Committee is provided with sufficient resources to discharge its duties. The term of reference of the Audit Committee follow the guidelines set out in the CG Code.

The Audit Committee has clear terms of reference and the principal duties include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts review and monitor the appointment of the auditors and their independence.

The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2011.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements.

The statement of the external auditors of the Company, Grant Thornton Jingdu Tianhua, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on pages 24 and 25.

Independent Auditors' Report

Grant Thornton
京都天华

To the members of Pearl Oriental Oil Limited
(formerly known as "Pearl Oriental Innovation Limited")
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pearl Oriental Oil Limited (formerly known as "Pearl Oriental Innovation Limited") (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton Jingdu Tianhua
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

30 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (restated)
CONTINUING OPERATIONS			
Revenue			
Sales of oil and natural gas	5	**7,479**	46
Sales of plastic recycling materials	5	**487,922**	555,196
Other income	6	**15,530**	3,252
		510,931	558,494
Expenses			
Cost of sales of plastic recycling materials		**475,038**	530,788
Exploration, repair and maintenance expenses		**5,800**	12,594
Depreciation, depletion and amortisation		**2,427**	—
Selling and distribution costs		**2,358**	5,323
Other operating expenses		**2,256**	5
Administrative expenses		**58,629**	88,125
Equity-settled share option expenses		**7,104**	39,966
		553,612	676,801
Loss from operations		**(42,681)**	(118,307)
Finance costs	7	**(27)**	(53)
Gain on bargain purchase		**—**	604,703
Gain on disposal of available-for-sale investments		**85,178**	—
Net gain on disposal of subsidiaries		**—**	54,884
Impairment loss on goodwill		**(23,408)**	(27,943)
Impairment loss on intangible assets		**(110,334)**	—
Write-off of assets on liquidation of a subsidiary		**—**	(126,513)
(Loss)/Profit before tax from continuing operations	8	**(91,272)**	386,771
Income tax credit	9	**25,109**	4,703
(Loss)/Profit for the year from continuing operations		**(66,163)**	391,474
DISCONTINUED OPERATION			
Profit for the year from discontinued operation	10	**—**	36
(Loss)/Profit for the year		**(66,163)**	391,510
Attributable to:			
Owners of the Company	11	**(59,204)**	423,195
Non-controlling interests		**(6,959)**	(31,685)
		(66,163)	391,510
		HK cents	HK cents (restated)
(Loss)/Earnings per share attributable to owners of the Company	13		
From continuing and discontinued operations			
Basic		**(1.96)**	22.77
Diluted		**(1.96)**	22.49
From continuing operations			
Basic		**(1.96)**	22.77
Diluted		**(1.96)**	22.49

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
(Loss)/Profit for the year	**(66,163)**	391,510
Other comprehensive income		
Exchange differences on translation of financial statements of foreign operations	**63**	(5,739)
Total comprehensive income for the year	**(66,100)**	385,771
Attributable to:		
Owners of the Company	**(59,141)**	417,456
Non-controlling interests	**(6,959)**	(31,685)
	(66,100)	385,771

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	16	**82,690**	1,198
Exploration and evaluation assets	17	**—**	46,371
Intangible assets	18	**2,706,600**	2,624,393
Goodwill	19	**10,688**	34,096
Deferred tax assets	28	**7,381**	5,204
		2,807,359	2,711,262
Current assets			
Inventories and supplies	22	**1,369**	6,912
Trade and bill receivables	23	**6,623**	1,771
Prepayments, deposits and other receivables	24	**233,521**	263,011
Tax recoverable		**376**	—
Bank balances and cash		**168,861**	374,932
		410,750	646,626
Current liabilities			
Trade payables	25	**3**	4,502
Other payables and accruals	26	**13,633**	14,665
Bank borrowings	27	**—**	1,399
Tax payable		**—**	820
		13,636	21,386
Net current assets		**397,114**	625,240
Total assets less current liabilities		**3,204,473**	3,336,502
Non-current liabilities			
Deferred tax liabilities	28	**663,117**	686,049
Assets retirement obligations	29	**2,301**	—
		665,418	686,049
Net assets		**2,539,055**	2,650,453

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Equity			
Share capital	30	**340,826**	198,697
Reserves		**2,206,714**	1,520,691
Consideration shares to be issued	30(a)	**—**	932,591
Equity attributable to owners of the Company		**2,547,540**	2,651,979
Non-controlling interests		**(8,485)**	(1,526)
Total equity		**2,539,055**	2,650,453

Wong Kwan
Chairman

Cheung Kwok Yu
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Interests in subsidiaries	21	**2,202,954**	2,164,749
Current assets			
Other receivables	24	**177,220**	213,906
Bank balances and cash		**159,520**	310,604
		336,740	524,510
Current liabilities			
Accruals	26	**3,976**	3,003
Net current assets		**332,764**	521,507
Total assets less current liabilities		**2,535,718**	2,686,256
Non-current liabilities			
Amounts due to subsidiaries	21	**11,155**	11,155
Net assets		**2,524,563**	2,675,101
Equity			
Share capital	30	**340,826**	198,697
Reserves	32	**2,183,737**	1,543,813
Consideration shares to be issued	30(a)	**—**	932,591
Total equity		**2,524,563**	2,675,101

Wong Kwan
Chairman

Cheung Kwok Yu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company										
	Share capital	Share premium	Treasury shares	Capital reserve	Exchange reserve	Share option reserve	Warrants reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (note 32)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	115,922	697,201	(10,556)	403,851	2,450	4,890	—	(884,930)	328,828	16,159	344,987
Profit for the year	—	—	—	—	—	—	—	423,195	423,195	(31,685)	391,510
Other comprehensive income:											
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	(5,739)	—	—	—	(5,739)	—	(5,739)
Total comprehensive income	—	—	—	—	(5,739)	—	—	423,195	417,456	(31,685)	385,771
Release on reserve upon disposal of subsidiaries	—	—	—	—	1,148	—	—	—	1,148	—	1,148
Release on reserve upon liquidation of a subsidiary	—	—	—	—	2,435	—	—	—	2,435	—	2,435
Issue of new shares	79,911	834,525	—	—	—	—	—	—	914,436	—	914,436
Share issue expenses	—	(12,408)	—	—	—	—	—	—	(12,408)	—	(12,408)
Issue of warrants	—	—	—	—	—	—	3,263	—	3,263	—	3,263
Equity-settled share options arrangements	—	—	—	—	—	39,966	—	—	39,966	—	39,966
Share options exercised	2,864	29,639	—	—	—	(8,239)	—	—	24,264	—	24,264
Contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	14,000	14,000
	82,775	851,756	—	—	3,583	31,727	3,263	—	973,104	14,000	987,104
At 31 December 2010 and 1 January 2011	198,697	1,548,957	(10,556)	403,851	294	36,617	3,263	(461,735)	1,719,388	(1,526)	1,717,862
Loss for the year	—	—	—	—	—	—	—	(59,204)	(59,204)	(6,959)	(66,163)
Other comprehensive income:											
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	63	—	—	—	63	—	63
Total comprehensive income	—	—	—	—	63	—	—	(59,204)	(59,141)	(6,959)	(66,100)
Bonus issue of shares	56,804	(56,804)	—	—	—	—	—	—	—	—	—
Issue of consideration shares	84,781	847,810	—	—	—	—	—	—	932,591	—	932,591
Share issue expenses	—	(35)	—	—	—	—	—	—	(35)	—	(35)
2010 final dividends	—	(56,804)	—	—	—	—	—	—	(56,804)	—	(56,804)
Equity-settled share options arrangements	—	—	—	—	—	7,104	—	—	7,104	—	7,104
Share options exercised	544	5,398	—	—	—	(1,505)	—	—	4,437	—	4,437
	142,129	739,565	—	—	—	5,599	—	—	887,293	—	887,293
At 31 December 2011	340,826	2,288,522	(10,556)	403,851	357	42,216	3,263	(520,939)	2,547,540	(8,485)	2,539,055

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
Cash flows from operating activities		
(Loss)/Profit before tax:		
From continuing operations	**(91,272)**	386,771
From discontinued operation	—	36
Adjustments for:		
Interest expenses	**27**	53
Net gain on disposal of subsidiaries	—	(54,884)
Gain on bargain purchase	—	(604,703)
Gain on disposal of available for-sale investments	**(85,178)**	—
Interest income	**(9,295)**	(3,167)
Depreciation, depletion and amortisation	**2,995**	3,118
Impairment loss on goodwill	**23,408**	27,943
Impairment loss on intangible assets	**110,334**	—
Write-off of assets on liquidation of a subsidiary	—	126,513
Equity-settled share option expenses	**7,104**	39,966
Operating loss before working capital changes	**(41,877)**	(78,354)
Decrease/(Increase) in inventories and supplies	**5,543**	(6,031)
(Increase)/Decrease in trade and bills receivables	**(4,852)**	4,136
Decrease/(Increase) in prepayments, deposits and other receivables	**29,490**	(144,097)
Decrease in trade payables	**(4,499)**	(896)
Decrease in other payables and accruals	**(1,032)**	(5,158)
Cash used in operations	**(17,227)**	(230,400)
Income tax paid	**(1,196)**	—
Net cash used in operating activities	**(18,423)**	(230,400)
Cash flows from investing activities		
Interest received	**9,295**	3,167
Purchase of property, plant and equipment	**(82)**	(1,257)
Purchase of exploration and evaluation assets	**(33,747)**	(46,371)
Acquisition of intangible assets	**(194,527)**	—
Acquisition of subsidiary, net of cash acquired	—	(390,000)
Proceeds from disposal of available-for-sale investments	**85,178**	—
Disposal of subsidiaries, net of cash disposed of	—	26,236
Net cash and cash equivalent outflow from write-off of assets on liquidation of a subsidiary	—	(405)
Net cash used in investing activities	**(133,883)**	(408,630)

	2011 HK$'000	2010 HK$'000
Cash flows from financing activities		
Proceeds from issue of shares	—	760,026
Share issue expenses	**(35)**	(12,408)
New bank borrowings	—	1,399
Repayment of bank borrowings	**(1,399)**	—
Net proceeds from exercise of the share options	**4,437**	24,264
Net proceeds from issue of warrants	—	3,263
Contributions from non-controlling interests	—	14,000
Dividend paid	**(56,804)**	—
Interest paid	**(27)**	(53)
Net cash (used in)/from financing activities	**(53,828)**	790,491
Net (decrease)/increase in cash and cash equivalents	**(206,134)**	151,461
Cash and cash equivalents at beginning of year	**374,932**	224,314
Effect of foreign exchange rate changes, net	**63**	(843)
Cash and cash equivalents at end of year, represented by bank balances and cash	**168,861**	374,932

Notes to the Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

Pearl Oriental Oil Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is situated at Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed by the shareholders of the Company at the special general meeting held on 3 November 2011, the name of the Company has been changed from "Pearl Oriental Innovation Limited" to "Pearl Oriental Oil Limited" with the adoption of the new Chinese name "東方明珠石油有限公司" to replace "東方明珠創業有限公司" for identification purpose.

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

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

The consolidated financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 30 March 2012.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also include the applicable disclosures requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised in note 2.3 below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 2.2.

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

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

2.2 ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2011:

HKAS 24 (Revised)	Related Party Disclosures
Various	Improvements to HKFRSs 2010

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

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

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss; and (2) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition and up to the effective date of disposal, as appropriate.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income respectively for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

Property, plant and equipment

Oil and gas properties

Oil and gas properties are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and impairment losses.

The successful efforts method of accounting is used for oil and gas exploration and production activities. The Group capitalises the initial acquisition costs of oil and gas properties. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Oil and gas properties (Continued)

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

Oil and gas properties are depreciated on a unit-of-production basis over the proved reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved and probable developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Other property, plant and equipment

Buildings are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation. Fair value is determined by appraisals by external professional valuers with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any surplus arising on revaluation of buildings is recognised in other comprehensive income and is accumulated in the asset revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease. To the extent that any decrease has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase dealt with in other comprehensive income. A decrease in net carrying amount of buildings arising on revaluation is recognised in other comprehensive income to the extent of the revaluation surplus in the asset revaluation reserve relating to the same asset and the remaining decrease is recognised in profit or loss.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Freehold land	Not depreciated
Buildings	Over the shorter of the lease terms and their estimated useful lives
Leasehold improvement	Over the shorter of the lease terms or 5 years
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	$16^2/_3\%$ to $33^2/_3\%$

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Other property, plant and equipment (Continued)

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any revaluation surplus remaining in equity is transferred to retained earnings on the disposal of buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

The intangible assets of oil and gas processing right of the natural gas and oil properties has been amortised upon the commercial production of oil and gas on a unit-of-production basis over the total proved reserves.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets

The Group's accounting policies for financial assets other than investment in subsidiaries are set out below.

Financial assets are classified into the following categories:

– loans and receivables

– available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(ii) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– The disappearance of an active market for that financial asset because of financial difficulties; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) Financial assets carried at cost
The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Impairment losses on financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Inventories and supplies

Inventories and supplies are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Costs for inventories and supplies related to oil and gas sales business and plastic recycling business are determined on weighted average basis and first-in-first out basis respectively.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

The Group's financial liabilities include bank loans and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil and gas properties.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where the Company's equity share capital is repurchased (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Revenue recognition

Revenue comprises the fair value of the consideration received and receivable for the sales of goods and the use by others of the Group's assets yielding interest. Provided that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Oil and gas sales are recognised when the significant risks and rewards of ownership have been transferred to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

Sales of goods and products of plastic recycling business are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods and products are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

The following assets are subject to impairment testing:

– Goodwill arising on acquisition of subsidiaries;

– Intangible assets;

– Exploration and evaluation assets;

– Property, plant and equipment; and

– The Company's interests in subsidiaries

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the People's Republic of China ("PRC") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits/accumulated losses.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Accounting for income taxes *(Continued)*

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

Each of the operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its consolidated financial statements prepared under HKFRSs, except that:

- equity-settled share option expense
- finance costs
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment.

are not included in arriving at the operating results of the operating segment.

Segment assets exclude deferred tax assets and corporate assets which are not directly attributable to the business activities of any operating segment.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

Segment liabilities exclude deferred tax liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment.

Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

  (a) has control or joint control over the Group;

  (b) has significant influence over the Group; or

  (c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

  (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (c) Both entities are joint ventures of the same third party.

  (d) One entity is a joint venture of a third party and the other entity is an associate of the third party.

  (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

  (f) The entity is controlled or jointly controlled by a person identified in (i).

  (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows the management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units containing goodwill are disclosed in note 19.

Estimation of oil and natural gas reserves

Changes in proved oil and natural gas reserves will affect the depreciation, depletion and amortisation under the unit-of-production method recorded in the Group's consolidated financial statements for property, plant and equipment and intangible assets related to oil and gas production activities. The proved oil and natural gas reserves are also key determinants in assessing whether the carrying value of the Group's oil and gas properties and intangible assets have been impaired. Proved reserves are determined using estimates such as oil in place, future product prices, drilling and development plans.

Estimation of impairment of oil and gas assets and intangible assets

Oil and gas assets and intangible assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves the management estimates and judgements such as future prices of oil and gas, the production profile and any significant changes in factors or assumptions used in estimating reserves.

Estimation of asset retirement obligations

Provision is recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provision recognised are the present values of the estimated future expenditures. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the Group.

4. SEGMENT INFORMATION

The Group has identified the following reportable segments:

(a) Logistics and related services – provision of logistic business and related services, which had been discontinued during last year;

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

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

2011

	Continuing operations		
	Plastic recycling *HK$'000*	Oil and gas sales *HK$'000*	Total *HK$'000*
Segment revenue	487,922	7,479	495,401
Segment loss	(23,485)	(113,960)	(137,445)
Gain on disposal of available-for-sale investments			85,178
Unallocated income			15,530
Equity-settled share option expenses			(7,104)
Finance costs			(27)
Unallocated expenses			(47,404)
Loss before tax			(91,272)
Income tax credit			25,109
Loss for the year			(66,163)
Segment assets	62,530	2,805,128	2,867,658
Deferred tax assets			7,381
Unallocated assets			343,070
Total assets			3,218,109
Segment liabilities	6,704	5,109	11,813
Deferred tax liabilities			663,117
Unallocated liabilities			4,124
Total liabilities			679,054
Capital expenditure	—	33,747	
Depreciation, depletion and amortisation	329	2,427	
Impairment loss on goodwill	23,408	—	
Impairment loss on intangible assets	—	110,334	

4. SEGMENT INFORMATION *(Continued)*

2010

	Continuing operations		Discontinued operation	
	Plastic recycling	Oil and gas sales	Logistics and related services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	555,196	46	—	555,242
Segment (loss)/profit	(78,610)	(14,318)	36	(92,892)
Net gain on disposal of subsidiaries				54,884
Gain on bargain purchase				604,703
Unallocated income				3,252
Equity-settled share option expenses				(39,966)
Write-off of assets on liquidation of a subsidiary				(126,513)
Unallocated expenses				(16,608)
Finance costs				(53)
Profit before tax				386,807
Income tax credit				4,703
Profit for the year				391,510
Segment assets	91,846	2,734,077	—	2,825,923
Deferred tax assets				5,204
Unallocated assets				526,761
Total assets				3,357,888
Segment liabilities	12,410	2,606	—	15,016
Deferred tax liabilities				686,049
Unallocated liabilities				6,370
Total liabilities				707,435
Capital expenditure	920	46,371	—	
Depreciation	2,884	—	—	
Impairment loss on goodwill	27,943	—	—	

4. SEGMENT INFORMATION *(Continued)*

The Group's revenue from external customers and its non-current assets (other than deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**487,922**	553,636	**11,400**	35,293
France	**—**	1,560	**—**	—
United States of America ("USA")	**7,479**	46	**2,788,578**	2,670,765
	495,401	555,242	**2,799,978**	2,706,058

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

The Group's customer base includes one (2010: one) customer with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to this customer amounted to HK$104,301,000 (2010: HK$73,342,000).

5. REVENUE

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

	2011	2010
	HK$'000	*HK$'000*
Sales of plastic recycling materials	**487,922**	555,196
Sales of oil and natural gas	**7,479**	46
Total revenue	**495,401**	555,242

6. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	**30**	14
Other loan interest income	**9,265**	3,146
Compensation from settlement of litigations	**3,769**	—
Others	**2,466**	92
Total other income	**15,530**	3,252

7. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on bank borrowings wholly repayable within five years	**27**	3
Bank overdraft interest	**–**	35
Interest on other loans	**–**	15
	27	53

8. (LOSS)/PROFIT BEFORE TAX

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

	2011 HK$'000	2010 HK$'000
Depreciation, depletion and amortisation	**2,995**	3,118
Operating lease charges in respect of land and buildings	**3,883**	4,131
Auditors' remuneration:		
— Annual audit	**1,300**	980
— Other assurance services	**30**	760
Exchange losses, net	**655**	775
Impairment loss on intangible assets	**110,334**	—
Impairment loss on goodwill	**23,408**	27,943
Gain on disposal of available-for-sale investments	**(85,178)**	—
Net gain on disposal of subsidiaries	**—**	(54,884)
Write-off of assets on liquidation of a subsidiary	**—**	126,513
Gain on bargain purchase	**—**	(604,703)

9. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2011 HK$'000	2010 HK$'000
Current tax – Hong Kong	**—**	501
Deferred tax – current year	**(25,109)**	(5,204)
Income tax credit	**(25,109)**	(4,703)

9. INCOME TAX CREDIT *(Continued)*

Reconciliation between tax credit and accounting (loss)/profit at applicable tax rates:

	2011	2010
	HK$'000	*HK$'000*
(Loss)/Profit before tax	**(91,272)**	386,771
Tax on (loss)/profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(36,545)**	47,194
Tax effect of non-taxable revenue	**(491)**	(110,901)
Tax effect of non-deductible expenses	**11,927**	58,932
Tax effect of unrecognised tax losses	**—**	72
Income tax credit	**(25,109)**	(4,703)

10. DISCONTINUED OPERATION

During the year ended 31 December 2010, the Group decided to cease its logistics and related services business through disposal of its subsidiaries. The disposal was completed in November 2010. Details of the disposal are disclosed in note 34 to the consolidated financial statements.

(a) Profit for the year from discontinued operation

	2010
	HK$'000
Other income	391
Administrative expenses	(355)
Profit before tax	36
Income tax expenses	—
Profit for the year from discontinued operation	36

(b) Cashflows from discontinued operation

	2010
	HK$'000
Net cash inflows from operating activities	1,468
Net cash inflows from investing activities	6
Net cash inflows	1,474

11. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year attributable to the owners of the Company of HK$59,204,000 (2010: profit of HK$423,195,000), a loss of HK$105,240,000 (2010: profit of HK$428,002,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year

	2011	2010
	HK$'000	*HK$'000*
Proposed final dividend of nil (2010: HK2 cents) per ordinary share	**—**	39,739

The Directors did not recommended the payment of a final dividend for the year ended 31 December 2011.

A final dividend in respect of year 2010 of 2 cents per share, totalling approximately HK$39,739,000 are declared. These final dividend have not been included as liabilities in the consolidated financial statements as at 31 December 2010.

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

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

	2011	2010
	HK$'000	*HK$'000*
Final dividend in respect of previous year of HK2 cents (2010: nil) per ordinary share	**56,804**	—

13. (LOSS)/EARNINGS PER SHARE

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

(a) From continuing and discontinued operations:

	2011	2010
	HK$'000	*HK$'000*
(Loss)/Earnings		
(Loss)/Profit for the year attributable to owners of the Company	**(59,204)**	423,195

	2011	2010
	'000	*'000*
		(restated)
Number of shares		
Weighted average number of ordinary shares in issue used in basic earnings per share calculation	**3,026,953**	1,858,466
Effect of dilutive potential ordinary shares:		
Share options	**—**	15,412
Warrants	**—**	7,541
	3,026,953	1,881,419

(b) From continuing operations:

	2011	2010
	HK$'000	*HK$'000*
(Loss)/Earnings		
(Loss)/Profit for the year attributable to owners of the Company	**(59,204)**	423,159

	2011	2010
	'000	*'000*
		(restated)
Number of shares		
Weighted average number of ordinary shares in issue used in basic earnings per share calculation	**3,026,953**	1,858,466
Effect of dilutive potential ordinary shares:		
Share options	**—**	15,412
Warrants	**—**	7,541
	3,026,953	1,881,419

The comparative figures have been restated to reflect the effect the bonus issue of shares during the year (note 30(b)).

14. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2011 *HK$'000*	2010 *HK$'000*
Wages and salaries	**20,048**	62,366
Equity-settled share option expenses	**7,104**	34,943
Pension costs – defined contribution plans	**343**	323
	27,495	97,632

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

2011

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expenses *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:					
Wong Kwan	—	3,160	—	12	3,172
Lew Mon Hung	—	1,700	—	—	1,700
Cheung Kwok Yu	—	1,670	—	12	1,682
Johnny Yuen (resigned on 1 September 2011)	—	200	—	—	200
Zhou Li Yang (resigned on 25 May 2011)	—	370	—	5	375
Non-executive directors:					
Baiseitov Bakhytbek	233	—	—	—	233
Chen Ping (appointed on 21 June 2011) *(note)*	147	—	1,361	—	1,508
Independent non-executive directors					
Lam Ka Wai, Graham	293	—	—	—	293
Yu Jian Meng	260	—	—	—	260
Wang Tong Sai (appointed on 1 September 2011)	125	—	2,577	—	2,702
Fung Hing Chiu, Cyril (resigned on 1 July 2011)	213	—	—	—	213
	1,271	7,100	3,938	29	12,338

Note:

Mr. Chen Ping was appointed as an independent non-executive director on 21 June 2011 and redesignated as non-executive director from 1 September 2011.

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

2010

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expenses *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors					
Wong Kwan	—	11,264	1,932	12	13,208
Lew Mon Hung	—	14,900	1,932	—	16,832
Cheung Kwok Yu	—	7,316	1,932	12	9,260
Johnny Yuen	—	300	1,932	11	2,243
Zhou Li Yang	—	5,660	1,932	12	7,604
Zheng Yingsheng (resigned on 1 September 2010)	—	—	—	—	—
Non-executive director					
Baiseitov Bakhytbek (appointed on 5 October 2010)	467	—	8,055	—	8,522
Independent non-executive directors					
Lam Ka Wai, Graham	5,640	—	1,932	—	7,572
Yu Jian Meng	540	—	1,932	—	2,472
Fung Hing Chiu, Cyril	588	—	1,932	—	2,520
	7,235	39,440	23,511	47	70,233

No emoluments were paid by the Group to any directors as inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2011 and 2010.

(b) Five highest paid individuals

All the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2011 and 2010 are directors of the Company. Details of their remuneration are set out in the analysis in note 15(a) above.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Oil and gas properties *HK$'000*	Leasehold improvement *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2011					
Cost	—	908	12,010	707	13,625
Accumulated depreciation	—	(296)	(11,732)	(399)	(12,427)
Net book amount	—	612	278	308	1,198
Year ended 31 December 2011					
Opening net book amount	—	612	278	308	1,198
Additions	2,301	—	82	—	2,383
Transfers	80,118	—	—	—	80,118
Depreciation and depletion	(441)	(316)	(94)	(158)	(1,009)
Closing net book amount	81,978	296	266	150	82,690
At 31 December 2011					
Cost	82,419	908	12,092	707	96,126
Accumulated depreciation and depletion	(441)	(612)	(11,826)	(557)	(13,436)
Closing net book amount	81,978	296	266	150	82,690

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings *HK$'000* *(note)*	Freehold land *HK$'000* *(note)*	Leasehold improvement *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2010						
Cost or valuation	32,278	4,494	85	31,006	446	68,309
Accumulated depreciation and impairment	(1,171)	—	(32)	(2,408)	(233)	(3,844)
Net book amount	31,107	4,494	53	28,598	213	64,465
Year ended 31 December 2010						
Opening net book amount	31,107	4,494	53	28,598	213	64,465
Additions	—	—	823	173	261	1,257
Write-off *(note 35)*	(27,903)	(4,044)	—	(24,563)	—	(56,510)
Depreciation	(425)	(49)	(264)	(2,214)	(166)	(3,118)
Exchange differences	(2,779)	(401)	—	(1,716)	—	(4,896)
Closing net book amount	—	—	612	278	308	1,198
At 31 December 2010						
Cost	—	—	908	12,010	707	13,625
Accumulated depreciation and impairment	—	—	(296)	(11,732)	(399)	(12,427)
Closing net book amount	—	—	612	278	308	1,198

Note:

The freehold land and buildings were located in France and had been fully written-off during the year ended 31 December 2010 upon liquidation of a subsidiary.

17. EXPLORATION AND EVALUATION ASSETS

Group

	2011	2010
	HK$'000	*HK$'000*
At 1 January		
Cost	**46,371**	—
Accumulated impairment	**—**	—
Net book amount	**46,371**	—
Year ended 31 December		
Opening net book amount	**46,371**	—
Additions	**33,747**	46,371
Transfers	**(80,118)**	—
Closing net book amount	**—**	46,371
At 31 December		
Cost	**—**	46,371
Accumulated impairment	**—**	—
Closing net book amount	**—**	46,371

The exploration and evaluation assets represented the exploration work of certain oil and natural gas properties located at the Utah Gas and Oil Field. The exploration and evaluation assets are stated at cost less impairment losses. When it can be reasonably ascertained that an exploration property is capable of commercial production, the exploration and evaluation costs capitalised are transferred to property, plant and equipment and depreciated on unit-of-production method based on the proved reserves.

Exploration and evaluation activities have led to the expenses of HK$39,547,000 (2010: HK$58,965,000).

Cash payments of HK$33,747,000 (2010: HK$46,371,000) have been incurred related to exploration and evaluation activities.

18. INTANGIBLE ASSETS

Group

	Oil and gas processing right	
	2011	2010
	HK$'000	*HK$'000*
At 1 January		
Cost	**2,624,393**	—
Accumulated amortisation and impairment	**—**	—
Net carrying amount	**2,624,393**	—
Year ended 31 December		
Opening net carrying amount	**2,624,393**	—
Acquisition through business combination	**—**	2,624,393
Addition	**194,527**	—
Amortisation	**(1,986)**	—
Impairment	**(110,334)**	—
Closing net carrying amount	**2,706,600**	2,624,393
At 31 December		
Cost	**2,818,920**	2,624,393
Accumulated amortisation and impairment	**(112,320)**	—
Closing net carrying amount	**2,706,600**	2,624,393

The intangible asset represents oil and gas processing rights in Utah, the United States of America. The intangible assets are amortised upon the commercial production of oil and natural gas on a unit-of-production basis over the total proved reserves.

The carrying amount of intangible assets, net of any impairment loss, is allocated to the cash generating unit of oil and gas sales business.

The recoverable amount for the oil and gas processing rights was determined based on value-in-use calculation with reference to a valuation performed by an independent valuer, BMI Appraisals Limited. The value-in-use calculations use cash flow projections of 20 years and a discount rate of 10% (2010: 11%). The management determined the key assumptions based on past performance and expectation on market development by reference to market information such as forecast to future oil and gas prices, historical growth rate of oil and gas prices and expectation on oil and gas consumption.

After assessing the information, in view of significant decrease in forecast future prices of natural gas as compared with forecast in previous years, the management of the Company is of the opinion that the recoverable amount is less than its carrying amount as at 31 December 2011, accordingly an impairment loss of approximately HK$110,334,000 (2010: nil) was recognised.

19. GOODWILL

Group

	2011	2010
	HK$'000	*HK$'000*
At 1 January		
Cost	**62,039**	121,945
Accumulated impairment	**(27,943)**	—
Net carrying amount	**34,096**	121,945
Year ended 31 December		
Opening net carrying amount	**34,096**	121,945
Write-off on liquidation of a subsidiary *(note 35)*	**—**	(59,906)
Impairment	**(23,408)**	(27,943)
Closing net carrying amount	**10,688**	34,096
At 31 December		
Cost	**62,039**	62,039
Accumulated impairment	**(51,351)**	(27,943)
Closing net carrying amount	**10,688**	34,096

The carrying amount of goodwill, net of any impairment loss, is allocated to the cash generating unit of plastic recycling business.

The recoverable amount for the cash generating unit was determined based on value-in-use calculations. The calculation use cash flow projections based on a five-year period financial budget. The management determined the key assumptions based on past performance and expectation on market development. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates used are based on the industry research and the discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

Key assumptions used for value-in-use calculations:

	2011	2010
Growth rate	**3%**	4%
Discount rate	**12%**	12%

During the year, the Group has recognised an impairment loss on goodwill of HK$23,408,000 (2010: HK$27,943,000) primarily due to an expected decrease in both the gross margin and growth rate resulting in lower recoverable amounts.

20. AVAILABLE-FOR-SALE INVESTMENTS

Group

	2011	2010
	HK$'000	*HK$'000*
Unlisted equity securities		
Cost	**288,220**	768,598
Less: impairment	**(288,220)**	(768,598)
	—	—

The amount represents 17.22% (2010: 45.92%) equity interests in China Coal Energy Holdings Limited ("China Coal").

As at 1 January 2009, the Group had 39.93% equity interest in China Coal and interests in China Coal was classified as "Interests in an associate". During the year ended 31 December 2009, the Group further acquired 15.18% equity interest in China Coal at an aggregate consideration of HK$58,000,000. Upon completion of the acquisition on 14 July 2009, the Group's equity interest in China Coal increased from 39.93% to 55.11% and China Coal was consolidated into the Group's financial statements since 15 July 2009.

Pursuant to a conditional joint venture agreement dated 15 July 2006 (the "Joint Venture Agreement") entered into between the Company and Mr. Zhang Jingyuan ("Mr. Zhang"), Mr. Zhang has guaranteed the Company that the audited net profits of China Coal determined in accordance with HKFRSs for the three financial years ended 31 December 2009 should in aggregate be not less than HK$600,000,000. Should the aggregate audited net profit of China Coal falls below HK$600,000,000, Mr. Zhang will pay the shortfall to the Company on a dollar-to-dollar basis after the issue of China Coal's audited financial statements for the three financial years ended 31 December 2009.

With reference to the Company's announcement on 12 August 2008, Mr. Zhang issued and served a writ (the "Writ") in the High Court of Hong Kong against, inter alia, the Company, Champion Merry Investment Limited ("Champion", a subsidiary of the Company) and Mr. Wong Kwan ("Mr. Wong"), executive director and also a major shareholder of the Company, in which Mr. Zhang claimed, inter alias, against the Company for damages for alleged breaches of a Joint Venture Agreement. Thereafter, the Company issued counter claim against Mr. Zhang for dividend from China Coal and damages for breaches of the Joint Venture Agreement and other relief.

20. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

A settlement agreement was entered into on 31 July 2010 between the Company and certain subsidiaries of the Group, Favour Good Investment Limited ("Favour Good", a former shareholder of China Coal) and Mr. Zhang and certain of his associates. Pursuant to the settlement agreement, (i) all the parties shall withdraw or settle all legal claims and litigations against any parties; (ii) Favour Good waive the principal amount of HK$23,400,000 plus interest due from China Coal, and (iii) the Group shall dispose its 55.11% equity interest in China Coal to Mr. Zhang according to the following schedule:

	Consideration to be received by	Gross consideration amount *HK$*	Number of shares of China Coal to be transferred	% of interest to be transferred
(1)	Within 7 days from the withdrawal of legal claims ("First Payment Date")	32,000,000	9,185,127	9.19%
(2)	Within 6 months after the First Payment Date	50,000,000	14,351,760	14.35%
(3)	Within 12 months after the First Payment Date	50,000,000	14,351,760	14.35%
(4)	Within 18 months after the First Payment Date	30,000,000	8,611,056	8.61%
(5)	Within 24 months after the First Payment Date	30,000,000	8,611,057	8.61%
		192,000,000	55,110,760	55.11%

In addition, pursuant to a supplemental settlement agreement dated 28 January 2010, 3% administrative charges will be deducted from each payment starting from the second payment.

During the year ended 31 December 2010, the Group has received HK$32,000,000 and therefore, 9.19% equity interest in China Coal was disposal of. Upon completion of such disposal, the Group's equity interest in China Coal decreased from 55.11% to 45.92% and the Group has lost control over the financial and operating policies of China Coal. China Coal has ceased to be a subsidiary of the Company since then and was reclassified as "Available-for-sale investments".

During the year ended 31 December 2011, the Group has received the second and third payments at an aggregate amount of HK$85,178,000 and the amount was credited to profit or loss as gain on disposal of available-for-sale investments.

Subsequent to the reporting date, on 12 March 2012, the Group entered into another supplemental settlement agreement with Mr. Zhang and pursuant to the agreement, the fourth and the fifth payment date will be amended from 27 February 2012 and 27 August 2012 respectively to 10 May 2012.

21. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

Company

	2011 *HK$'000*	2010 *HK$'000*
Unlisted shares, at cost	**11,126**	11,126
Amount due from subsidiaries	**2,191,828**	2,153,623
	2,202,954	2,164,749

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries at 31 December 2011 are as follows:

Name of company	**Place of incorporation**	**Nominal value of issued ordinary share capital**	**Percentage of issued capital held indirectly by the Company**	**Principal activities**
Champion Merry Investment Limited	The British Virgin Islands (the "BVI")	US$1	100%	Investment holding
China Environmental Resources Limited	Hong Kong	HK$50,000,000	60%	Investment holding
IB Environmental Plastic Limited	Hong Kong	HK$1	60%	Plastic recycling
Pearl Oriental International Assets Limited	Hong Kong	HK$1	100%	Provision of corporate services
Festive Oasis Limited	BVI	US$1,000	100%	Investment holding
Shiny One Limited	BVI	US$100	100%	Investment holding
Shiny One, USA, LLC	USA	N/A	100%	Exploration, development, production and sales of natural gas and oil

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affects the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INVENTORIES AND SUPPLIES

Group

	2011	2010
	HK$'000	*HK$'000*
Plastic recycling materials	**—**	6,699
Material and supplies	**1,369**	213
	1,369	6,912

23. TRADE AND BILL RECEIVABLES

Group

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**9,563**	3,357
Less: impairment	**(2,940)**	(2,985)
	6,623	372
Bill receivables	**—**	1,399
	6,623	1,771

The directors of the Group considered that the fair values of trade and bill receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The credit term is generally one month. With regard to plastics recycling business, sales deposits are required to receive in advance from its customers.

23. TRADE AND BILL RECEIVABLES *(Continued)*

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

	2011	2010
	HK$'000	*HK$'000*
Less than 90 days	**6,623**	1,771

The movement in the provision for impairment of trade receivables is as follows:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**2,985**	2,943
Exchange differences	**(45)**	42
At 31 December	**2,940**	2,985

At each reporting date the Group reviews receivables for evidence of impairment on both an individual and collective basis. At 31 December 2011, the Group has determined trade receivables of HK$2,940,000 (2010: HK$2,985,000) as individually impaired. The impaired trade receivables are due from customers that were in default or delinquency of payments.

Based on due dates, as at 31 December 2011 and 2010, all the trade and bill receivables that are neither past due nor impaired.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**10,107**	4,016	**242**	—
Rental and other deposits paid	**202**	1,045	**—**	—
Trade deposits paid	**45,456**	42,034	**—**	—
Other receivables	**778**	2,010	**—**	—
Loans receivables *(note)*	**176,978**	213,906	**176,978**	213,906
	233,521	263,011	**177,220**	213,906

Note:

As at 31 December 2011, the loan receivables mainly represented short term loans of HK$175,000,000 (2010: HK$212,200,000) receivable from three (2010: four) independent third parties. These loan receivables are interest bearing at 5% to 6% (2010: 5% to 6%) per annum. Out of the total, loan receivables of HK$130,000,000 (2010: HK$175,200,000) are secured by pledge of listed securities. Based on the directors' assessment, the loan receivables are not impaired.

25. TRADE PAYABLES

Group

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

	2011 HK$'000	2010 HK$'000
0-90 days	**3**	3,405
Over 365 days	**—**	1,097
	3	4,502

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

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011 ***HK$'000***	2010 *HK$'000*	**2011** ***HK$'000***	2010 *HK$'000*
Other payables	**1,322**	1,842	**—**	—
Accruals	**5,462**	3,514	**3,976**	3,003
Amount due to a former shareholder of subsidiaries *(note)*	**6,012**	6,012	**—**	—
Trade deposit received	**837**	3,297	**—**	—
	13,633	14,665	**3,976**	3,003

Note:

The balance represented the amount due to Kong Rise Limited which is unsecured, interest-free and had no fixed repayment terms.

27. BANK BORROWINGS

Group

	2011 HK$'000	2010 HK$'000
Unsecured bank loans repayable within one year	**—**	1,399

The balances represented loans granted by the bank in respect of discounted bills receivables.

28. DEFERRED TAX

Group

The movement during the year in deferred tax liabilities/(assets) is as follows:

	Fair value adjustment on intangible assets *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2010	—	—	—
Acquisition of subsidiaries	686,049	—	686,049
Recognised in profit or loss	—	(5,204)	(5,204)
At 31 December 2010	**686,049**	**(5,204)**	**680,845**
Recognised in profit or loss	**(22,932)**	**(2,177)**	**(25,109)**
At 31 December 2011	**663,117**	**(7,381)**	**655,736**

The amounts recognised in the consolidated statement of financial position are as follows:

	2011 *HK$'000*	2010 *HK$'000*
Deferred tax assets	**(7,381)**	(5,204)
Deferred tax liabilities	**663,117**	686,049
Net deferred tax liabilities	**655,736**	680,845

As at 31 December 2011 and 2010, the Group had unrecognised tax losses of approximately nil (2010: HK$286,000) available to offset against future profits for a period of five years and the tax losses have not expired as at the reporting date.

29. ASSETS RETIREMENT OBLIGATIONS

	Group	
	2011 *HK$'000*	2010 *HK$'000*
At 1 January	**—**	—
Capitalised in oil and gas properties	**2,301**	—
At 31 December	**2,301**	—

30. SHARE CAPITAL

Group and Company

	2011 Number of shares '000	2011 HK$'000	2010 Number of shares '000	2010 HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**200,000,000**	**20,000,000**	200,000,000	20,000,000
Issued and fully paid:				
At 1 January	**1,986,969**	**198,697**	1,159,216	115,922
Issue of new shares	—	—	799,118	79,911
Issue of consideration shares *(note (a))*	**847,810**	**84,781**	—	—
Bonus issue of shares *(note (b))*	**568,043**	**56,804**	—	—
Exercise of share options	**5,440**	**544**	28,635	2,864
At 31 December	**3,408,262**	**340,826**	1,986,969	198,697

Notes:

(a) On 21 June 2010, the Group completed the Phase 1 Acquisition (note 33). The consideration for the Phase 1 Acquisition was settled by cash of US$50 million (equivalent to HK$390 million) and the issue of 847,810,000 ordinary shares at HK$1.1 per share, being the fair value of the ordinary shares based on the closing market price of the Company's shares on that date. These new shares rank pari passu with the existing shares in all respects. The consideration shares have not been issued as at 31 December 2010 and then issued during the year ended 31 December 2011. This non-cash transactions was not reflected in the consolidated statement of cash flows.

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

(c) On 10 June 2010 and 29 June 2010, the Company entered into a warrant placing agreement and a supplemental agreement with Orient Day Developments Limited in relation to a private placing of 320,000,000 warrants at an issue price of HK$0.0102 per warrant. These warrants are exercisable for a period of 3 years commencing from the date of issue of the warrants. As at 31 December 2011 and 2010, all the outstanding 384,000,000 warrants at an exercise price of HK$1.15 per share (after adjustment for the effect of bonus issue of shares (note 30(b)) remained unexercised.

31. SHARE OPTION SCHEME

On 15 July 2009, the Company adopted a share option scheme (the "Share Option Scheme") whereby the directors of the Company 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 is 10% of the issued shares of the Company. 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 and eligible employees and will expire 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 of the Company 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.

Share options and weighted average price are as follows:

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	'000	***HK$***	*'000*	*HK$*
Outstanding at 1 January	**92,165**	**1.1603**	23,200	0.5949
Granted	**18,000**	**0.9621**	97,600	1.2023
Adjusted for bonus issue *(note 30(b))*	**17,345**	**0.9848**	—	—
Exercised	**(5,440)**	**0.7312**	(28,635)	0.8473
Outstanding at 31 December	**122,070**	**0.9640**	92,165	1.1603
Exercisable at 31 December	**122,070**	**0.9640**	92,165	1.1603

The share options were exercised on 28 March 2011, 4 April 2011, 14 April 2011, 9 May 2011 and 18 May 2011 at the exercise price of HK$1.13, HK$1.13, HK$1.13, HK$0.845 and HK$0.845 respectively.

31. SHARE OPTION SCHEME *(Continued)*

The following discloses the particulars of the Company's share options granted during the year:

Grantee	Date of grant	Period during which options exercisable	Outstanding as at 1 January 2011	Adjusted for bonus shares during the year	Granted during the year	Transferred during the year	Exercised during the year	Outstanding as at 31 December 2011	Exercise price per share option HK$
Directors									
Wong Kwan	5 August 2009	5 August 2009 – 14 July 2019	3,000,000	600,000	—	—	—	3,600,000	0.4666
	9 June 2010	9 June 2010 – 14 July 2019	5,000,000	1,000,000	—	—	—	6,000,000	0.9416
Zhou Li Yang (Resigned on 25 May 2011)	5 August 2009	5 August 2009 – 14 July 2019	2,000,000	—	—	—	(2,000,000)	—	0.4666
	9 June 2010	9 June 2010 – 14 July 2019	5,000,000	1,000,000	—	(6.000.000)	—	—	0.9416
Johnny Yuen (Resigned on 1 September 2011)	9 June 2010	9 June 2010 – 14 July 2019	5,000,000	1,000,000	—	(6.000.000)	—	—	0.9416
Lam Ka Wai Graham	9 June 2010	9 June 2010 – 14 July 2019	5,000,000	1,000,000	—	—	—	6,000,000	0.9416
Yu Jianmeng	5 August 2009	5 August 2009 – 14 July 2019	1,000,000	—	—	—	(1,000,000)	—	0.4666
	9 June 2010	9 June 2010 – 14 July 2019	5,000,000	800,000	—	—	(1,000,000)	4,800,000	0.9416
Lew Mon Hung	3 December 2009	3 December 2009 – 14 July 2019	3,000,000	600,000	—	—	—	3,600,000	0.6916
	9 June 2010	9 June 2010 – 14 July 2019	5,000,000	1,000,000	—	—	—	6,000,000	0.9416
Baiseitov Bakhytbek	5 October 2010	5 October 2010 – 14 July 2019	15,000,000	3,000,000	—	—	—	18,000,000	1.3366
Chen Ping	21 June 2011	21 June 2011 – 14 July 2019	—	—	5,000,000	—	—	5,000,000	0.9416
Wang Tong Sai	1 September 2011	1 September 2011 – 14 July 2019	—	—	4,800,000	—	—	4,800,000	1.03
			54,000,000	10,000,000	9,800,000	(12,000,000)	(4,000,000)	57,800,000	
Consultants	9 June 2010	9 June 2010 – 14 July 2019	13,500,000	2,700,000	—	6,000,000	—	22,200,000	0.9416
Employees	9 June 2010	9 June 2010 – 14 July 2019	24,665,000	4,645,000	—	6,000,000	(1,440,000)	33,870,000	0.9416
	27 June 2011	27 June 2011 – 14 July 2019	—	—	6,000,000	—	—	6,000,000	0.9
	1 September 2011	1 September 2011 – 14 July 2019	—	—	2,200,000	—	—	2,200,000	1.03
			92,165,000	17,345,000	18,000,000	—	(5,440,000)	122,070,000	

31. SHARE OPTION SCHEME *(Continued)*

The exercise price of the share options granted has been adjusted as a result of the bonus issue of shares during the year (note 30(b)).

The share options outstanding at 31 December 2011 had a weighted average remaining contractual life of 8.56 years (2010: 7.56 years).

During the years ended 31 December 2011 and 2010, the Company has granted share options to certain of its directors and employees for nil consideration. The fair values of options granted were determined using the Binomial Option Pricing Model which was performed by an independent valuer, BMI Appraisals Limited. The following principal assumptions were used in the valuation:

Date of grant	1 September 2011	27 June 2011	21 June 2011	5 October 2010	9 June 2010
Number of share options granted	7,000,000	6,000,000	5,000,000	15,000,000	82,600,000
Spot price	HK$1.02	HK$0.9416	HK$0.9416	HK$1.604	HK$1.13
Exercise price	HK$1.03	HK$0.9416	HK$0.9416	HK$1.604	HK$1.13
Risk-free interest rate	1.45%	1.845%	1.978%	1.832%	2.36%
Expected life	7.87 years	8.047 years	8.063 years	8.78 years	9.1 years
Expected volatility	76.46%	76.18%	76.04%	76.69%	77.56%
Expected dividend yield	0.07%	0.03%	0.02%	Nil	Nil
Early exercise behaviour	220%	150%	150%	150%	150%
Fair value at date of grant	HK$0.5367	HK$0.3308	HK$0.272	HK$0.537	HK$0.3863

In total, HK$7,104,000 (2010: HK$39,960,000) of share option expense has been recognised in profit or loss for the year ended 31 December 2011 and the corresponding amount of which has been credited to share option reserve.

32. RESERVES

Group

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

Company

	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	698,101	45,348	4,890	—	(519,274)	229,065
Issue of new shares	834,525	—	—	—	—	834,525
Share issue expenses	(12,408)	—	—	—	—	(12,408)
Equity-settled share options arrangements	—	—	39,966	—	—	39,966
Share options exercised	29,639	—	(8,239)	—	—	21,400
Issue of warrants	—	—	—	3,263	—	3,263
Profit for the year	—	—	—	—	428,002	428,002
At 31 December 2010	**1,549,857**	**45,348**	**36,617**	**3,263**	**(91,272)**	**1,543,813**
Bonus issue of shares	**(56,804)**	**—**	**—**	**—**	**—**	**(56,804)**
Final dividend for 2010	**(56,804)**	**—**	**—**	**—**	**—**	**(56,804)**
Issue of consideration shares	**847,810**	**—**	**—**	**—**	**—**	**847,810**
Share issue expenses	**(35)**	**—**	**—**	**—**	**—**	**(35)**
Equity-settled share options arrangements	**—**	**—**	**7,104**	**—**	**—**	**7,104**
Share options exercised	**5,398**	**—**	**(1,505)**	**—**	**—**	**3,893**
Loss for the year	**—**	**—**	**—**	**—**	**(105,240)**	**(105,240)**
At 31 December 2011	**2,289,422**	**45,348**	**42,216**	**3,263**	**(196,512)**	**2,183,737**

Notes:

Contributed surplus

The contributed surplus of the Company represents the excess of the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Under the Companies Act 1981 Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

32. RESERVES *(Continued)*

Notes: (Continued)

Contributed surplus *(Continued)*

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

Share premium

The share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31 December 2011 are HK$2,138,258,000 (2010: HK$1,503,933,000).

33. BUSINESS COMBINATION

Acquisition of Festive Oasis Limited ("Oasis")

The Company and the vendors (the "Vendors"), namely Charcon Assets Limited ("Charcon"), a company wholly owned by Mr. Wong Kwan and Marvel Sunlight Limited (a company wholly owned by an independent third party), entered into an agreement on 9 January 2010 and supplemental agreements on 18 March 2010 and 10 May 2010, pursuant to which, the Company acquired (the "Oasis Acquisition") (i) the 100% equity interest in Oasis and its subsidiaries (collectively, the "Oasis Group"), Shiny One Limited and Shiny One USA, LLC; (ii) the amount due by the Oasis to one of its shareholders, Charcon, (the "Sales Loan"); and (iii) through 2 phases, the 100% ownership interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field (the "Ownership Interest").

Upon completion of phase 1 acquisition (the "Phase 1 Acquisition") on 21 June 2010, the Company acquired 100% equity interest in Oasis and the Sales Loan, and 70% Ownership Interest. The consideration for the Phase 1 Acquisition of US$200 million (equivalent to approximately HK$1,560 million) was settled by (i) cash of US$50 million (equivalent to approximately HK$390 million); and (ii) the issue of 847,810,000 consideration shares of the Company of HK$1.38 per share ("Consideration Shares") for US$150 million (equivalent to approximately HK$1,170 million).

In phase 2, the Company may, at its option, further acquire the remaining 30% Ownership Interest at a consideration of US$25 million (equivalent to approximately HK$195 million) ("Acquisition Right"). which is to be satisfied by either (i) cash of US$25 million (equivalent to approximately HK$195 million); or (ii) if the Vendors elect, cash of US$12.5 million (equivalent to approximately HK$97.5 million) and the remaining sum of US$12.5 million (equivalent to approximately HK$97.5 million) by the issue of 70,650,000 consideration shares of the Company of HK$1.38 per share.

On 11 March 2011, the Company exercised its Acquisition Right to acquire the remaining 30% Ownership Interest and the consideration was settled in full by cash.

33. BUSINESS COMBINATION *(Continued)*

Acquisition of Festive Oasis Limited ("Oasis") *(Continued)*

The principal activity of Oasis Group is natural gas and petroleum exploration, exploitation and production in Utah Gas and Oil Field.

During the year ended 31 December 2010, the Oasis Group contributed HK$46,000 to the consolidated revenue and loss of HK$14,318,000 to the consolidated profit for the year.

Had the acquisition of the Oasis Acquisition taken place at 1 January 2010, the Group's consolidated revenue and consolidated profit for the year ended 31 December 2010 would have been HK$555,242,000 and HK$386,621,000 respectively.

Details of the net assets acquired of Oasis Group and gain on bargain purchase are as follows:

	HK$'000
Purchase consideration:	
— Cash paid	390,000
— Issue of Consideration Shares *(note (a))*	932,591
Total purchase consideration	1,322,591
Acquisition of Sales Loan	(4,913)
Fair value of net assets acquired	(1,922,381)
Gain on bargain purchase recognised in profit or loss	(604,703)

The fair values of the net assets acquired were as follows:

	Fair value *HK$'000*
Oil and gas processing right *(note (b))*	1,960,140
Acquisition Right *(note (c))*	653,203
Deferred tax liabilities	(686,049)
Amount due to a shareholder of Oasis	(4,913)
Net assets acquired	1,922,381

Notes:

(a) The Consideration Shares have not yet been issued as at 31 December 2010 and then issued during the year ended 31 December 2011. The fair value of the Consideration Shares is based on the closing market price of the Company's shares at the date of completion of the Oasis Acquisition.

(b) The amount represented the fair value of the 70% Ownership Interest at the date of completion of the Oasis Acquisition.

(c) The amount represented the fair value of the Acquisition Right at the date of completion of the Oasis Acquisition.

33. BUSINESS COMBINATION *(Continued)*

Acquisition of Festive Oasis Limited ("Oasis") *(Continued)*

Details of net cash outflow on Oasis Acquisition:

	HK$'000
Consideration paid in cash	390,000
Cash and cash equivalents acquired	—
Net cash outflow	390,000

34. DISPOSAL OF SUBSIDIARIES

Disposal of PO (SZ) Logistics Limited ("PO (SZ)")

On 18 November 2010, the Group entered into a sale and purchase agreement with an independent third party (the "Buyer") to (i) dispose 100% equity interest in PO (SZ) and its subsidiary, Pearl Oriental Logistics (Shenzhen) Ltd. ("POL(SZ)"), collectively, the "PO (SZ) Group" and (ii) waive (the "Waiver") of a shareholder's loan of approximately HK$26,141,000 in full owing from PO (SZ) Group to the Group for a cash consideration of RMB1,000,000 (equivalent to approximately HK$1,168,000). The disposal of PO (SZ) Group was completed on the same day.

The PO (SZ) Group carried out all of the Group's logistics and related services operation. As a result of the disposal, the logistics and related services operation has been categorised under discontinued operation.

Disposal of China Coal

As at 31 December 2009, the Group had 55.11% equity interest in China Coal, which has 100% equity interest in a subsidiary, Taiyuan Sanxing Coal Gasification (Group) Co., Limited ("Taiyuan Sanxing") (太原市三興煤炭氣化有限公司). Taiyuan Sanxing is principally engaged in the coal gasification and coal mining.

As detailed in note 20 to the consolidated financial statements, there were certain legal claims and litigations between the Group and Mr. Zhang and certain of his associates. Pursuant to a settlement agreement entered on 31 July 2010, all the parties shall withdraw or settle all legal claims and litigations against any parties and the Group shall dispose its equity interest in China Coal to Mr. Zhang according to the schedule as detailed in note 20. During the year ended 31 December 2010, 9.19% equity interest in China Coal was disposed for an amount of HK$32,000,000.

34. DISPOSAL OF SUBSIDIARIES *(Continued)*

Disposal of China Coal *(Continued)*

(Loss)/gain on disposal of subsidiaries

	PO (SZ) Group *HK$'000*	China Coal *HK$'000*	Total *HK$'000*
Net assets/(liabilities) disposed of:			
Bank balances and cash	3,027	5	3,032
Trade receivables	103	—	103
Prepayments and other receivables	636	—	636
Amount due from immediate holding company	26,141	—	26,141
Accruals and other payables	(2,345)	(526)	(2,871)
Amount due to immediate holding company	—	(5,969)	(5,969)
Amount due to Favour Good	—	(27,664)	(27,664)
	27,562	(34,154)	(6,592)
Waiver of amount due (from)/to immediate holding company	(26,141)	5,969	(20,172)
Net assets/(liabilities)	1,421	(28,185)	(26,764)
Exchange reserve	1,148	—	1,148
(Loss)/Gain on disposal	(1,401)	56,285	54,884
	1,168	28,100	29,268

Satisfied by:

	PO (SZ) Group *HK$'000*	China Coal *HK$'000*	Total *HK$'000*
Cash	1,168	32,000	33,168
Less: reimbursement of amount due to Favour Good	—	(3,900)	(3,900)
	1,168	28,100	29,268

Details of net cash (outflow)/inflow on disposal of subsidiaries:

	PO (SZ) Group *HK$'000*	China Coal *HK$'000*	Total *HK$'000*
Consideration received in cash	1,168	28,100	29,268
Cash and cash equivalents disposed of	(3,027)	(5)	(3,032)
	(1,859)	28,095	26,236

35. WRITE-OFF OF ASSETS ON LIQUIDATION OF A SUBSIDIARY

On 16 June 2010, the Group applied for the liquidation of a subsidiary, Exploitation Ressources Internationales, S.A. ("ERI") and the liquidator was appointed by the French Court to handle the related matters in accordance with the relevant legal procedures. Accordingly, the Group lost its control over the financial and operating policies since then and ERI ceased to be a subsidiary of the Group.

The net assets of ERI written off during the year ended 31 December 2010 were as follows:

	HK$'000
Property, plant and equipment	56,510
Cash and bank balances	405
Trade receivables	189
Prepayments, deposits and other receivables	882
Inventories	7,826
Goodwill	59,906
Trade payables	(302)
Accruals and other payables	(3)
Tax payables	(1,335)
Amount due to immediate holding company	(39,612)
	84,466
Waiver of amount due to immediate holding company	39,612
Net assets	124,078
Exchange reserve	2,435
Write-off of assets	126,513

36. OPERATING LEASE COMMITMENT

Group

The Group leases certain office properties under operating leases. The leases are negotiated for terms of one to four years. At 31 December 2011, the total future minimum lease payments payable by the Group under non-cancellable operating leases in respect of land and buildings are as follows:

	2011	2010
	HK$'000	*HK$'000*
Within one year	**5,399**	3,164
In the second to fifth years	**8,218**	534
	13,617	3,698

37. CAPITAL COMMITMENT

Group

	2011	2010
	HK$'000	*HK$'000*
Authorised but not contracted for:		
Proposed acquisition of a subsidiary *(note)*	**9,155**	8,461
Contracted but not provided for:		
Development costs for the Utah Gas and Oil Field	**10,920**	58,000
	20,075	66,461

Note:

On 14 July 2007, Euro Resources China Limited ("ERC"), a non-wholly owned subsidiary of the Group, entered into a conditional sale and purchase agreement with an independent third party, Mr. He Zhaorong ("Mr. He") to acquire 60% equity interest in Foshan Shunde Euro Resources Wanhai Manufacturing Limited ("Foshan") at a total consideration of RMB9,000,000 (equivalent to HK$10,153,800). On the same day and on 25 March 2009, ERC entered into two supplementary agreements with Mr. He, pursuant to which, ERC paid a deposit of RMB1,500,000 (equivalent to HK$1,692,000) and an amount of RMB150,000 (equivalent to HK$170,000) and the proposed acquisition has been extended to 31 March 2011.

The directors of the Company resolved not to proceed with the negotiation for a conclusive agreement and were of the opinion that the amounts paid may not be recoverable. Accordingly, the total amount of RMB1,650,000 (equivalent to HK$1,725,000) had been written off in full during the year ended 31 December 2010. As at 31 December 2010 and 2011, the Group had capital commitment of RMB7,500,000 (2011: equivalent to HK$9,155,000; 2010: equivalent to HK$8,461,000) pursuant to the agreements.

38. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions with its related parties:

	2011	2010
	HK$'000	*HK$'000*
Key management personnel		
— Short term employee benefits	**8,522**	40,966
— Equity-settled share option expenses	**1,381**	19,647
	9,903	60,613
Immediate and ultimate controlling party:		
— Loan interest paid	**—**	14

39. LITIGATION

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

By the Summons, DHL alledged that 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 RMB93,000,000.

Reference is made to the Company's announcement dated 23 August 2005 in respect of a legal action is 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 judgement 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 have been advised by its legal advisers that the Summons and the claims therein were unfounded and will be stringently defended by the Company. In the event if the claim is allowed by the Court, the liability of the Company will be amounted to RMB93,000,000 (equivalent to approximately HK$113,516,000) plus interests and legal costs.

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

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

(ii) Grand Ascend is entitled to levy execution of judgment to be obtained on the Shares.

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

The Group has already obtained a charging order absolute on these 6,000,000 ordinary shares in March 2012 and will proceed to levy execution thereon as soon as practicable in respect of the judgment that the Group has obtained for a sum of Euro 9,833,000 (equivalent to approximately HK$98,800,000) together with interest payable by Laurent Kim.

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group actively and regularly reviews and manages its financial risk and takes actions to mitigate such risk. The board of directors reviews and agrees policies for managing each of these risks.

40.1 Categories of financial assets and liabilities

(i) Financial assets

	Group	
	2011	2010
	HK$'000	*HK$'000*
Loans and receivables:		
— Trade and bill receivables	**6,623**	1,771
— Deposits and other receivables	**223,414**	258,995
— Bank balances and cash	**168,861**	374,932
	398,898	635,698

	Company	
	2011	2010
	HK$'000	*HK$'000*
Loans and receivables:		
— Other receivables	**177,220**	213,906
— Bank balances and cash	**159,520**	310,604
	336,740	524,510

(ii) Financial liabilities

	Group	
	2011	2010
	HK$'000	*HK$'000*
At amortised cost:		
— Trade payables	**3**	4,502
— Other payables and accruals	**13,633**	14,665
— Bank borrowings	**—**	1,399
	13,636	20,566

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

40.1 Categories of financial assets and liabilities *(Continued)*

(ii) Financial liabilities (Continued)

Company

	2011	2010
	HK$'000	*HK$'000*
At amortised cost:		
— Accruals	**3,976**	3,003
— Amounts due to subsidiaries	**11,155**	11,155
	15,131	14,158

40.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its sales and purchases, which are primarily denominated in United States dollars.

The Group did not have significant impact and does not hedge its foreign currency risk, as the rate of exchange between HK$ and the United States dollars is controlled within a tight range. Long-term changes in foreign exchange rates would have an impact on consolidated earnings.

40.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank borrowings and loan receivables. Borrowings bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's bank borrowings were committed on floating rate basis and loan receivables were committed on fixed rate basis.

It is estimated that a decrease/increase of 1% (2010: 1%) in interest rate, with all other variables remaining constant, the Group's consolidated equity would decrease/increase by HK$1,770,000 (2010: HK$2,125,000) and loss after tax would increase/decrease by approximately HK$1,770,000 (2010: profit after tax would decrease/increase by HK$2,125,000). The 1% increase or decrease represents management's assessment of a reasonable possible change in interest rates over the period until the next annual reporting date.

40.4 Price risk

The Group is exposed to price risk of oil and gas products. Prices of oil and gas products are affected by a wide range of global and economic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable and unfavourable impacts on the Group. The Group did not enter into any material hedging arrangements of its price risk during the year ended 31 December 2011 and 2010.

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

40.5 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in ordinary course of its operations and from its investing activities.

The maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised in note 40.1(i).

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis.

The credit risk for bank balances and deposits is considered negligible as the counterparties are reputable banks.

The management considers the credit risk on loans and other receivables is minimal after considering the financial conditions of counterparties. Management has performed assessment over the recoverability of these balances and does not expect any losses from these balances. Certain loan receivables are secured by listed securities as disclosed in note 24.

Significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. At the reporting date, 87% (2010: 100%) and 100% (2010: 100%) of the total trade receivables was due from the Group's largest customer the and the five largest customers respectively.

40.6 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

As at 31 December 2011 and 2010, the Group and the Company's remaining contractual maturities for their financial liabilities will be either on demand or within one year. The carrying amounts of its financial liabilities approximate their contractual undiscounted cash flow.

40.7 Fair value measurements

The directors consider that the carrying amounts of the Group and the Company's financial assets and financial liabilities approximate their fair values.

41. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of net debt to equity ratio. For this purpose net debt is defined as borrowings less cash and cash equivalents. To maintain or adjust the capital structure, the Group may adjust the dividends paid to shareholders, return capital to shareholders, issue new shares or raise new debt financing. The net debt to equity ratio is as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Bank borrowings	**—**	1,399
Less: Cash and cash equivalents	**(168,861)**	(374,932)
Net debt	**(168,861)**	(373,533)
Total equity	**2,539,055**	2,650,453
Net debt to equity ratio	**N/A**	N/A

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below.

RESULTS

	Year ended 31 December 2011 *HK$'000*	Year ended 31 December 2010 *HK$'000*	Year ended 31 December 2009 *HK$'000*	Year ended 31 December 2008 *HK$'000*	Period from 1 April 2007 to 31 December 2007 *HK$'000*
CONTINUING OPERATIONS					
Revenue	**495,401**	555,242	163,438	—	—
(Loss)/Profit before tax from continuing operations	**(91,272)**	386,771	(958,821)	(31,867)	53,976
Income tax credit/(expense)	**25,109**	4,703	(319)	—	—
(Loss)/Profit for the year/period from continuing operations	**(66,163)**	391,474	(959,140)	(31,867)	53,976
DISCONTINUED OPERATION					
Profit/(Loss) for the year/period from discontinued operation	**—**	36	(8,822)	(9,398)	(20,851)
(Loss)/Profit for the year	**(66,163)**	391,510	(967,962)	(41,265)	33,125
(Loss)/Profit for the year attributable to:					
Equity holders of the Company	**(59,204)**	423,195	(566,840)	(38,310)	38,422
Non-controlling interests	**(6,959)**	(31,685)	(401,122)	(2,955)	(5,297)
	(66,163)	391,510	(967,962)	(41,265)	33,125
Total assets	**3,218,109**	3,357,888	473,912	673,931	645,008
Total liabilities	**(679,054)**	(707,435)	(128,925)	(151,988)	(168,763)
Net assets	**2,539,055**	2,650,453	344,987	521,943	476,245