東方明珠石油有限公司

Pearl Oriental Oil Limited

Stock Code: 0632

ANNUAL REPORT 2012

Contents

Corporate Information

DIRECTORS

Executive Directors:

Wong Yuk Kwan (alias: Wong Kwan) *(Chairman)*
Mohamad Ajami
Law Wing Tak, Jack
Wong Hiu Tung

Non-Executive Directors:

Baiseitov Bakhytbek
Chen Ping

Independent Non-Executive Directors:

Lam Kwan
Chan Kwan Pak
Yuen Sau Ying, Christine

SOLICITORS

Hastings & Co.
Reed Smith Richards Butler

PRINCIPAL BANKERS

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

COMPANY SECRETARY

Yeung Man Chit

AUDITORS

Cheng & Cheng Limited

AUTHORISED REPRESENTATIVES

Wong Kwan
Law Wing Tak, Jack

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

Codan Services Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
2 Church Street
Hamilton HM 11
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	2012 HK$'000	2011 HK$'000
For the year ended 31 December			
Revenue		**444,176**	495,401
Operating loss		**(35,901)**	(35,577)
Loss for the year		**(303,871)**	(66,163)
Net loss attributable to shareholders		**(303,321)**	(59,204)
Loss per share			
Basic (cents)			
— For loss for the year		**(8.90)**	(1.96)
Diluted (cents)			
— For loss for the year		**(8.90)**	(1.96)
Average shareholders' equity		**2,395,880**	2,599,760
Average capital employed		**3,006,949**	3,270,487
At 31 December			
Total indebtedness	1	**–**	—
Shareholders' equity		**2,241,468**	2,539,055
Capital employed	2	**2,809,425**	3,204,473
Ratio			
Return on average capital employed (%)	3	**(10.1%)**	(2.0%)
Return on average equity (%)	4	**(12.7%)**	(2.3%)
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 for the year/average capital employed
4. Return on average equity = net 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" or "Pearl Oriental") and its subsidiaries (the "Group") for the financial year ended 31 December 2012 was HK$453.52 million, or loss of HK$303.87 million after tax. The main reason for the loss was the stubbornly low market price of natural gas in the United States. The revaluation of Utah Gas and Oil Field, wholly owned by the Group, resulted in an impairment loss on intangible assets of HK$396.42 million at the end of the year. Although oversupply has prevailed the natural gas market in the U.S., the current valuation of Utah Gas and Oil Field is US$296 million, considerably higher than the total cost of the mergers and acquisitions made by the Group in 2010, which amounted to US$225 million. Therefore, the prospect is cautiously optimistic.

Judging from the situation, the Board temporarily slowed down the aggressive exploitation plan at Utah Gas and Oil Field last year, and decided to concentrate its internal resources to identify and invest in oil fields, so as to rapidly scale up 2P oil reserves of the Group, thus, enhancing the value of the Company. Pearl Oriental entered into a conditional cooperation agreement in mid-January 2013, carrying out mergers and acquisitions procedures for oil fields in Russia. We expect to achieve good results in the next two months.

The continuing economic growth in China in the future drives up the demand for oil with steadily rising crude oil price in the international market. Under such circumstances, Pearl Oriental, as an independent oil corporation listed in Hong Kong, leveraging on the "one country, two systems" policy, accelerates the mergers and acquisitions of oil field assets with greater development potential, thus expanding sources for long-term and stable income and maximising commercial interests for the Company.

At the beginning of the new year, a law-enforcement authority investigated certain directors of the Company, and the directors involved have strongly denied the allegations against them. The Utah Gas and Oil Field assets owned by the Group are under sound and safe operation with continuous daily production of natural gas and crude oil. The Company has a healthy and strong financial position. As at 31 December 2012, the Company has no bank borrowings, and has cash reserve of HK$200 million, with its net current assets including amounts receivable exceeding HK$400 million. Management has great confidence that the operations of the Group in the future are stable and healthy.

In order to face new challenges and seize new opportunities, the Board of the Company underwent a series of reorganizations, appointing several new executive directors, including a new chief executive officer, who have extensive experience in corporate investment and management, which enabled a rapid establishment of a stronger management team with expertise and skills, so as to march steadily towards better corporate governance. I am very pleased that all of our staff are highly motivated and serving the Company whole-heartedly with diligence.

On behalf of Pearl Oriental, I would like to take this opportunity to express my sincere gratitude to the resigned colleagues, namely, Dr. Lew Mon Hung, Mr. Cheung Kwok Yu, Mr. Hilal Al-Busaidi, Mr. Lam Ka Wai, Graham, Mr. Wang Tong Sai and Mr. Yu Jianmeng, for their valuable contributions during their term of office. I would also like to extend my warmest welcome to Mr. Mohamad Ajami, Mr. Lam Kwan, Mr. Law Wing Tak, Jack, Mr. Wong Hiu Tung, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine, who joined the Company as members of the Board in the new year. It is my expectation that the management team and employees will work cordially together to strive for the sustainable and rapid growth of Pearl Oriental, and bring more excellent investment returns for the shareholders as a whole.

Wong Kwan
Chairman

Hong Kong, 27 March 2013

Profiles of Directors and Senior Management

PROFILES OF DIRECTORS

Executive Directors

MR. WONG KWAN (CHAIRMAN)

Aged 65, 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.

MR. MOHAMAD AJAMI

Aged 58, a British citizen and born in Lebanon. He graduated from the American University of Beirut in 1977 with a degree in Political Science & Public Administration.

Mr. Ajami started his career in North Africa in the oil & gas sector. He settled in London in 1983, developing his mergers & acquisitions business specializing in the development of major oil & gas and mineral resources projects in the Gulf, Africa and the Mediterranean Basin.

Mr. Ajami was one of the founding shareholders of Ophir Energy plc, one of the largest oil & gas companies in Africa. He was also the driving force behind the development of a major liquefied natural gas (LNG) project in the Arabian Gulf. Mr. Ajami has extensive knowledge and business experience as well as worldwide associations in the fields of oil, gas and mineral resources.

MR. LAW WING TAK, JACK (CHIEF EXECUTIVE OFFICER)

Aged 58, graduated with a BA degree in Accounting and Economics with Newcastle University in 1982 and recently earned a MA degree in Philosophy with Chinese University of Hong Kong in 2012. He is a member of the Institute of Chartered Accountants in England and Wales, and also a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Law has over 30 years of experience in accounting, finance, banking and commerce, starting his career as an accountant and management consultant with Big 4 CPA firms in Hong Kong, he then worked as Account Manager with HSBC. Mr. Law has held senior executive positions (including directorship) in both private and public companies in Hong Kong, United Kingdom, Singapore, USA and China in a diverse range of activities. He took the position of independent non-executive director of Genvon Group Limited (stock code: 2389), a listed company on the Stock Exchange of Hong Kong Limited until May 2012. He was executive director of Ford Eagle Group Limited and LZYE Group plc both are listed companies in United Kingdom.

MR. WONG HIU TUNG

Aged 44, has over 10 years of extensive experience in various sectors of the financial industry, including venture capital, direct investment, mergers & acquisitions, share financing and capital markets with focus on the mainland China and Hong Kong. Mr. Wong was an executive director, chief financial officer and an authorized representative of China Billion Resources Limited (stock code: 0274) during the period from 25 September 2009 to 31 December 2010, and held various management positions in WI Harper Group and JP Morgan Chase Bank before. Mr. Wong holds a Bachelor Degree in Laws and a Master Degree of Business Administration (Financial Management) from University of Exeter, U.K.

Non-executive Directors ("NEDs")

MR. BAISEITOV BAKHYTBEK (DEPUTY CHAIRMAN)

Aged 54, 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.

MR. CHEN PING

Aged 58, 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. LAM KWAN

Aged 44, obtained a bachelor degree in Accountancy from the Hong Kong Polytechnic University in 1991. He is a Certified Public Accountant (Practising) in Hong Kong, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Taxation Institute of Hong Kong.

Mr. Lam has had more than 18 years' practical accounting and auditing experience. He has worked for KPMG and Ernst and Young, two of the 'Big Four' international CPA firms, for more than 8 years where his principal responsibilities were auditing, taxation and assisting the listing of Hong Kong and China enterprises in Hong Kong and overseas stock exchanges.

Mr. Lam is currently a director of Charles H. C. Cheung & CPA Limited, and also an independent non-executive director of Capital VC Limited, a main board listed company in Hong Kong (stock code: 2324).

MR. CHAN KWAN PAK

Aged 56, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators as well as the Hong Kong Institute of Chartered Secretaries. He holds a Master's degree in business administration. Mr. Chan is currently a consultant to a number of companies listed on The Stock Exchange of Hong Kong Limited advising them on corporate governance issues. Mr. Chan was appointed by the Hong Kong SAR Government as an Adjudicator of the Registration of Persons Tribunal during the period from 2005 to 2011. He is the Honorary Secretary and a Council Member of the Energy Saving & Environment Concern Alliance. Mr. Chan is a non-executive director of Ruifeng Petroleum Chemical Holdings Limited, a company listed on GEM of The Stock Exchange of Hong Kong Limited (Stock Code: 8096).

MS. YUEN SAU YING, CHRISTINE

Aged 47, is a practising solicitor in Hong Kong. Ms. Yuen has over 20 years of extensive legal practice experience and is now the partner of Tse Yuen Ting Wong, Solicitors. Ms. Yuen graduated from the University of Hong Kong in 1989 with a Bachelor Degree in Laws, and was a part-time law lecturer for the City University of Hong Kong and the Open University of Hong Kong.

Ms. Yuen was also involved in a number of public services. She was the Presiding Member of the Guardianship Board and was the legal advisor to the Credit Union of Correctional Services Department. Ms. Yuen was the non-executive director of Wing Hing International Holdings Limited (Stock Code: 0621) till June 2010.

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$439 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, COMPANY SECRETARY

Mr. Yeung has over 16 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 2012 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK$453,520,000 (2011: HK$510,931,000) 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 HK8.90 cents (2011: HK1.96 cents). Loss per share was based on the weighted average of 3,408 million shares in issue in the Year.

The gross profit was HK$13,506,000 (2011: HK$12,136,000) for the Year, which represented an increase of approximately 11% over last year and the gross profit margin has increased from 2.1% to 3.0%.

The Group recorded a gain on disposal of available-for-sale investments totalling HK$51,107,000 (2011: HK$85,178,000) due to the receipt of proceeds from disposal of equity investment in China Coal Energy Holdings Limited during the Year.

The loss attributable to the owners of the Company for the Year was HK$303,321,000 (2011: HK$59,204,000), mainly due to the changes in fair value of HK$396,415,000 on ownership interest in the Utah Gas and Oil Field during the Year.

BUSINESS REVIEW

Oil and Gas Business

The Group owns 100% Ownership Interest of the Utah Gas and Oil Field which is located in the Uinta Basin, Uintah Country, USA. It covers an area of approximately 3,692 acres.

There are five (5) shale gas producing wells in the Utah Gas and Oil Field with gas production of around 89,000 thousand cubic feet during the Year which is being sold to Anadarko's or Questar's midstream operations.

On the other hand, there are four (4) oil producing wells with oil production of around 7,700 barrels during the Year. 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

The plastic recycling industry has been affected by the lingering European sovereign debt crisis in the Year. Our customers were adversely affected by the sluggish performance of the European market, which in turn reduced their demand for plastic recycling materials.

Plastic recycling material operations contributed over 97% of the Group's consolidated revenue during the Year. The consolidated turnover of sales of recycling materials decreased from HK$487,922,000 in 2011 to HK$439,487,000 during the Year, representing a decrease of 10%.

OPERATION REVIEW AND UPDATE ON RESERVES

During the Year, no exploration activity had taken place. One (1) well was under work over.

The Utah Gas and Oil Field has obtained constant and durable oil and gas productions during the Year.

The expenditure incurred on the development and mining production activities during the Year were approximately US$720,000 (equivalent to approximately HK$5,618,000) in aggregate.

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 2012, there was no material difference on the reserves of the Utah Gas and Oil Field from those reported in the ITR.

PROSPECTS

In light of very low natural gas prices in U.S. last year which rendered the Group's sales of natural gas at a lower level, management has taken appropriate measures to temporarily slowdown the oil & gas exploitation activities in Utah, and may consider to utilize part of the remaining funds in the Utah Gas and Oil Field and the Company's internal resources to invest in certain possible crude oil exploitation projects in Texas, U.S. in order to maximize return to the Shareholders. Despite the recent fall of natural gas price in U.S., the medium and long term outlook for natural gas remains positive.

The Group will further expand its portfolio of oil assets and scale of oil reserves substantially through mergers and acquisitions, including without limitation, a number of oil field development projects in Russia, Kazakhstan, South Sudan and Canada etc which are under negotiation, so as to enhance the development potential of the Company. The Group has a strong financial position and adequate cash reserves and also built an excellent professional petroleum management team. The Board and management are confident and capable to develop the Company as an oil investment and operating company with satisfactory results.

SETTLEMENT OF LITIGATION

(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 Energy Holdings Limited ("China Coal") to Mr. Zhang. Upon completion of the disposal, the Company will have an aggregate net proceeds of HK$164.36 million to be received by instalments within 2 years. As a full provision of impairment loss in respect of China Coal has been made before, therefore, the disposal of equity interest of China Coal will bring a considerable amount of non-recurring gain to the Company.

    On 12 March 2012, the Company entered into a Supplemental Settlement agreement (the "Supplemental Settlement Agreement") with Mr. Zhang. Pursuant to the Supplemental 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. During the Year, all of the net proceeds HK$164.36 million in aggregate have already received by the Company pursuant to the Settlement Agreement.

(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% 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$100,833,000) together with interest payable by Laurent Kim.

(c) 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 has formed in May 2006. The Company has successfully appealed against a judgment regarding the Previous Legal Action as announced by the Company on 13 April 2010.

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

On 29 May 2012, the Company successfully obtained a judgment from the High Court of Hong Kong to strike out the claim and dismiss the action. On 12 July 2012, the Company obtained an order from the High Court of Hong Kong that DHL requires to pay the Company for the costs of the Summons.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances it operations with issue of news shares and internally generated resources. At the Year end date, the Group did not have any borrowings (2011: Nil). Furthermore, the Group's cash and bank balances as at 31 December 2012 have increased to approximately HK$208 million from HK$169 million as at 31 December 2011 as a result of the receipt of final instalment of consideration for the disposal of equity interests in China Coal of HK$51,107,000 in aggregate (net proceeds after 3% expenses payable) from Mr. Zhang in June 2012. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 27.81 as at 31 December 2012 (31 December 2011: 30.12).

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the number of employees of the Group was about 60 (2011: 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 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 19 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 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 (2011: Nil).

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 15 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2012, HK$2,110,983,000 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 27 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Wong Kwan	
Mohamad Ajami	(appointed on 26 January 2013)
Lew Mon Hung	(resigned on 13 March 2013)
Hilal Al-Busaidi	(appointed on 26 January 2013 and resigned on 20 March 2013)
Cheung Kwok Yu	(resigned on 13 March 2013)
Law Wing Tak, Jack	(appointed on 13 March 2013)
Wong Hiu Tung	(appointed on 13 March 2013)

Non-Executive Directors:

Baiseitov Bakhytbek
Chen Ping

Independent Non-Executive Directors:

Yu Jianmeng	(resigned on 20 March 2013)
Lam Ka Wai, Graham	(resigned on 19 March 2013)
Wang Tong Sai	(resigned on 21 March 2013)
Lam Kwan	(appointed on 1 February 2013)
Chan Kwan Pak	(appointed on 22 March 2013)
Yuen Sau Ying, Christine	(appointed on 22 March 2013)

In accordance with Clause 86(2) of the Company's Bye-Laws, each of Mr. Mohamad Ajami, Mr. Law Wing Tak, Jack, Mr. Wong Hiu Tung, Mr. Lam Kwan, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine 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, Mr. Wong Kwan will retire as director by rotation at the forthcoming annual general meeting and being eligible, offer himself 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 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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 2012, 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)*	—	847,530,000	847,530,000	24.87%
Lew Mon Hung	147,606,000	—	147,606,000	4.33%
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 and Orient Day Developments Limited, which are 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 2012.

(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 2012, 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	839,530,000	24.63%
Ma Yueng Lin	Beneficial owner	672,000,000	19.72%
Orient Day Developments Limited *(Note)*	Beneficial owner	392,000,000	11.50%

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 2012.

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 28 to the financial statements.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year are detailed in note 32 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 33% and 59% 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 97% 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

Cheng & Cheng Limited was appointed as auditor of the Group with effect from 1 February 2013 to fill the casual vacancy following the resignation of Grant Thornton Hong Kong Limited.

The financial statements for the year ended 31 December 2012 have been audited by Cheng & Cheng Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board

Law Wing Tak, Jack
Executive Director & Chief Executive Officer

27 March 2013

Corporate Governance Report

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The way in which Shareholders can convene a Special General Meeting ("SGM")

The Directors of the Company, notwithstanding anything in its bye-laws shall, on the requisition of Shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a SGM of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Company Secretary at the Company's principal place of business at Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong, and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the SGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The procedures for sending enquiries to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited at the Company Secretary at the Company's principal place of business at Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong.

The procedures for making proposals at Shareholders' Meetings

To put forward proposals at an Annual General Meeting ("AGM"), or SGM, the Shareholders should submit a written notice of those proposals with the detail contact information to the Company Secretary at the Company's principal place of business at Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at AGM or SGM varies according to the nature of the proposal, as follows:

– At least 21 days' notice (the notice period must include not less than 20 clear business days) in writing if the proposal constitutes a resolution of the Company in AGM

– At least 21 days' notice (the notice period must include not less than 10 clear business days) in writing if the proposal constitutes a special resolution of the Company in SGM

– At least 14 days' notice (the notice period must include not less than 10 clear business days) in writing for all other SGM of the Company

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.

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.

AMENDMENTS TO THE BYE-LAWS

At the annual general meeting of the Company held on 22 May 2012, the shareholders approved the amendments to the Bye-laws, the provisions of which principally reflected the recent changes to the Listing Rules, the Former Code and the Companies Act 1981 of Bermuda. A new set of amended and restated Bye-laws consolidating such amendments was adopted on the same date. The major amendments to the Bye-laws are as below:

1. to require a board meeting in lieu of written resolutions where a Director or substantial shareholder has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material;

2. to no longer permit a Director to disregard 5% interests when considering whether the Director has a material interest which would prevent him from forming part of the quorum or voting at board meeting;

3. to stipulate all resolutions at a general meeting of the Company shall be taken by poll unless the resolution relates purely to procedural and administrative matters in which case to be voted by a show of hands;

4. to allow transfer of shares of the Company by means other than an instrument of transfer if it is permitted by and is in accordance with the rules of the stock exchange in respect of which the shares are listed; and

5. to make further provisions to the notice period required for convening general meetings to align with the requirements of Appendix 14 of the Listing Rules.

CODE ON CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance.

On 1st April 2012, the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") (the "Former Code") was amended and renamed as Corporate Governance Code and Corporate Governance Report (the "New Code"). The Company has adopted the code provisions as stated in the New Code in substitution for and to the exclusion of the Former Code with effect from 1st April 2012. In the opinion of the Board, the Company has complied throughout the Year with the Former Code and the New Code, save for the following:

Code provision A.2.1 of the Former Code and the New Code stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Before 13 March 2013, the Company did not have a separate Chairman and Chief Executive Officer and Mr. Wong Kwan held both positions. With effect from 13 March 2013, Mr. Wong Kwan has resigned as Chief Executive Officer while remain as Chairman. On the same day, Mr. Law Wing Tak, Jack was appointed as Chief Executive Officer. The Board believes that the above mentioned segregation of the roles of the Chairman and the Chief Executive Officer would comply with the New Code and further enhance the best practice of the corporate governance of the Company.

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 2012.

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.

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.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the New Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

On appointment to the Board, each newly appointed Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organized by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

The Directors were updated on the recent amendments to the Listing Rules relating to the New Code and relevant Listing Rules, which came into effect on 1st January 2012 or 1st April 2012, at the regular Board meeting. Effective from 1st April 2012, all Directors are required to provide the Company with his training records on an annually basis.

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.

BOARD MEETINGS

During the Year, four (4) board meetings have been held, the attendance of each director, on named basis and by category at Board meetings, Audit Committee meetings, Remuneration Committee meetings and Nomination Committee meetings is set out below:

	Meetings attended/held			
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Executive Directors:				
Wong Kwan *(Chairman and Chief Executive and Chairman of Nomination Committee)*	4/4	N/A	N/A	1/1
Lew Mong Hung	1/4	N/A	N/A	N/A
Cheung Kwok Yu	4/4	N/A	N/A	N/A
Non-executive Directors:				
Baiseitov Bakhytbek	0/4	N/A	N/A	N/A
Chen Ping	1/4	N/A	N/A	N/A
Independent Non-executive Directors:				
Lai Ka Wai, Graham *(Chairman of Audit Committee and Remuneration Committee and member of Nomination Committee)*	4/4	2/2	1/1	1/1
Wang Tong Sai *(Member of Audit Committee and Remuneration Committee and member of Nomination Committee)*	4/4	2/2	1/1	1/1
Yu Jianmeng *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*	3/4	1/2	0/1	0/1

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 2012. All of them are free to exercise their individual judgments.

REMUNERATION OF DIRECTORS

The Remuneration Committee has three members, comprising Messrs. Lam Kwan, Chan Kwan Pak and Miss Yuen Sau Ying, Christine, all Independent Non-executive Directors. The Remuneration Committee is chaired by Mr. Lam Kwan.

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. Lam Kwan, Chan Kwan Pak and Miss Yuen Sau Ying, Christine, 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 2012, Cheng & Cheng Limited, the existing external auditors provided the following services to the Group:

	HK$'000
Annual audit services	1,000

AUDIT COMMITTEE

The Audit Committee currently comprises the three Independent Non-executive Directors, namely Mr. Lam Kwan (chairman of the Audit Committee), Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine.

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 New 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 and is satisfied with the audited financial statements for the year ended 31 December 2012.

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, Cheng & Cheng Limited, 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

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司
10/F., Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEARL ORIENTAL OIL LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pearl Oriental Oil Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 77, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 16 in the consolidated financial statements regarding the oil and gas processing rights in Utah with a carrying value of approximately HK$2,309 million. The initial recognition amount was HK$2,819 million acquired through business combination during the years 2010 and 2011. Recent allegations on one of the executive directors and two resigned executive directors might indicate possible uncertainties on this transaction. We have performed a site inspection and reviewed the relevant documents of the acquisition and nothing came to our attention which indicated material misstatements of the intangible assets recognized in 2010. Despite the result of our review, should subsequent events reveal significant adjustments are necessary, consolidated financial position of the Group for the years ended 31 December 2011 and 2012, and the consolidated statement of comprehensive income for the years 2011 and 2012 may be varied.

OTHER MATTER

The financial statements of the Company for the year ended 31 December 2011, were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2012.

Cheng & Cheng Limited
Certified Public Accountants
Chan Shek Chi
Practising Certificate Number P05540

27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CONTINUING OPERATIONS			
Revenue			
Sales of oil and natural gas	5	**4,689**	7,479
Sales of plastic recycling materials	5	**439,487**	487,922
Other income	6	**9,344**	15,530
		453,520	510,931
Expenses			
Cost of sales of plastic recycling materials		**428,935**	475,038
Exploration, repair and maintenance expenses		**350**	5,800
Depreciation, depletion and amortisation		**1,385**	2,427
Selling and distribution costs		**1,966**	2,358
Other operating expenses		**3,828**	2,256
Administrative expenses		**52,957**	58,629
Equity-settled share option expenses		**—**	7,104
		489,421	553,612
Loss from operations		**(35,901)**	(42,681)
Finance costs	7	**—**	(27)
Gain on disposal of available-for-sale investments		**51,107**	85,178
Impairment loss on goodwill		**(5,587)**	(23,408)
Impairment loss on intangible assets		**(396,415)**	(110,334)
Impairment loss on loan receivable		**(14,651)**	—
Loss before tax	8	**(401,447)**	(91,272)
Income tax credit	9	**97,576**	25,109
Loss for the year		**(303,871)**	(66,163)
Attributable to:			
Owners of the Company	10	**(303,321)**	(59,204)
Non-controlling interests		**(550)**	(6,959)
		(303,871)	(66,163)
		HK cents	*HK cents*
Loss per share attributable to owners of the Company	12		
Basic		**(8.90)**	(1.96)
Diluted		**(8.90)**	(1.96)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Loss for the year	**(303,871)**	(66,163)
Other comprehensive income		
Exchange differences on translation of financial statements of foreign operations	**—**	63
Total comprehensive loss for the year	**(303,871)**	(66,100)
Attributable to:		
Owners of the Company	**(303,321)**	(59,141)
Non-controlling interests	**(550)**	(6,959)
	(303,871)	(66,100)

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	**2012** *HK$'000*	2011 *HK$'000*
Non-current assets			
Property, plant and equipment	15	**86,767**	82,690
Intangible assets	16	**2,308,800**	2,706,600
Goodwill	17	**5,101**	10,688
Deferred tax assets	25	**7,543**	7,381
		2,408,211	2,807,359
Current assets			
Available-for-sale investment	18	**—**	—
Inventories and supplies	20	**—**	1,369
Trade receivables	21	**6,589**	6,623
Prepayments, deposits and other receivables	22	**201,727**	233,521
Tax recoverable		**47**	376
Bank balances and cash		**207,816**	168,861
		416,179	410,750
Current liabilities			
Trade payables	23	**162**	3
Other payables and accruals	24	**14,803**	13,633
		14,965	13,636
Net current assets		**401,214**	397,114
Total assets less current liabilities		**2,809,425**	3,204,473
Non-current liabilities			
Deferred tax liabilities	25	**565,656**	663,117
Asset retirement obligations	26	**2,301**	2,301
		567,957	665,418
Net assets		**2,241,468**	2,539,055
Equity			
Share capital	27	**340,826**	340,826
Reserves		**1,903,393**	2,206,714
Equity attributable to owners of the Company		**2,244,219**	2,547,540
Non-controlling interests		**(2,751)**	(8,485)
Total equity		**2,241,468**	2,539,055

The consolidated financial statements on page 32 to 77 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

Wong Kwan	**Law Wing Tak, Jack**
Chairman	*Chief Executive Officer*

Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Interests in subsidiaries	19	**2,211,397**	2,202,954
Current assets			
Prepayment, deposits and other receivables	22	**142,788**	177,220
Bank balances and cash		**202,482**	159,520
		345,270	336,740
Current liabilities			
Other payables accruals	24	**3,711**	3,976
Net current assets		**341,559**	332,764
Total assets less current liabilities		**2,552,956**	2,535,718
Non-current liabilities			
Amounts due to subsidiaries		**55,668**	11,155
Net assets		**2,497,288**	2,524,563
Equity			
Share capital	27	**340,826**	340,826
Reserves	29	**2,156,462**	2,183,737
Total equity		**2,497,288**	2,524,563

Wong Kwan
Chairman

Law Wing Tak, Jack
Chief Executive Officer

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Loss before tax:	**(401,447)**	(91,272)
Adjustments for:		
Interest expenses	**—**	27
Gain on disposal of available-for-sale investments	**(51,107)**	(85,178)
Interest income	**(6,024)**	(9,295)
Depreciation, depletion and amortisation	**2,119**	2,995
Impairment loss on goodwill	**5,587**	23,408
Impairment loss on intangible assets	**396,415**	110,334
Impairment loss on loan receivable	**14,651**	—
Equity-settled share option expenses	**—**	7,104
Operating loss before working capital changes	**(39,806)**	(41,877)
Decrease in inventories and supplies	**1,369**	5,543
Decrease/(Increase) in trade and bills receivables	**34**	(4,852)
Decrease in prepayments, deposits and other receivables	**23,427**	29,490
Increase/(decrease) in trade payables	**159**	(4,499)
Increase/(decrease) in other payables and accruals	**1,170**	(1,032)
Cash used in operations	**(13,647)**	(17,227)
Income tax refund/(paid)	**282**	(1,196)
Net cash used in operating activities	**(13,365)**	(18,423)
Cash flows from investing activities		
Interest received	**6,024**	9,295
Purchase of property, plant and equipment	**(1,502)**	(82)
Purchase of exploration and evaluation assets	**(3,309)**	(33,747)
Acquisition of intangible assets	**—**	(194,527)
Proceeds from disposal of available-for-sale investments	**51,107**	85,178
Net cash generated from/(used in) investing activities	**52,320**	(133,883)
Cash flows from financing activities		
Share issue expenses	**—**	(35)
Repayment of bank borrowings	**—**	(1,399)
Net proceeds from exercise of share options	**—**	4,437
Dividend paid	**—**	(56,804)
Interest paid	**—**	(27)
Net cash used in financing activities	**—**	(53,828)
Net increase/(decrease) in cash and cash equivalents	**38,955**	(206,134)
Cash and cash equivalents at beginning of year	**168,861**	374,932
Effect of foreign exchange rate changes, net	**—**	63
Cash and cash equivalents at end of year, represented by bank balances and cash	**207,816**	168,861

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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 29)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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
	340,826	2,288,522	(10,556)	403,851	357	42,216	3,263	(520,939)	2,547,540	(8,485)	2,539,055
At 31 December 2011 and 1 January 2012	**340,826**	**2,288,522**	**(10,556)**	**403,851**	**357**	**42,216**	**3,263**	**(520,939)**	**2,547,540**	**(8,485)**	**2,539,055**
Loss for the year and total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(303,321)**	**(303,321)**	**(550)**	**(303,871)**
Capital contribution	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,284**	**6,284**
At 31 December 2012	**340,826**	**2,288,522**	**(10,556)**	**403,851**	**357**	**42,216**	**3,263**	**(824,260)**	**2,244,219**	**(2,751)**	**2,241,468**

1. GENERAL INFORMATION

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

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

The principal activities of the Company and its subsidiaries (the "Group") are processing and sales of 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 2012 were approved for issue by the board of directors on 27 March 2013.

2.1 BASIS OF PREPARATION

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

The 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.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed 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 2012:

Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets
Amendments to HKAS 12	Income taxes – Deferred tax: Recovery of underlying assets

Amendments to HKFRS 7, Financial instruments: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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.

2.2 ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures — Disclosures – Offsetting financial assets and financial Liabilities*	1 January 2013
HK(IFRIC) Int20, *stripping costs in the production phase of a surface*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation — Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 revaluations 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:

Leasehold improvement	Over the shorter of the lease terms or 5 years
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	16% to 33%

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Other property, plant and equipment *(Continued)*

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 possessing right of the natural gas and oil properties have 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; 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 a 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)*

(iii) Financial assets carried at fair value

For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss. 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 liquids 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 the income statement 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

Other income is recognized whenever it is received or receivable.

Impairment of non-financial assets

The following assets are subject to impairment testing:

– Goodwill arising on acquisition of subsidiaries;

– Intangible 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Accounting for income taxes *(Continued)*

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.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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 are disclosed in note 17.

Estimation of oil and natural gas reserves

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

Estimation of impairment of oil and gas assets and intangible assets

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

Estimation of asset retirement obligations

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

4. SEGMENT INFORMATION

The Group has identified the following reportable segments:

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

(b) Oil and gas sales – exploring, exploiting and sales of natural gas and oil.

2012

	Plastic recycling materials *HK$'000*	Oil and gas sales *HK$'000*	Total *HK$'000*
Segment revenue	**439,487**	**4,689**	**444,176**
Segment loss	**(6,827)**	**(400,496)**	**(407,323)**
Gain on disposal of available-for-sale investments			**51,107**
Unallocated income			**7,805**
Unallocated expenses			**(53,036)**
Loss before tax			**(401,447)**
Income tax credit			**97,576**
Loss for the year			**(303,871)**
Segment assets	**56,184**	**2,411,080**	**2,467,264**
Deferred tax assets			**7,543**
Unallocated assets			**349,583**
Total assets			**2,824,390**
Segment liabilities	**7,234**	**2,463**	**9,697**
Deferred tax liabilities			**565,656**
Unallocated liabilities			**7,569**
Total liabilities			**582,922**
Capital expenditure	**68**	**3,309**	
Depreciation, depletion and amortisation	**323**	**1,461**	
Impairment loss on goodwill	**5,587**	**—**	
Impairment loss on intangible assets	**—**	**396,415**	

4. SEGMENT INFORMATION *(Continued)*

2011

	Plastic recycling materials *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)*

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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**439,487**	487,922	**6,657**	11,400
United States of America ("USA")	**4,689**	7,479	**2,394,011**	2,788,578
	444,176	495,401	**2,400,668**	2,799,978

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 (2011: one) customer with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to this customer amounted to HK$146,153,000 (2011: HK$104,301,000).

5. REVENUE

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

	2012	2011
	HK$'000	*HK$'000*
Sales of oil and natural gas	**4,689**	7,479
Sales of plastic recycling materials	**439,487**	487,922
Total revenue	**444,176**	495,401

6. OTHER INCOME

	2012	2011
	HK$'000	*HK$'000*
Bank interest income	**539**	30
Other loan interest income	**5,485**	9,265
Compensation from settlement of litigations	**1,781**	3,769
Others	**1,539**	2,466
Total other income	**9,344**	15,530

7. FINANCE COSTS

	2012 *HK$'000*	2011 *HK$'000*
Interest on bank borrowings wholly repayable within five years	—	27

8. LOSS BEFORE TAX

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

	2012 *HK$'000*	2011 *HK$'000*
Depreciation, depletion and amortisation	2,119	2,995
Operating lease charges in respect of land and buildings	5,834	3,833
Auditors' remuneration:		
— Annual audit	1,000	1,300
— Other assurance services	14	30
Exchange losses, net	1,271	655
Impairment loss on intangible assets	396,415	110,334
Impairment loss on goodwill	5,587	23,408
Impairment loss on loan receivable	14,651	—
Gain on disposal of available-for-sale investments	(51,107)	(85,178)

9. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

	2012 *HK$'000*	2011 *HK$'000*
Profit tax – under-provision in respect of prior year	47	—
Deferred tax – current year	(97,623)	(25,109)
Income tax credit	(97,576)	(25,109)

9. INCOME TAX CREDIT *(Continued)*

Reconciliation between tax credit and accounting loss at applicable tax rates:

	2012	2011
	HK$'000	*HK$'000*
Loss before tax	**(401,447)**	(91,272)
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(140,330)**	(36,545)
Tax effect of non-taxable revenue	**(160)**	(491)
Tax effect of non-deductible expenses	**42,867**	11,927
Under-provision in prior year	**47**	—
Income tax credit	**(97,576)**	(25,109)

10. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year attributable to the owners of the Company of HK$303,321,000 (2011: loss of HK$59,204,000), a loss of HK$27,276,000 (2011: loss of HK$105,240,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

(a) Dividends attributable to the year

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2012.

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

	2012	2011
	HK$'000	*HK$'000*
Final dividend in respect of previous year of nil cent (2011: HK2 cents) per ordinary share	**—**	56,804

12. LOSS PER SHARE

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

	2012 ***HK$'000***	2011 *HK$'000*
Loss		
Loss for the year attributable to owners of the Company	**(303,321)**	(59,204)

	2012 ***'000***	2011 *'000*
Number of shares		
Weighted average number of ordinary shares in issue used in basic loss per share calculation	**3,408,263**	3,026,953

During the year ended 31 December 2012, diluted loss per share equals to basis loss per share as the potential ordinary shares were not included in the calculation of diluted loss per share because they are anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2012 ***HK$'000***	2011 *HK$'000*
Wages and salaries	**28,320**	20,048
Equity-settled share option expense	**—**	7,104
Pension costs – defined contribution plans	**558**	343
	28,878	27,495

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

2012

	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	—	4,380	—	14	4,394
Lew Mon Hung (Resigned on 13 March 2013)	—	4,700	—	—	4,700
Cheung Kwok Yu (Resigned on 13 March 2013)	—	2,330	—	14	2,344
Non-executive directors:					
Baiseitov Bakhytbek	325	—	—	—	325
Chen Ping	345	—	—	—	345
Independent non-executive directors					
Lam Ka Wai, Graham (Resigned on 19 March 2013)	373	—	—	—	373
Yu Jian Meng (Resigned on 20 March 2013)	345	—	—	—	345
Wang Tong Sai (Resigned on 21 March 2013)	350	—	—	—	350
	1,738	11,410	—	28	13,176

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

(a) Directors' emoluments *(Continued)*

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
Wong 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.

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 2012 and 2011.

(b) Five highest paid individuals

All the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 and 2011 are directors of the Company. Details of their remuneration are set out in the analysis in note 14(a) above.

15. 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
Cost					
At 1 January 2011	–	908	12,010	707	13,625
Additions	2,301	–	82	–	2,383
Transfers	80,118	–	–	–	80,118
At 31 December 2011 and 1 January 2012	82,419	908	12,092	707	96,126
Additions	3,309	5	118	1,379	4,811
At 31 December 2012	**85,728**	**913**	**12,210**	**2,086**	**100,937**
Accumulated depreciation					
At 1 January 2011	–	296	11,732	399	12,427
Charge for the year	441	316	94	158	1,009
At 31 December 2011 and 1 January 2012	441	612	11,826	557	13,436
Charge for the year	76	297	111	250	734
At 31 December 2012	**517**	**909**	**11,937**	**807**	**14,170**
Net book values					
At 31 December 2012	**85,211**	**4**	**273**	**1,279**	**86,767**
At 31 December 2011	81,978	296	266	150	82,690

16. INTANGIBLE ASSETS

Group

	Oil and gas processing rights *HK$'000*
Cost	
At 1 January 2011	2,624,393
Addition	194,527
At 31 December 2011, at 1 January 2012 and at 31 December 2012	2,818,920
Accumulated amortisation and impairment	
At 1 January 2011	–
Amortisation for the year	1,986
Impairment	110,334
At 31 December 2011 and at 1 January 2012	112,320
Amortisation for the year	1,385
Impairment	396,415
At 31 December 2012	510,120
Net carrying amounts	
At 31 December 2012	2,308,800
At 31 December 2011	2,706,600

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 calculations 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% (2011: 10%). The management determined the key assumptions based on past performance and expectation on market development by reference to market information such as forecast of future oil and natural 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 2012, accordingly an impairment loss of approximately HK$396,415,000 (2011: HK$110,334,000) was recognised.

17. GOODWILL

Group

	HK$'000
Cost	
At 1 January 2011, at 31 December 2011, 1 January 2012 and at 31 December 2012	62,039
Accumulated impairment	
At 1 January 2011	27,943
Impairment	23,408
At 31 December 2011 and at 1 January 2012	51,351
Impairment	5,587
At 31 December 2012	56,938
Net carrying amounts	
At 31 December 2012	5,101
At 31 December 2011	10,688

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 reflect specific risks relating to the relevant segment.

Key assumptions used for value-in-use calculations:

	2012	2011
Growth rate	**3%**	3%
Discount rate	**13%**	12%

During the year, the Group has recognised an impairment loss on goodwill of HK$5,587,000 (2011: HK$23,408,000) primarily due to an expected decrease in the gross margin resulting in lower recoverable amounts.

18. AVAILABLE-FOR-SALE INVESTMENTS

Group

	2012	2011
	HK$'000	*HK$'000*
Unlisted equity securities		
Cost	—	288,220
Less: impairment	—	(288,220)
	—	—

The amount represents nil (2011: 17.22%) 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 profits of China Coal fall 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 the 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.

18. 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 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 2011, 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 the first payment of HK$32,000,000 and therefore, 9.19% equity interest in China Coal was disposed 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 2012, the Group has received the fourth and the fifth payment at an aggregate amount of HK$51,107,000 (2011: HK$85,178,000) and the amount was credited to profit or loss as gain on disposal of available-for-sale investments.

19. INTERESTS IN SUBSIDIARIES

Company

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**11,126**	11,126
Amounts due from subsidiaries	**2,200,271**	2,191,828
	2,211,397	2,202,954

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

Particulars of the principal subsidiaries at 31 December 2012 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
Euro Resources China Limited	Hong Kong	HK$10,000	60%	Investment holding
Get Wealthy Investments Limited	BVI	US$1	100%	Investment holding
Grand Huge International Limited	Hong Kong	HK$10,000	100%	Provision of corporate services
IB Environmental Plastic Limited	Hong Kong	HK$1	60%	Sales of plastic recycling materials
Pearl Oriental International Assets Limited	Hong Kong	HK$1	100%	Provision of corporate services
Pearl Oriental Logistics Sino Limited	Hong Kong	HK$22,000,000	60%	Investment holding
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 affected 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.

20. INVENTORIES AND SUPPLIES

Group

	2012 HK$'000	2011 HK$'000
Material and supplies	—	1,369

21. TRADE RECEIVABLES

Group

	2012 HK$'000	2011 HK$'000
Trade receivables	6,589	6,623

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

The credit terms are generally one month. In regard to plastics recycling materials business, sales deposits are required from certain customers.

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

	2012 HK$'000	2011 HK$'000
Less than 90 days	6,589	6,623

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

	2012 HK$'000	2011 HK$'000
At 1 January	2,940	2,985
Exchange differences	—	(45)
At 31 December	2,940	2,940

At each reporting date the Group reviews receivables for evidence of impairment on both individual and collective basis. At 31 December 2012, the Group has determined trade receivables of HK$2,940,000 (2011: HK$2,940,000) 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 2012 and 2011, all the trade receivables are neither past due nor impaired.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**17,035**	10,107	**599**	242
Rental and other deposits paid	**1,519**	202	**—**	—
Trade deposits paid	**40,115**	45,456	**—**	—
Other receivables	**958**	778	**89**	—
Loans receivables *(note)*	**156,751**	176,978	**156,751**	176,978
	216,378	233,521	**157,439**	177,220
Less: impairment loss on loan receivable *(note)*	**(14,651)**	—	**(14,651)**	—
	201,727	233,521	**142,788**	177,220

Note:

As at 31 December 2012, the loan receivables mainly represented short term loans of HK$155,000,000 (2011: HK$175,000,000) receivable from three (2011: three) independent third parties. These loan receivables are interest bearing at 5% to 6% (2011: 5% to 6%) per annum. Out of the total, loan receivables of HK$120,000,000 (2011: HK$130,000,000) are secured by pledge of listed securities. Based on the directors' assessment of market value of the pledged listed securities, impairment of HK$14,651,000 (2011: Nil) was provided.

23. 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:

	2012	2011
	HK$'000	*HK$'000*
0-90 days	**162**	3

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

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**1,135**	1,322	**—**	—
Accruals	**6,452**	5,462	**3,711**	3,976
Amount due to a former shareholder of subsidiaries *(note)*	**6,012**	6,012	**—**	—
Trade deposit received	**1,204**	837	**—**	—
	14,803	13,633	**3,711**	3,976

Note:

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

25. DEFERRED TAX

Group

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

	Fair value adjustment on intangible assets	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2011	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
Recognised in profit or loss	(97,461)	(162)	(97,623)
At 31 December 2012	565,656	(7,543)	558,113

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

	2012	2011
	HK$'000	*HK$'000*
Deferred tax assets	**(7,543)**	(7,381)
Deferred tax liabilities	**565,656**	663,117
Net deferred tax liabilities	**558,113**	655,736

As at 31 December 2012 and 2011, the Group didn't have unrecognised tax losses available to offset against future profits for a period of five years and the tax losses have not expired as at the reporting date.

26. ASSETS RETIREMENT OBLIGATIONS

Group

	2012 **HK$'000**	2011 HK$'000
At 1 January	**2,301**	—
Capitalised in oil and gas properties	—	2,301
At 31 December	**2,301**	2,301

27. SHARE CAPITAL

Group and Company

	2012 **Number of shares** **'000**	**2012** **HK$'000**	2011 Number of shares '000	2011 HK$'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	**3,408,262**	**340,826**	1,986,969	198,697
Issue of new shares	—	—	—	—
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
At 31 December	**3,408,262**	**340,826**	3,408,262	340,826

Notes:

(a) On 21 June 2010, the Group completed the Phase 1 Acquisition. 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 were then issued during the year ended 31 December 2011. This non-cash transaction 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 the existing shares in all respects but they did not rank for the final dividend recommended by the Company in respect of the year ended 31 December 2010.

28. 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:

	2012		2011	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	'000	***HK$***	*'000*	*HK$*
Outstanding at 1 January	**122,070**	**0.9640**	92,165	1.1603
Granted	—	—	18,000	0.9621
Adjusted for bonus shares *(note 27(b))*	—	—	17,345	0.9848
Exercised	—	—	(5,440)	0.7312
Outstanding at 31 December	**122,070**	**0.9640**	122,070	0.9640
Exercisable at 31 December	**122,070**	**0.9640**	122,070	0.9640

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.

28. 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 are exercisable	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Outstanding as at 31 December 2012	Exercise price per share option *HK$*
Directors							
Wong Kwan	5 August 2009	5 August 2009 – 14 July 2019	3,600,000	—	—	3,600,000	0.4666
	9 June 2010	9 June 2010 – 14 July 2019	6,000,000	—	—	6,000,000	0.9416
Lam Ka Wai Graham	9 June 2010	9 June 2010 – 14 July 2019	6,000,000	—	—	6,000,000	0.9416
Yu Jianmeng	9 June 2010	9 June 2010 – 14 July 2019	4,800,000	—	—	4,800,000	0.9416
Lew Mon Hung	3 December 2009	3 December 2009 – 14 July 2019	3,600,000	—	—	3,600,000	0.6916
	9 June 2010	9 June 2010 – 14 July 2019	6,000,000	—	—	6,000,000	0.9416
Baiseitov Bakhytbek	5 October 2010	5 October 2010 – 14 July 2019	18,000,000	—	—	18,000,000	1.3366
Chen Ping	21 June 2011	21 June 2011 – 14 July 2019	5,000,000	—	—	5,000,000	0.9416
Wong Tong Sai	1 September 2011	1 September 2011 – 14 July 2019	4,800,000	—	—	4,800,000	1.03
			57,800,000	—	—	57,800,000	
Consultants	9 June 2010	9 June 2010 – 14 July 2019	22,200,000	—	—	22,200,000	0.9416
Employees	9 June 2010	9 June 2010 – 14 July 2019	33,870,000	—	—	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
			122,070,000	—	—	122,070,000	

The exercise price of the share options granted has been adjusted as a result of the bonus issue of shares during the year ended 2011 (note 27(b)).

The share options outstanding at 31 December 2012 had a weighted average remaining contractual life of 6.56 years (2011: 7.56 years).

The share option held by the directors who resigned after year end date would be lapsed after 3 months since the date of resignation.

28. SHARE OPTION SCHEME *(Continued)*

No share option was granted during the year ended 31 December 2012. During the year ended 31 December 2011, the Company 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
Number of share options granted	7,000,000	6,000,000	5,000,000
Spot price	HK$1.02	HK$0.9416	HK$0.9416
Exercise price	HK$1.03	HK$0.9416	HK$0.9416
Risk-free interest rate	1.45%	1.845%	1.978%
Expected life	7.87 years	8.047 years	8.063 years
Expected volatility	76.46%	76.18%	76.04%
Expected dividend yield	0.07%	0.03%	0.02%
Early exercise behaviour	220%	150%	150%
Fair value at date of grant	HK$0.5367	HK$0.3308	HK$0.272

In total, no share option expense has been recognised in profit or loss for the year ended 31 December 2012 (2011: HK$7,104,000) and the corresponding amount of which has been credited to share option reserve.

29. 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 2011	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
Loss for the year	—	—	—	—	(27,275)	(27,275)
At 31 December 2012	**2,289,422**	**45,348**	**42,216**	**3,263**	**(223,787)**	**2,156,462**

29. RESERVES *(Continued)*

Group *(Continued)*

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:

(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 2012 are HK$2,110,983,000 (2011: HK$2,138,258,000).

30. 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 2012, the total future minimum lease payments payable by the Group under non-cancellable operating leases in respect of land and buildings are as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**5,272**	5,399
In the second to fifth years	**4,753**	8,218
	10,025	13,617

31. CAPITAL COMMITMENT

Group

	2012	2011
	HK$'000	*HK$'000*
Authorised but not contracted for:		
— Proposed acquisition of a subsidiary *(note)*	**9,345**	9,155
Contracted but not provided for:		
— Development costs for the Utah Gas and Oil Field	**5,302**	10,920
	14,647	20,075

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 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 2011 and 2010, the Group had capital commitment of RMB7,500,000 (2012: equivalent to HK$9,345,000, 2011: equivalent to HK$9,155,000) pursuant to the agreements.

32. 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:

	2012	2011
	HK$'000	*HK$'000*
Key management personnel		
— Short term employee benefits	**12,107**	8,522
— Equity-settled share option expense	**—**	1,381
	12,107	9,903

33. LITIGATION

(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 Energy Holdings Limited ("China Coal") to Mr. Zhang. Upon completion of the disposal, the Company will have an aggregate net proceeds of HK$164.36 million to be received by instalments within 2 years. As a full provision of impairment loss in respect of China Coal has been made before, therefore, the disposal of equity interest of China Coal will bring a considerable amount of non-recurring gain to the Company.

On 12 March 2012, the Company entered into a Supplemental Settlement agreement (the "Supplemental Settlement Agreement") with Mr. Zhang. Pursuant to the Supplemental 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. During the Year, all of the net proceeds HK$164.36 million in aggregate have already received by the Company pursuant to the Settlement Agreement.

(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% 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$100,833,000) together with interest payable by Laurent Kim.

(c) 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 has formed in May 2006. The Company has successfully appealed against a judgment regarding the Previous Legal Action as announced by the Company on 13 April 2010.

33. LITIGATION *(Continued)*

(c) *(Continued)*

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

On 29 May 2012, the Company successfully obtained a judgment from the High Court of Hong Kong to strike out the claim and dismiss the action. On 12 July 2012, the Company obtained an order from the High Court of Hong Kong that DHL requires to pay the Company for the costs of the Summons.

34. 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.

34.1 Categories of financial assets and liabilities

(i) Financial assets

	Group	
	2012	2011
	HK$'000	*HK$'000*
Loans and receivables:		
— Trade receivables	**6,589**	6,623
— Deposits and other receivables	**184,692**	223,414
— Bank balances and cash	**207,816**	168,861
	399,097	398,898

	Company	
	2012	2011
	HK$'000	*HK$'000*
Loans and receivables:		
— Other receivables	**142,788**	177,220
— Bank balances and cash	**202,482**	159,520
	345,270	336,740

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

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

(ii) Financial liabilities

	Group	
	2012	2011
	HK$'000	*HK$'000*
At amortised cost:		
— Trade payables	**162**	3
— Other payables and accruals	**14,803**	13,633
	14,965	13,636

	Company	
	2012	2011
	HK$'000	*HK$'000*
At amortised cost:		
— Accruals	**3,711**	3,976
— Amounts due to subsidiaries	**55,668**	11,155
	59,379	15,131

34.2 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.

34.3 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 loan receivables. Borrowings bearing variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's loan receivables were committed on floating rate basis.

It is estimated that a decrease/increase of 1% (2011: 1%) in interest rate, with all other variables remaining constant, the Group's consolidated equity would decrease/increase by HK$1,152,000 (2011: HK$1,770,000) and loss after tax would increase/decrease by approximately HK$1,152,000 (2011: loss after tax would decrease/increase by HK$1,770,000). 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.

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

34.4 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 2012 and 2011.

34.5 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 34.1(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 22.

Significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. At the reporting date, 85% (2011: 87%) and 100% (2011: 100%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

34.6 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 2012 and 2011, 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.

34.7 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.

35. 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:

	2012	2011
	HK$'000	*HK$'000*
Bank borrowings	**—**	—
Less: Cash and cash equivalents	**(207,816)**	(168,861)
Net debt	**(207,816)**	(168,861)
Total equity	**2,241,468**	2,539,055
Net debt to equity ratio	**N/A**	N/A

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 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS					
Revenue	**444,176**	495,401	555,242	163,438	—
(Loss)/Profit before tax from continuing operations	**(401,447)**	(91,272)	386,771	(958,821)	(31,867)
Income tax credit/(expense)	**97,576**	25,109	4,703	(319)	—
(Loss)/Profit for the year from continuing operations	**(303,871)**	(66,163)	391,474	(959,140)	(31,867)
DISCONTINUED OPERATION					
Profit/(Loss) for the year from discontinued operation	**—**	—	36	(8,822)	(9,398)
(Loss)/Profit for the year	**(303,871)**	(66,163)	391,510	(967,962)	(41,265)
(Loss)/Profit for the year attributable to:					
Equity holders of the Company	**(303,321)**	(59,204)	423,195	(566,840)	(38,310)
Non-controlling interests	**(550)**	(6,959)	(31,685)	(401,122)	(2,955)
	(303,871)	(66,163)	391,510	(967,962)	(41,265)
Total assets	**2,824,390**	3,218,109	3,357,888	473,912	673,931
Total liabilities	**(582,922)**	(679,054)	(707,435)	(128,925)	(151,988)
Net assets	**2,241,468**	2,539,055	2,650,453	344,987	521,943