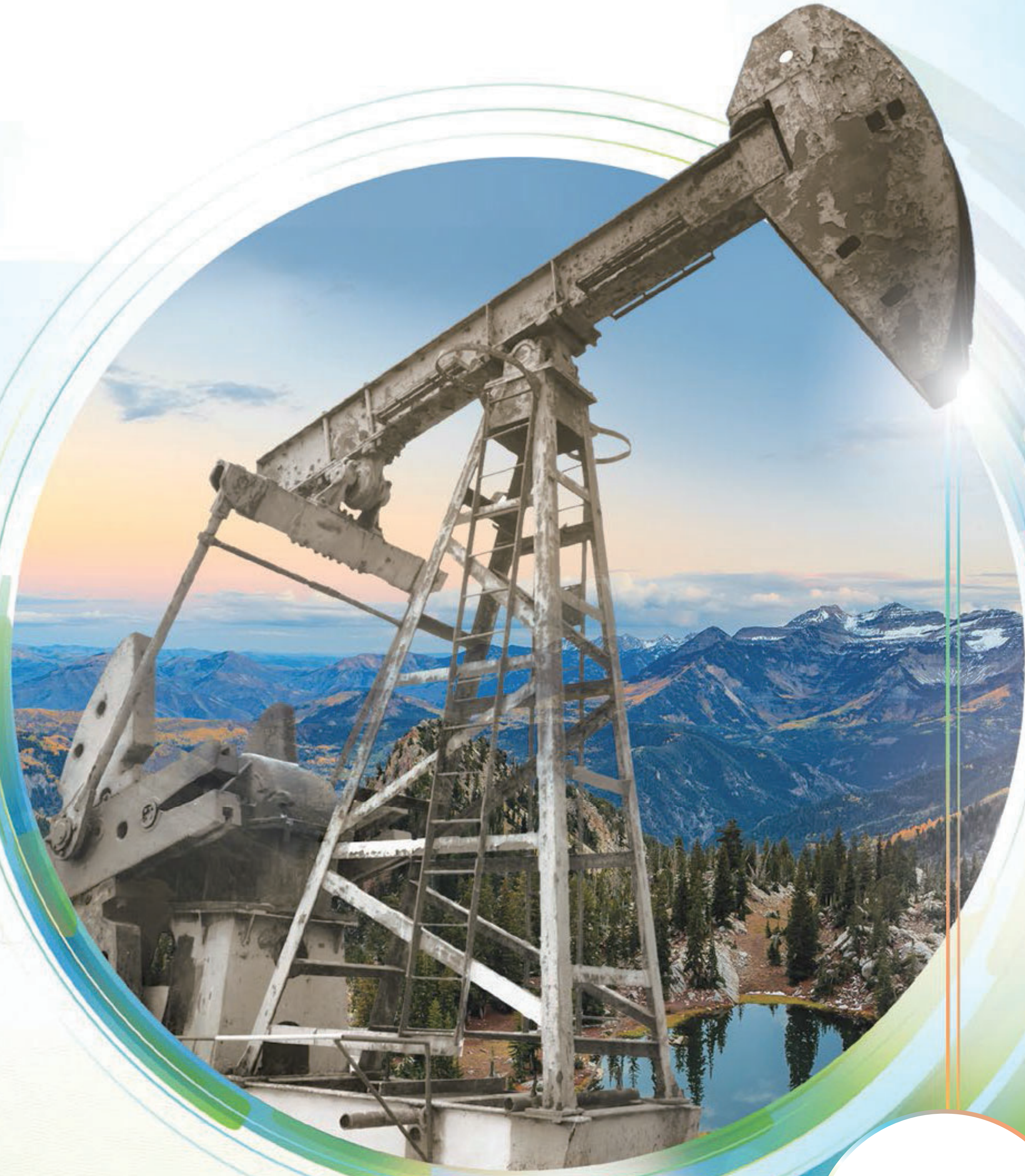
東方明珠石油有限公司
Pearl Oriental Oil Limited

Stock Code : 0632



2016
ANNUAL
REPORT

Contents

Corporate Information

DIRECTORS

Executive Directors:

Fan Amy Lizhen *(Chairlady)*
Wong Hiu Tung
Zhou Li Yang
Liu Ju
Tang Yau Sing
Cheung Kam Shing, Terry

Independent Non-Executive Directors:

Lam Kwan
Chan Kwan Pak
Yuen Sau Ying, Christine

SOLICITORS

Anthony Siu & Co.
Hastings & Co.

PRINCIPAL BANKERS

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

COMPANY SECRETARY

Yeung Man Chit

AUDITOR

Cheng & Cheng Limited

AUTHORISED REPRESENTATIVES

Fan Amy Lizhen
Zhou Li Yang

REGISTERED OFFICE:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE:

Suite 2805-6, 28th Floor
Bank of America Tower
12 Harcourt 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
Level 22, Hopewell Centre
183 Queen's Road East
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 "632HK".

Financial Highlights

	Notes	2016 HK$'000	2015 HK$'000 (Restated)
For the year ended 31 December			
Revenue		**518**	889
Operating loss		**(16,768)**	(27,945)
Profit/(loss) for the year		**134,316**	(1,486,200)
Net profit/(loss) attributable to shareholders		**132,075**	(1,487,577)
Earnings/(loss) per share			
Basic (cents)			
— For profit/(loss) for the year		**4.07**	(45.86)
— For profit/(loss) from continuing operations		**4.09**	(45.06)
Diluted (cents)			
— For profit/(loss) for the year		**4.07**	(45.86)
— For profit/(loss) from continuing operations		**4.09**	(45.06)
Average shareholders' equity		**481,145**	1,157,856
Average capital employed		**570,707**	1,455,967
At 31 December			
Total indebtedness	1	**—**	—
Shareholders' equity		**547,182**	415,107
Capital employed	2	**662,090**	479,324
Ratio			
Return on average capital employed (%)	3	**23.5%**	(102.1%)
Return on average equity (%)	4	**27.5%**	(128.5%)
Total debt to total capital (%)	5	**5.9%**	4.8%

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 = profit/(loss) for the year/average capital employed
4. Return on average equity = net profit/(loss) attributable to owners/average shareholders' equity
5. Total debt to total capital = debt/(shareholders' funds + non-controlling interests + debt)

Chairlady's Statement

Dear Shareholders,

2016 continued to be a challenging year. Over the past two and half years, oil prices (WTI) have plummeted from more than USD100 to less than USD27 per barrel but rebounded after hitting bottom in early 2016. In early 2017, the oil prices recovered to and stabilized at around USD50 per barrel. Up to this moment, the Company's Utah gas and oil field has been in normal operation. By the fiscal year ended 2016, the company benefited from gas price recovery as well as reduced drilling and operating costs and the value of its gas and oil field asset has been appraised. As such, the profit for the year was recorded at HK$134 million.

As Organization of the Petroleum Exporting Countries (OPEC) agreed in November 2016 to cut production by 1.2 million barrels a day in the first half of 2017 to reduce a global supply of crude oil, optimism has appeared in the gas and oil markets. "It seems that the oil supply recovery is gathering momentum in the world oil market, stimulated by gradually rising prices as well as improvements in drilling efficiency and well productivity in North America," OPEC says in its March 2017 report. Most of the projections have indicated that oil prices are on the recovery path. Nevertheless, the markets are still confronted with ongoing uncertainties and challenges. Therefore, we will make correct assessment of the situation, and as opportunities arise, will consider seeking new investors with solid financial strength to expand our gas and oil business and/or to explore new business developments.

2016 was also a year of transition. Due to his prolonged illness and his need for extensive rehabilitation to aid his recovery after two cranial surgeries, Mr. Wong Kwan resigned as chairman, executive director, chairman of the nomination committee and authorized representative of the Company on 20 October 2016. We thank Mr. Wong's tremendous contribution for his service rendered to the company and sincerely wish him the very best in the coming years. On the same date, I was appointed the chairlady, executive director, chairlady of the nomination committee and authorized representative of the Company. In addition, Mr. Liu Ju, Mr. Tang Yau Sing Gareth and Mr. Cheung Kam Shing, Terry were appointed executive directors of the Company. I am confident that we together will bring a new impetus to the Group and will open a new chapter on the success of the Group.

Fan Amy Lizhen
Chairlady

Hong Kong, 31 March 2017

Profiles of Directors and Senior Management

PROFILES OF DIRECTORS

Executive Directors

MS. FAN AMY LIZHEN

Aged 55, is currently the Chairlady of the Company, she served as an executive director of the Hong Kong listed company Chevalier Pacific Holdings Limited (Stock Code: 0508.HK) from 2 October 2009 to 5 November 2010. In 2005, Ms. Fan co-founded Flying Eagle Aviation Limited and has been its chairperson since then. She assisted Flying Eagle Aviation Limited to obtain Aircraft General Terms Agreement (AGTA) license from Boeing which permits licensee to operate aircraft related businesses worldwide. In 2005, Ms. Fan founded Great Dragon Petroleum Limited which is engaged in trading of oil related products. Ms. Fan also served Nomura (Hong Kong) Limited as Senior Consultant in China Affairs.

MR. WONG HIU TUNG

Aged 48, 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.

MR. ZHOU LI YANG

Aged 58, served as an executive director of the Company from 2004 to 2011. Prior to this, he also held managerial positions over ten years in several banks, investment fund and listed companies on stock exchanges of Hong Kong and U.S. involving in the businesses of energy, logistics, banking, infrastructure, e-commerce, and pharmaceutics, including CITIC Ka Wah Bank and Tianjin Development Holdings Ltd.

Mr. Zhou has extensive experience in business management, mergers and acquisitions, project investment and fund management. Mr. Zhou also had over ten years of management experience in commercial and government sectors in China. He has got a Master degree in Business/Finance from the University of Baltimore, USA and a Bachelor degree in Physics from Central-South University, PRC. Mr. Zhou was the Assistant to Chairman of the Company from June 2011 to April 2013.

Profiles of Directors and Senior Management

MR. LIU JU

Aged 43, a senior economist with a Bachelor of Economics from the Department of International Finance of Liaoning University and a Master of Business Administration degree from Hainan University. Mr. Liu has over 20 years of experience in banking, financial management and diversified investment. He has served as Director of the International Settlement Department of the Jinzhou Branch of the Industrial and Commercial Bank of China, vice president of the Tianjin Branch of the Jinzhou Bank, Director of the Tianjin Banking Association, vice president of the Tianjin Venture Capital Association. He is now the Chief Executive Officer of China Overseas Investment Co., Ltd.

MR. TANG YAU SING

Aged 54, holds a Bachelor degree of Social Sciences from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Taxation Institute of Hong Kong and the Hong Kong Institute of Directors. He has over 25 years of experience in accounting, auditing and financial advisory and held key management position in numerous listed companies in Hong Kong and United States. Mr. Tang has been an Executive Director of Odella Leather Holding Limited (Stock Code: 8093) since February 2017. He was Executive Director and Company Secretary of Changgang Dunxin Enterprise Company Limited (Stock Code: 2229) for the period from March 2016 to June 2016, Executive Director and Chief Financial Officer of New Sports Group Limited (Stock Code: 0299) for the period from November 2012 to May 2016, Vice President and Company Secretary of China Environmental Technology Holdings Limited (Stock Code: 0646) for the period from March 2014 to April 2016 and Chairman and Executive Director of Greens Holdings Limited (Stock Code: 1318) for the period from December 2014 to November 2015, Chief Financial Officer of China Agritech Inc. (previously listed on NASDAQ) for the period from October 2008 to January 2012.

MR. CHEUNG KAM SHING, TERRY

Aged 54, holds a Bachelor degree of Social Sciences from the University of Hong Kong and a Master degree of Financial Economics from the University of London. He has more than 30 years extensive experience in securities trading, investment banking, fund management, private equity and other financial areas. Mr. Cheung served as Executive Director of Culturecom Holdings Limited (Stock Code: 0343) during the period from 2000 to 2005, Chief Operating Officer of Greater China Professional Services Limited (Stock Code: 8193) during the period from July 2010 to March 2015 and independent non-executive director during the period from 22 December 2014 to 14 March 2015 and Executive Director during the period from March 2015 to October 2015 of Greens Holdings Limited (Stock Code: 1318). He is currently an Independent Non-executive Director of China Medical System Holdings Limited (Stock Code: 0867).

Independent Non-executive Directors ("INEDs")

MR. LAM KWAN

Aged 48, 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 20 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 60, 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 and a Bachelor of Laws degree. Mr. Chan is currently a consultant to a number of companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 currently an independent non-executive director of Skyway Securities Group Limited, a Company listed on the main board of the Stock Exchange (Stock code: 1141). Mr. Chan was a non-executive director of Ruifeng Petroleum Chemical Holdings Limited ("Ruifeng"), a company listed on GEM Board of the Stock Exchange (Stock Code: 8096), during the period from 11 August 2008 to 9 October 2015. Ruifeng is in winding-up proceedings, which was commenced after Mr. Chan ceased to be its non-executive director.

MS. YUEN SAU YING, CHRISTINE

Aged 51, 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 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 (currently named as Taung Gold International Limited) (Stock Code: 0621) till June 2010.

PROFILES OF SENIOR MANAGEMENT

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. YEUNG MAN CHIT, COMPANY SECRETARY

Mr. Yeung has over 20 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 2016 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK$8,186,000 (2015: (Restated) HK$1,199,000) mainly contributed from the sales of oil and gas and other income. Basic earnings per share for the Year was HK$4.07 cents (2015: Loss per share HK$45.86 cents). Earnings per share was based on the weighted average of 3,244 million shares in issue in the Year.

Gross loss for the Year amounted HK$626,000 (2015: HK$1,369,000), which was mainly due to relatively low crude oil and gas prices over a long term and the gross loss margin was 121% (2015: 154%).

The profit attributable to the owners of the Company for the Year was HK$132,075,000 (2015: Loss attributable to the owners of the Company HK$1,487,577,000), mainly attributable to the reversal of impairment loss on fair value in the Group's intangible assets amount to HK$202,905,000, which was resulted from the recovery of gas price as well as reduced drilling and operating costs at the Utah Gas and Oil Field.

BUSINESS REVIEW

Plastic Recycling Business

The plastic recycling market remained in recession, mainly due to the slowing down of China's economic growth, the relatively low level of crude oil price over a long term and tightened environmental protection policy adopted by the China Government, resulting in the shrinking demand for recycled plastics and decreased price of recycled plastics. Given that there is little possibility to see any major improvement of the recycled plastic market in the foreseeable future, the Company has decided to cease the plastic recycling business after careful consideration, so as to focus the resources on oil and gas business and other possible new and profitable business opportunities.

Oil and Gas Business

During the Year, the Utah Gas and Oil Field recorded gas sale of around 8,411 thousand cubic feet, which was sold to Anadarko's midstream operations and other purchasers. On the other hand, oil sale was around 1,400 barrels. Plains All American Pipeline, L.P., USA is the purchaser to collect the Group's crude oil produced in the Utah Gas and Oil Field.

OPERATIONAL REVIEW AND UPDATE ON RESERVES

During the Year, no exploration activity had taken place.

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$106,000 (equivalent to approximately HK$827,000) 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 gross and total net proved and probable reserves of the Utah Gas and Oil Field as at 31 December 2015 ("the ITR") were estimated to be:

	Oil/Condensate (Mbbl)		Gas (MMCF)	
	Gross	Net	Gross	Net
Proved Developed Producing	15.5	8.2	11.5	5.9
Proved Developed Non-Producing	8.4	5.6	2,270.4	1,464.7
Proved Undeveloped	1,089.6	817.2	126,625.0	92,919.4
Total Proved (1P)	**1,113.5**	**831.0**	**128,906.9**	**94,390.0**
Probable Developed Non-Producing	134.3	76.0	218.3	120.8
Total Probable	**134.3**	**76.0**	**218.3**	**120.8**
Total Proved + Probable (2P)	**1,247.8**	**906.9**	**129,125.1**	**94,510.8**

Note: Mbbl = Thousand Barrels
MMCF = Millions of cubic feet

To the best of the Company's knowledge, as at 31 December 2016, there was no material difference on the reserves of the Utah Gas and Oil Field from those reported in the ITR

PROSPECTS

Oil and gas prices have rebounded from the bottom since early 2016 after a sharp drop in 2015. The oil price (WTI) and the gas price (Henry Hub) rebounded by approximately 45% and 63% respectively at the end of 2016 as compared with those at the end of 2015, but they still stayed at a relatively low level on the whole over a long term. Meanwhile, the drilling and operating costs of oil and gas have also been declining significantly from their highs in 2012.

Looking ahead in 2017, the economy of the United States is gradually recovering, and the new U.S. government is inclined to adopt policies such as expansion of infrastructure, encouraging the local manufacturing industry and providing tax cuts to further stimulate its domestic economy, all of which will be beneficial to the increase in energy demand and further recovery of oil and gas prices. As the U.S. government encourages the development of the domestic oil and gas industry, the oil and gas market environment is expected to improve continuously. At the end of 2016, the supply cuts agreed by the Organization of the Petroleum Exporting Countries also played a role in driving up the oil price. Overall, the global supply and demand of oil and gas will continue to remain positive in 2017 and the oil and gas prices are expected to realize steady growth. Under these circumstances, reducing costs is still a key for the oil and gas operations, and this will also bring many opportunities for alliances, acquisition and mergers in the oil and gas industry.

The Company has focused its business on oil and gas exploration, production and field operations in the Utah Gas and Oil Field, which is mostly a gas field. The Utah Gas and Oil Field is located in Uintah Basin of Utah, Midwestern of the United States which has very long history and good location for oil and gas business with mature infrastructure and oilfield service facility including water, electricity, roads, pipeline network and other logistic facilities around.

In response to this overall situation, the Company will continue to focus on the strict control of operating costs and maintain normal production and operation. The Company will take advantage of the favorable condition of the significant decrease in the drilling costs and consider cooperating with deep-pocketed investors to expand the development of the Utah Gas and Oil Field, paving the way for expanding current businesses scale once the market environment improves. At the same time, the Company will explore new business opportunities, bringing new growth and momentum to the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of new shares, borrowings and internally generated resources. At the Year end date, the Group had HK$33 million other borrowings repayable within one year (2015: HK$20 million). The Group's cash and bank balances as at 31 December 2016 have decreased to approximately HK$5 million from approximately HK$17 million as at 31 December 2015. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 0.26 as at 31 December 2016 (31 December 2015: 0.78).

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

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of the total borrowings to the total assets of the Group, was 4.7% as at 31 December 2016 (2015: 3.9%).

SIGNIFICANT INVESTMENTS

There were no other significant investments for the year ended 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the "Prospects" section above, there were no future plans for material investments or capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the number of employees of the Group was about 20 (2015: 20). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; and other employee benefits include meal and travelling allowances and discretionary bonuses.

Environmental, Social and Governance Report

The Company has prepared the Annual Environmental, Social and Governance Report ("Environmental, Social and Governance Report") for the year ended 31 December 2016. This report is intended to inform the public and the stakeholders of the Company that the policies, regulations and rules that are being implemented by the Company are in full compliance with the relevant legal requirements of the environment and society of the asset location and that there is no breach or violation of such laws, policies and regulations.

In the past few years, the Group is committed to the development of oil and gas exploration and production business and has six oil and gas fields leases with development and production in Utah, United States, with a total area of 3,692 acres. The gas and oil field is located in Uintah Basin, Utah, which is one of very important oil and gas producing areas in the Midwest of the United States, it is about three hundred kilometers away from the southeast of Salt Lake City and is situated in the south of Vernal town.

This annual Environmental, Social and Governance Report for the year ended 31 December 2016 mainly includes the Group's activities in Hong Kong and the United States to demonstrate the Company's major environmental and social policies.

The policy is approved by the directors, including:

- Environmental management and sustainability;
- Health and safety;
- Employee care and social responsibility.

For details of the Group's corporate governance matters, please refer to Corporate Governance Report.

ENVIRONMENTAL MANAGEMENT AND SUSTAINABILITY

The local management team will be in charge of the final completion and implementation of the above policies, in conjunction with the relevant local policies, rules and monitoring systems to ensure their effective implementation and compliance.

Due to the slump in the crude oil market in the last two years, especially in 2015-2016, the global economy is volatile. The Company did not expand its upstream oil and gas exploration business, and the production of US oil and gas is in a lower scale. The records on production safety, environmental and health are well kept and there is no recorded reports on any violation of local safety, environmental protection and health regulations since the acquisition of oil fields and the operation of relevant business since 2010. The Company's overall operation is safe, stable and reliable.

The Group maintains an efficient communication with the affiliated subsidiaries of the United States and keeps a close relationship with relevant government regulators such as the US Federal Bureau of Land Management and the Utah Division of Oil, Gas and Mining, enabling the Group to keep abreast of all the latest developments in relevant legislations and regulations and the best practices of corporate social responsibility to provide effective and timely support to the Group's assessment and adjustment of the existing policies and rules. Environmental protection, safety and health, employee care and community building are an important part of sustainable development in order to provide effective protection for the Group for local oil and gas exploration and production activities.

The Group pays attention to the impact and the potential risks on the surrounding environment and the ecosystem of the field operations. Our operations have strictly complied with local environmental regulations and environmentally responsible practices, and adhere to all environmental laws and regulations in all existing production processes. The Group implemented measures to try and minimize or eliminate environmental impacts associated with oilfield operations, such as gas emissions, sewage discharge, prevention of oil spills, waste disposal, etc. These measures include regular inspection and maintenance of related equipments, transportation of sewage to the appropriate treatment facilities for disposal, prompting employees to monitor, report and follow up the improvement plan in a timely manner. Currently the gas and sewage emissions are at a very low level due to low scale of production and operations in the Utah Gas and Oil Field, therefore they did not cause any material impact on the surrounding environment.

The Group also conducts backfill and reclamation of the abandoned wells. The Group not only shuts in and plugs abandoned wells in accordance with all required procedures issued by the US Federal Bureau of Land Management or State Oil and gas Division, but also takes the measure of restoration of natural landform revegetation and builds drainage channels at low lying areas in accordance with environmental requirements.

Environmental management and sustainability have been fully introduced into the Group's policies and applied to the Group's daily operations and administrative execution. The Group implemented environmentally friendly policies in the local operations, for example using recycled paper, double-sided printing, energy-saving lamps, turning off office equipments such as computers, photocopiers etc during non-office hours. Increasing the temperature of air conditioning in order to reduce electricity consumption, for achieving the most efficient and energy saving work environment.

The Group encourages its employees to make any suggestions, advices on environmental issues and provides different communication channels to maintain good communication between the management and employees.

HEALTH AND SAFETY

There are complicated workflows in the processes of oil and gas exploration, drillings, production, sales etc., which involve a lot of upstream and downstream partners, contractors, material suppliers and other agents. A set of effective, rigorous and complete safety measures has become the rigid foundation for working smoothly. The Company strictly supervises all aspects on gas and oil field operation, effectively implements all relevant laws and regulations, rigorously selects all contractors and suppliers, and monitors its operations in compliance with the requirements of the health and safety regulations.

Employees are an important asset of the Company, ensuring their safety and health and providing benefits are our primary obligations and responsibilities. It is also vital for Company's operations to run smoothly and manage their sustainability. The Group provides personal accident insurances and travel insurances for employees. It is an important part of the Group's overall arrangement to participate in the MPF schemes and the relevant insurance schemes at the location of the gas and oil field. In respect of the operations of the gas and oil field, it requests all visitors, including the executives, the suppliers, the business partners, the auditors, etc., to accept and comply with the safety guidelines for the designated site during all operation periods. The contractor must carry out the laws and regulations of related health and safety regulations during operations. The corresponding vocational qualification certificates and safety training certificates must also be obtained, declared and updated in a timely manner.

The Group is committed to achieving the goal of zero health and safety accidents records throughout all facilities and offices of the Group. The Board of Directors and the management team will promote actively on the implementation of health and safety culture of the Company. If necessary, the Board will allocate additional budgets on health and safety issues.

For the year ended 31 December 2016, the Group has no casualty reports and other recorded health and safety accidents.

CARE FOR EMPLOYEES

The Group recognizes and respects the efforts and contributions of all employees. Building a professional, diligent and dedicated team of employees is the key factor to our long-term success. The Group is an equal opportunity employer and pursues fair treatment of all employees, no employees shall not be treated differently due to age, marital status, nationality, ethnicity, gender, sexual orientation, religion and culture. Our culture and code of conduct impose a strict zero tolerance policy on any form of discrimination or harassment in the workplace.

The Group strictly adheres to local labor laws and regulations in all operating quarters, monitors equal employment policy and prohibits the employment of any child or involuntary labor. We encourage communication, feedback and discussion with our employees to build a culture of mutual trust, mutual respect and mutual understanding. The Group provides a competitive remuneration and benefit package that complies with the prevailing local market standards. Actively promoting the principle of localization, the local people of US subsidiaries will be employed in priority, and with the local economic development plan, closer relationship will be built between the local qualified contractors and suppliers.

All new employees are required to complete the Company's standard probation period. After the successful completion of the probation period, additional personal medical benefits will be provided and the MPF Scheme will be part of the individual compensation package for the staff.

In order to enable employees to develop and equip themselves with the necessary skills to perform their duties, the Group provides additional training courses, on-the-job training and peer counseling according to their needs and wishes.

The Company is a publicly listed company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and all employees are required to comply with the Company's non-disclosure/confidentiality policy and the inside information is prohibited to be used for trading of shares and any related derivatives. Any employee's misconduct or other events in violation of the local regulations may result in the Group's internal hearing and termination of employment.

CONTRIBUTIONS TO SOCIETY

The Group understands that the industrialized oil and gas development will have a potentially damaging impact on the local environment. We strive to reduce this impact, maintain open communication channels, modestly accept the supervision of the relevant local authorities and contribute to the affected areas to establish and maintain a harmonious community.

Looking ahead, the Group is willing to accelerate and expand the scope of social services, and actively seek more ways to contribute to the community, such as supporting community building by human or financial resources.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 31 to 32.

The board of directors (the "Board" or the "Directors") do not recommend the payment of final dividend for the Year (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as members of the Company to attend and vote at the 2017 Annual General Meeting (the "AGM"), the register of members of the Company will be closed from Thursday, 11 May 2017 to Tuesday, 16 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificate(s) and transfer form(s) must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 10 May 2017.

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 14 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2016, HK$27,736,000 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 22 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:

Wong Kwan (resigned on 20 October 2016)
Fan Amy Lizhen (appointed on 20 October 2016)
Wong Hiu Tung
Zhou Li Yang
Liu Ju (appointed on 20 October 2016)
Tang Yau Sing (appointed on 20 October 2016)
Cheung Kam Shing, Terry (appointed on 20 October 2016)

Independent Non-Executive Directors:

Lam Kwan
Chan Kwan Pak
Yuen Sau Ying, Christine

In accordance with Clause 86(2) of the Company's Bye-Laws, each of Ms. Fan Amy Lizhen, Mr. Liu Ju, Mr. Tang Yau Sing and Mr. Cheung Kam Shing, Terry 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. Zhou Li Yang and Ms. Yuen Sau Ying, Christine will retire as Directors by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election as Directors. All other remaining Directors continue in office. Save as disclosed above, no Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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 2016, 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 the of Shares held**	**Approximate percentage to the issued share capital of the Company**
Lam Kwan	1,045,000	—	1,045,000	0.03%
Chan Kwan Pak	1,000,000	—	1,000,000	0.03%

(B) Share Options

Name of Directors	**Capacity**	**Number of options held**	**Exercise period**	**Exercise price** *(HK$)*
Wong Hiu Tung	Beneficial owner	10,000,000	01/09/2013-14/07/2019	0.52
Zhou Li Yang	Beneficial owner	6,000,000	09/06/2010-14/07/2019	0.9416
	Beneficial owner	10,000,000	01/09/2013-14/07/2019	0.52
Lam Kwan	Beneficial owner	5,000,000	01/09/2013-14/07/2019	0.52
Chan Kwan Pak	Beneficial owner	3,000,000	01/09/2013-14/07/2019	0.52
Yuen Sau Ying, Christine	Beneficial owner	5,000,000	01/09/2013-14/07/2019	0.52

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 2016.

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 2016, 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	Beneficial owner	739,530,000	22.79%
LPJ Standard Oil Engineering Limited	Beneficial owner	320,000,000	9.86%
So Kuen Kwok	Beneficial owner	320,000,000	9.86%

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 2016.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her 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 23 to the consolidated financial statements.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year are detailed in note 26 to the consolidated 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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customer and three largest customers taken together accounted for 71% and 100% respectively of the Group's total sales for the year. The Group did not conduct any purchase during 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 acted as auditor of the Group's consolidated financial statements for the financial year ended 31 December 2016.

The consolidated financial statements for the year ended 31 December 2016 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

Wong Hiu Tung
Executive Director

31 March 2017

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 with the Company Secretary at the Company's principal place of business at Suite 2805-6, 28th Floor, Bank of America Tower, 12 Harcourt 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 with the Company Secretary at the Company's principal place of business at Suite 2805-6, 28th Flour, Bank of America Tower, 12 Harcourt 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 detailed contact information to the Company Secretary at the Company's principal place of business at Suite 2805-6, 28th Floor, Bank of America Tower, 12 Harcourt 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.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, the Company has complied throughout the Year with the Corporate Governance Code as contained in Appendix 14 to the Listing Rules, save for the following:

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

The Chief Executive Officer, Mr. Law Wing Tak, Jack, resigned from the post with effect from 30 June 2015 and the position has been left vacant since his resignation. All duties of chief executive are shared between Mr. Zhou Li Yang and Mr. Wong Hiu Tung, the Executive Directors. The Company is in the process of identifying a suitable candidate to assume the role as the chief executive officer of the Company.

(ii) Code provision A.2.7 of the Corporate Governance Code stipulates that the chairman should at least annually hold meetings with the non-executive directors (including independent non- executive directors) without the executive directors present. Nevertheless, from time to time, the non-executive directors of the Company express their views directly to the Chairlady via other means including correspondences and emails. The Company is of the view that there is efficient communication between the non-executive directors and the Chairlady; and

(iii) Code provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meetings. He should invite the chairman of the audit, remuneration, nomination committee and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Mr. Wong Kwan, the ex-chairman of the Company and the ex-chairman of the Nomination Committee of the Company, did not attend the 2016 AGM, due to his need for medical treatment overseas. Mr. Lam Kwan, the then chairman of each of the Audit Committee and the Remuneration Committee did not attend the 2016 AGM due to his own official engagement. However, arrangements including the attendance of other members of the Board had been in place to ensure the AGM was in order.

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 2016.

BOARD OF DIRECTORS

The Board has constituted an executive committee 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.

The independent non-executive Directors are not appointed for specific term, but are subject to retirement by rotation in accordance with the Bye-Laws.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the Corporate Governance 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.

All Directors are required to provide the Company with their training records on an annual 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.

COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Chairman of the Board on governance matters and also facilitates induction and professional development of Directors. The Company Secretary reports to the Chairman of the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, all applicable law, rules and regulations are followed.

During the Year, the Company Secretary has attended relevant professional seminars to update his skills and knowledge as required under Rule 3.29 of the Listing Rules.

BOARD MEETINGS

During the Year, 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 of the Board and Nomination Committee)* (resigned on 20 October 2016)	3/4	—	—	2/2
Fan Amy Lizhen *(Chairlady of the Board and Nominate Committee)* (appointed on 20 October 2016)	1/4	—	—	—
Wong Hiu Tung	4/4	1/2	—	—
Zhou Li Yang	4/4	—	—	—
Liu Ju (appointed on 20 October 2016)	1/4	—	—	—
Tang Yau Sing (appointed on 20 October 2016)	1/4	—	—	—
Cheung Kam Shing, Terry (appointed on 20 October 2016)	1/4	—	—	—
Independent Non-executive Directors:				
Lam Kwan (Chairman of Audit Committee and Remuneration Committee; member of Nomination Committee)	4/4	2/2	2/2	2/2
Chan Kwan Pak (member of Audit Committee, Remuneration Committee and Nomination Committee)	4/4	2/2	2/2	2/2
Yuen Sau Ying, Christine (member of Audit Committee, Remuneration Committee and Nomination Committee)	2/4	1/2	0/2	0/2

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 2016. All of them are free to exercise their individual judgments.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee has three members, comprising Mr. Lam Kwan, Mr. Chan Kwan Pak and Ms. 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.

The remuneration of the senior management of the Company for the year ended 31 December 2016, by band is set out below:

Remuneration Band	Number of individuals
Nil to HK$1,000,000	3

Further details of the Directors' remuneration for the year ended 31 December 2016 are disclosed in note 13 to the consolidated financial statements.

NOMINATION OF DIRECTORS

The Nomination Committee has clear terms of reference. The Nomination Committee has four members, comprising Mr. Lam Kwan, Mr. Chan Kwan Pak and Ms. Yuen Sau Ying, Christine, all independent non-executive Directors and Ms. Fan Amy Lizhen, executive Director and chairlady 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to ensure that a sound and effective internal control system and risk management, 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.

The Board has reviewed the effectiveness of the risk management and internal control systems and considers the risk management and internal control systems effective and adequate.

AUDITOR'S REMUNERATION

For the year ended 31 December 2016, Cheng & Cheng Limited, the existing external auditors provided the following services to the Group:

	HK$'000
Annual audit services	750
Other assurance services	100
	850

AUDIT COMMITTEE

The Audit Committee currently comprises all 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 Audit Committee has clear terms of reference and its 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 monitoring of the appointment of the auditors and their independence.

The Audit Committee has reviewed and is satisfied with the audited consolidated financial statements for the year ended 31 December 2016.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated 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 consolidated financial statements.

The statement of the external auditors of the Company, Cheng & Cheng Limited, with regard to their reporting responsibilities on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 27 to 30.

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)

OPINION

We have audited the consolidated financial statements of PEARL ORIENTAL OIL LIMITED (the "Company") and its subsidiaries ("the Group") set out on pages 31 to 79, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2.1 to the consolidated financial statements, which indicates that as of 31 December 2016, the Group's current liabilities exceeded its current assets by HK$26,877,000. As stated in note 2.1, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the matter was addressed in our audit
Intangible assets impairment assessment Refer to note 15 in the consolidated financial statements The intangible asset of approximately HK$600,600,000 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. Management has concluded that there is a reversal of impairment amount to approximately HK$202,905,000 in respect of the intangible assets for the year. This conclusion was based on a value-in-use calculation with reference to a valuation performed by an independent valuer that required significant management judgment with respect to the discount rate and the underlying cash flows, in particular future revenue growth.	Our procedures in relation to management's valuation of intangible assets included: – Evaluation of the independent external valuers' competence, capabilities and objectivity; – Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the oil and gas industry; and – Checking, on a sample basis, the accuracy and relevancy of the input data used.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CHENG & CHENG LIMITED
Certified Public Accountants
Chan Shek Chi
Practising Certificate number P05540

Hong Kong, 31 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000 (Restated)
Continuing operations			
Revenue			
Sales of oil and natural gas	5	**518**	889
Other income	6	**7,668**	310
		8,186	1,199
Expenses			
Exploration, repair and maintenance expenses of oil and natural gas		**806**	1,624
Depreciation, depletion and amortisation of oil and natural gas		**338**	634
Selling, marketing and distribution costs		**15**	54
Other operating expenses		**294**	475
Administrative expenses		**23,501**	26,357
		24,954	29,144
Loss from operations		**(16,768)**	(27,945)
Finance costs	7	**(2,615)**	(1,041)
Gain on disposal of property, plant and equipment		**13**	–
Written off of property, plant and equipment		**–**	(53)
Impairment loss on intangible assets		**–**	(1,909,456)
Reversal of impairment loss on intangible assets		**202,905**	–
Reversal of impairment loss on loan receivables		**–**	10,000
Realised loss on financial assets at fair value through profit or loss		**–**	(917)
Profit/(loss) before tax	8	**183,535**	(1,929,412)
Income tax (expense) credit	9	**(48,450)**	469,166
Profit/(loss) for the year from continuing operations		**135,085**	(1,460,246)
Discontinued operation			
Loss for the year from discontinued operation	10	**(769)**	(25,954)
Profit/(loss) and total comprehensive income/(loss) for the year		**134,316**	(1,486,200)
Profit/(loss) attributable to:			
Owners of the Company			
– from continuing operations		**132,844**	(1,461,623)
– from discontinued operation		**(769)**	(25,954)
		132,075	(1,487,577)
Non-controlling interests			
– from continuing operations		**144**	400
– from discontinued operation		**2,097**	977
		2,241	1,377
		134,316	(1,486,200)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000 (Restated)
Total comprehensive income/(loss) attributable to:			
Owners of the Company			
– from continuing operations		**132,844**	(1,461,623)
– from discontinued operation		**(769)**	(25,954)
		132,075	(1,487,577)
Non-controlling interests			
– from continuing operations		**144**	400
– from discontinued operation		**2,097**	977
		2,241	1,377
		134,316	(1,486,200)
Earnings/(loss) per share (HK cents) – Continuing and discontinued operations	12		
– Basic and diluted		**4.07**	(45.86)
Earnings/(loss) per share (HK cents) – Continuing operations			
– Basic and diluted		**4.09**	(45.06)

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	14	**88,367**	88,426
Intangible assets	15	**600,600**	397,800
		688,967	486,226
Current assets			
Prepayments, deposits and other receivables	16	**4,857**	7,339
Bank balances and cash	17	**4,735**	17,459
		9,592	24,798
Current liabilities			
Other payables and accruals	18	**3,469**	11,700
Other unsecured loan	19	**33,000**	20,000
		36,469	31,700
Net current liabilities		**(26,877)**	(6,902)
Total assets less current liabilities		**662,090**	479,324
Non-current liabilities			
Deferred tax liabilities	20	**131,436**	82,986
Asset retirement obligations	21	**3,579**	3,579
		135,015	86,565
Net assets		**527,075**	392,759

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Equity			
Share capital	22	**324,552**	324,552
Reserves		**222,630**	90,555
Equity attributable to owners of the Company		**547,182**	415,107
Non-controlling interests		**(20,107)**	(22,348)
Total equity		**527,075**	392,759

The consolidated financial statements on page 31 to 79 were approved and authorised for issue by the Board of Directors on 31 March 2017 and are signed on its behalf by:

Zhou Li Yang
Executive Director

Wong Hiu Tung
Executive Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Profit/(loss) before tax		**182,766**	(1,955,366)
Adjustments for:			
Finance costs		**2,615**	1,041
Written off of property, plant and equipment		**–**	53
Gain on disposal of property, plant and equipment		**(13)**	—
Interest income		**(3)**	(3)
Depreciation, depletion and amortisation		**475**	1,134
Reversal of impairment loss on intangible assets		**(202,905)**	—
Impairment loss on intangible assets		**–**	1,909,456
Impairment loss on trade deposit paid		**–**	28,396
Reversal of impairment loss on loan receivables		**–**	(10,000)
Waiver of other payables and accruals		**(7,625)**	(2,571)
Realised loss on financial assets at fair value through profit or loss		**–**	917
Operating loss before working capital changes		**(24,690)**	(26,943)
Decrease in prepayments, deposits and other receivables		**2,482**	9,681
Decrease in other payables and accruals		**(606)**	(2,206)
Cash used in operations and net cash used in operating activities		**(22,814)**	(19,468)
Cash flows from investing activities			
Interest received		**3**	3
Purchase of property, plant and equipment		**(311)**	(4)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	17,400
Proceeds from disposal of property, plant and equipment		**13**	—
Net cash (used in)/generated from investing activities		**(295)**	17,399
Cash flows from financing activities			
Proceeds from issue of shares		**–**	2,080
Net proceeds from other unsecured loan		**13,000**	16,000
Interest paid		**(2,615)**	(1,041)
Net cash generated from financing activities		**10,385**	17,039
Net (decrease)/increase in cash and cash equivalents		**(12,724)**	14,970
Cash and cash equivalents at beginning of year		**17,459**	2,489
Cash and cash equivalents at end of year, represented by bank balances and cash	17	**4,735**	17,459

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Treasury shares reserve *HK$'000* *(note 24)*	Capital reserve *HK$'000* *(note 24)*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2015	324,152	2,219,923	(10,556)	403,851	55,875	(1,092,641)	1,900,604	(23,725)	1,876,879
Total comprehensive (loss)/income for the year	–	–	–	–	–	(1,487,577)	(1,487,577)	1,377	(1,486,200)
Share options exercised	400	2,663	–	–	(983)	–	2,080	–	2,080
Share options lapsed	–	–	–	–	(12,850)	12,850	–	–	–
At 31 December 2015 and 1 January 2016	**324,552**	**2,222,586**	**(10,556)**	**403,851**	**42,042**	**(2,567,368)**	**415,107**	**(22,348)**	**392,759**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**132,075**	**132,075**	**2,241**	**134,316**
Share options lapsed	**–**	**–**	**–**	**–**	**(123)**	**123**	**–**	**–**	**–**
At 31 December 2016	**324,552**	**2,222,586**	**(10,556)**	**403,851**	**41,919**	**(2,435,170)**	**547,182**	**(20,107)**	**527,075**

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 2805-6, 28th Floor, Bank of America Tower, 12 Harcourt 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 oil and natural gas and petroleum exploration, exploitation and production in certain natural gas and oil field located in Uinta Basin, Uintah County, Utah, the United States of America ("Utah Gas and Oil Field").

The consolidated financial statements for the year ended 31 December 2016 were approved for issue by the board of directors on 31 March 2017.

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 Group's current liabilities exceeded its current assets by approximately HK$26,877,000 (2015: HK$6,902,000). The directors are taking steps to improve the Group's liquidity and financial performance, the largest shareholder has confirmed to provide financial assistance to the Group to meet its financial obligations as they fall due, if required.

On the basis that the Group's operating results and cash flows will be improved through the implementation of the measures described above, the directors are satisfied that the Group will be able to meet in full its financial obligation when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The 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. The measurement bases are fully described in the accounting policies below.

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

2.1 BASIS OF PREPARATION *(Continued)*

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 3.

2.2 ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied a number of new and revised HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2016:

Amendments to HKFRSs	Annual Improvements 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 14	Regulatory Deferral Accounts
HKFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
HKAS 1 (amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (amendments)	Agriculture: Bearer Plants
HKAS 27 (amendments)	Equity Method in Separate Financial Statements

The application of these new and revised HKFRSs has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early adopted the following new and revised HKFRSs that have been issued but not yet effective:

HKFRS 10 and HKAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
HKAS 7 (amendments)	Disclosure Initiative[2]
HKAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses[2]
HKFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions[3]
HKFRS 4 (amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[3]
HKFRS 9	Financial Instruments[3]
HKFRS 15	Revenue from Contracts with Customers[3]
HKFRS 16	Leases[4]

1 A date to be determined
2 Accounting periods beginning on or after 1 January 2017
3 Accounting periods beginning on or after 1 January 2018
4 Accounting periods beginning on or after 1 January 2019

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

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and 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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Foreign currency translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Other property, plant and equipment *(Continued)*

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.

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.

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

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.

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

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.

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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:

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.

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 other payables and other unsecured loan.

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.

Other payables

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

Other unsecured loan

Other unsecured loan are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, 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.

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 recognised whenever it is received or receivable.

Impairment of non-financial assets

The following assets are subject to impairment testing:

– Intangible assets;

– Property, plant and equipment; and

– The Company's interests in subsidiaries

All the above 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 of disposal, 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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.

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.

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

Share-based employee compensation

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Discontinued operations

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

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

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Accounting for income taxes *(Continued)*

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.

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:

- 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 corporate assets which are not directly attributable to the business activities of any operating segment.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

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

Related parties

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

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

(b) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(h) The entity, or any member of a group of which it is a part, provide key management personnel services to the Group or to the Group's parent.

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 to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of oil and natural gas reserves

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

Estimation of impairment of oil and gas assets and intangible assets

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

Estimation of asset retirement obligations

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

4. SEGMENT INFORMATION

The Group is principally engaged in exploring, exploiting and sales of oil and natural gas. The procuring, processing and sales of plastic recycling materials were regarded as discontinued operation.

2016

	Continuing operations Oil and gas sales HK$'000	Discontinued operation Plastic recycling materials HK$'000	Total HK$'000
Segment revenue	518	–	518
Segment profit/(loss)	201,264	(769)	200,495
Unallocated income			7,665
Unallocated expenses			(22,792)
Finance costs			(2,615)
Gain on disposal of property, plant and equipment			13
Profit before tax			182,766
Income tax expense			(48,450)
Profit for the year			134,316
Segment assets	692,575	16	692,591
Unallocated assets			5,968
Total assets			698,559
Segment liabilities	5,552	–	5,552
Deferred tax liabilities			131,436
Unallocated liabilities			34,496
Total liabilities			171,484
Reversal of impairment loss on intangible assets	202,905	–	
Interest income	3	–	
Depreciation, depletion and amortisation	338	–	

4. SEGMENT INFORMATION *(Continued)*

2015

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

4. SEGMENT INFORMATION *(Continued)*

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

	Revenue from external customers		Specified non-current assets	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
Hong Kong (place of domicile)	**–**	–	**278**	101
United States of America ("USA")	**518**	889	**688,689**	486,125
	518	889	**688,967**	486,226

The geographical location of customers is based on the location at which the goods delivered. The geographical location of the specified non-current assets is based on physical location of the asset in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets.

The Group's customer base includes three (2015: three) customers with whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to HK$518,000 which related to oil and gas sales segment (2015: HK$889,000).

5. REVENUE

Revenue, which is also the Group's turnover, represents sales of oil and natural gas during the year:

	2016	2015
	HK$'000	*HK$'000*
Continuing operations		
Sales of oil and natural gas	**518**	889
Total revenue	**518**	889

6. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Bank interest income	**3**	3
Others	**7,665**	307
	7,668	310
Discontinued operation		
Others	**–**	2,571
Total other income	**7,668**	2,881

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Continuing operations		
Interest expenses on other unsecured loans	**2,615**	1,041

8. PROFIT/(LOSS) BEFORE TAX

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

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Depreciation, depletion and amortisation	**475**	1,134
Operating lease charges in respect of land and buildings	**3,530**	3,942
Auditors' remuneration:		
– Annual audit	**750**	1,080
– Other assurance services	**100**	100
Impairment loss on intangible assets	**–**	1,909,456
Reversal of impairment loss on intangible assets	**(202,905)**	–
Reversal of impairment loss on loan receivables	**–**	(10,000)
Realised loss on financial assets at fair value through profit or loss	**–**	917
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**11,876**	12,478
– Retirement scheme contributions	**215**	224
Discontinued operation		
Impairment loss on trade deposits paid	**–**	28,396

9. INCOME TAX EXPENSE/(CREDIT)

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the year (2015: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2016	2015
	HK$'000	*HK$'000*
Continuing operations		
Deferred tax expense/(credit) – current year	**48,450**	(469,166)

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

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Profit/(loss) before tax	**183,535**	(1,929,412)
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**45,709**	(471,765)
Tax effect of non-taxable revenue	**(875)**	(403)
Tax effect of non-deductible expenses	**2,020**	3,002
Tax effect of tax losses not recognised	**1,618**	–
Tax effect of unrecognised temporary differences	**(22)**	–
Income tax expense/(credit)	**48,450**	(469,166)
Discontinued operation		
Loss before tax	**(769)**	(25,954)
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(127)**	(4,282)
Tax effect of non-deductible expenses	**127**	4,282
Income tax expense	**–**	–

10. DISCONTINUED OPERATION

During the year ended 31 December 2016, the Group ceased the operation of its plastic recycling materials business. Accordingly, the operating results of the plastic recycling materials business for the year ended 31 December 2016 are presented as discontinued operation in the financial statements. The presentation of comparative information in respect of the year ended 31 December 2015 has been reclassified to conform to the current year's presentation.

(a) Results of the discontinued operation:

	2016	2015
	HK$'000	*HK$'000*
Other income	–	2,571
Impairment loss on trade deposit paid	–	(28,396)
Administrative expenses	**(769)**	(129)
Loss before taxation	**(769)**	(25,954)
Income tax	–	–
Loss for the year	**(769)**	(25,954)

(b) Cash flows of the discontinued operation

	2016	2015
	HK$'000	*HK$'000*
Net cash (used in)/generated from operating activities	**(10)**	14

11. DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

12. EARNINGS/(LOSS) PER SHARE

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

Continuing and discontinued operations

	2016	2015 (Restated)
Profit/(Loss) for the year attributable to owners of the Company *(HK$'000)*	**132,075**	(1,487,577)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,243,755
Basic earnings/(loss) per share *(HK cents)*	**4.07**	(45.86)

Continuing operations

	2016	2015 (Restated)
Profit/(Loss) for the year attributable to owners of the Company *(HK$'000)*	**132,075**	(1,487,577)
Less: Loss for the year attributable to owners of the Company from discontinued operation *(HK$'000)*	**(769)**	(25,954)
Profit/(Loss) for the year attributable to owners of the Company from continuing operations *(HK$'000)*	**132,844**	(1,461,623)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,243,755
Basic earnings/(loss) per share *(HK cents)*	**4.09**	(45.06)

12. EARNINGS/(LOSS) PER SHARE *(Continued)*

Discontinued operation

	2016	2015 (Restated)
Loss for the year attributable to owners of the Company from discontinued operation *(HK$'000)*	**(769)**	(25,954)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,243,755
Basic loss per share *(HK cents)*	**(0.0237)**	(0.8001)

Weighted average number of ordinary shares

	2016 *'000*	2015 *'000*
Issued ordinary shares at 1 January	**3,245,520**	3,241,520
Effect of shares issued under exercise of share options	–	2,235
Weighted average number of ordinary shares at 31 December	**3,245,520**	3,243,755

During the year ended 31 December 2016 and 31 December 2015, diluted loss per share equals to basic loss per share as the potential ordinary shares were not included in the calculation of diluted loss per share because they are anti-dilutive.

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

2016

	Directors' fees *HK$'000*	Salaries, allowances, and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Wong Kwan				
(Resigned on 20 October 2016)	2,076	–	–	2,076
Wong Hiu Tung	–	1,200	18	1,218
Zhou Li Yang	–	1,560	18	1,578
Fan Amy Lizhen				
(Appointed on 20 October 2016)	–	358	5	363
Cheung Kam Shing, Terry				
(Appointed on 20 October 2016)	–	239	5	244
Liu Ju				
(Appointed on 20 October 2016)	–	239	–	239
Tang Yau Sing				
(Appointed on 20 October 2016)	–	239	5	244
Independent non-executive directors:				
Lam Kwan	300	–	–	300
Chan Kwan Pak	300	–	–	300
Yuen Sau Ying, Christine	300	–	–	300
	2,976	3,835	51	6,862

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

(a) Directors' emoluments *(Continued)*

2015

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Wong Kwan	2,592	–	–	2,592
Law Wing Tak, Jack (Resigned on 30 June 2015)	–	900	9	909
Wong Hui Tung	–	1,200	18	1,218
Zhou Li Yang	–	1,560	18	1,578
Non-executive directors:				
Baiseitov Bakhytbek (Resigned on 6 August 2015)	–	–	–	–
Independent non-executive directors:				
Lam Kwan	300	–	–	300
Chan Kwan Pak	300	–	–	300
Yuen Sau Ying, Christine	300	–	–	300
	3,492	3,660	45	7,197

Note:

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 2016 and 2015.

(b) Five highest paid individuals

Out of the five individuals with the highest emoluments in the Group, three (2015: four) were directors of the Company whose emoluments, details are set out in note (a) above.

The emoluments of the remaining two (2015: one) individual for the year ended 31 December 2016 were as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Salaries and other benefits	**1,538**	816
Retirement benefits scheme contributions	**36**	18
	1,574	834

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

(b) Five highest paid individuals *(Continued)*

	Number of Individuals	
	2016	2015
Emoluments bands		
HK$Nil – HK$1,000,000	**2**	1

14. PROPERTY, PLANT AND EQUIPMENT

	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 2015	89,519	913	12,471	1,824	104,727
Additions	–	–	4	–	4
Written off	–	(828)	(312)	–	(1,140)
At 31 December 2015 and 1 January 2016	89,519	85	12,163	1,824	103,591
Additions	–	–	5	306	311
Disposal	–	–	–	(446)	(446)
At 31 December 2016	**89,519**	**85**	**12,168**	**1,684**	**103,456**
Accumulated depreciation					
At 1 January 2015	978	913	12,203	1,432	15,526
Charge for the year	226	–	108	392	726
Eliminated on written off	–	(828)	(259)	–	(1,087)
At 31 December 2015 and 1 January 2016	1,204	85	12,052	1,824	15,165
Charge for the year	233	–	53	84	370
Eliminated on disposal	–	–	–	(446)	(446)
At 31 December 2016	**1,437**	**85**	**12,105**	**1,462**	**15,089**
Net book value					
At 31 December 2016	**88,082**	**–**	**63**	**222**	**88,367**
At 31 December 2015	88,315	–	111	–	88,426

15. INTANGIBLE ASSETS

	Oil and gas processing rights *HK$'000*
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	2,818,920
Accumulated amortisation and impairment	
At 1 January 2015	511,256
Amortisation for the year	408
Impairment for the year	1,909,456
At 31 December 2015 and 1 January 2016	2,421,120
Amortisation for the year	105
Reversa1 of impairment for the year	(202,905)
At 31 December 2016	**2,218,320**
Net carrying amounts	
At 31 December 2016	**600,600**
At 31 December 2015	397,800

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

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

The recoverable amount for the oil and gas processing rights was determined based on value-in-use calculation with reference to a valuation performed by an independent valuer, BMI Appraisals Limited. The value-in-use calculations use cash flow projections of 33 years, which is the expected period of time estimated by the management to fully utilize the reserve as per the latest competent person report, and a discount rate of 10%. The management determined the key assumptions based on past performance and expectation on market development by reference to market information such as forecast to future oil and gas prices, historical growth rate of oil and gas prices and expectation on oil and gas consumption.

After assessing the information, in view of significant increase in forecast future prices of oil and natural gas as compared with forecast in previous years, the management of the Company is of the opinion that the recoverable amount is higher than its carrying amount as at 31 December 2016, accordingly a reversal of impairment loss of approximately HK$202,905,000 (2015: impairment loss of HK$1,909,456,000) was recognised.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments	**2,501**	3,737
Rental and other deposits paid	**495**	1,163
Deposit paid for acquiring Russia oil fields *(note (a))*	**69,929**	69,929
Trade deposits paid *(note (b))*	**28,396**	28,396
Other receivables	**1,861**	2,439
	103,182	105,664
Less: impairment loss on other receivables *(note (a))*	**(69,929)**	(69,929)
Less: impairment loss on trade deposits paid *(note (b))*	**(28,396)**	(28,396)
	4,857	7,339

Notes:

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

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

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

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

(b) In 2015, plastic recycling business has experienced a significant downturn and no sales transactions were made to avoid potential losses. In view of the overall environment for this business segment, the Group decided to provide full impairment on the related trade deposits.

The carrying amounts of prepayments, deposits and other receivables at the end of the reporting period approximated their fair values. Except those described in notes (a) and (b), all of the prepayments, deposits and other receivables are expected to be recovered, or recognised as expenses within one year.

17. BANK BALANCES AND CASH

	2016	2015
	HK$'000	*HK$'000*
Bank balances and cash	**4,735**	17,459
Cash and cash equivalents	**4,735**	17,459

Cash and cash equivalents in the consolidated statement of cash flows as at 31 December 2016 and 2015 were HK$4,735,000 and HK$17,459,000 respectively.

Cash and cash equivalents include short-term bank deposit, carrying interest at prevailing market rates.

18. OTHER PAYABLES AND ACCRUALS

	2016	2015
	HK$'000	*HK$'000*
Accruals and others	**3,469**	5,688
Amount due to former shareholders of subsidiaries *(note)*	**–**	6,012
	3,469	11,700

Note: The balance represented the amount due to Kong Rise Limited which was unsecured, interest-free and had no fixed repayment terms. The Directors consider the Group is no longer required to settle the balance as Kong Rise Limited was deregistered.

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

19. OTHER UNSECURED LOAN

	2016	2015
	HK$'000	*HK$'000*
Other unsecured loan	**33,000**	20,000

Other unsecured loans carried interest at range between 8% to 10% per annum and repayable within one year (2015: interest at 1% per month calculated on daily basis and repayable on 15 June 2016).

20. DEFERRED TAX

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 2015	565,197	(13,045)	552,152
Recognised in profit or loss	(467,736)	(1,430)	(469,166)
At 31 December 2015 and 1 January 2016	97,461	(14,475)	82,986
Recognised in profit or loss	49,686	(1,236)	48,450
At 31 December 2016	**147,147**	**(15,711)**	**131,436**

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

	2016	2015
	HK$'000	*HK$'000*
Deferred tax assets	**(15,711)**	(14,475)
Deferred tax liabilities	**147,147**	97,461
Net deferred tax liabilities	**131,436**	82,986

At the end of the reporting period, the Group has unused tax losses of approximately HK$40,020,000 (2015: HK$30,217,000) available for offset against future profits. However, no deferred tax asset in respect of them had been recognised due to the unpredictability of future profit streams even through those tax losses may be carried forward indefinitely.

21. ASSET RETIREMENT OBLIGATIONS

	2016	2015
	HK$'000	*HK$'000*
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	**3,579**	3,579

Assets retirement obligations ("ARO") are the provision for the cost associated with the Group's obligation to plug and abandon all oil and gas wells and remediate the surface of the site once production ceases on a lease.

22. SHARE CAPITAL

	2016		2015	
	Number of shares		Number of shares	
	'000	***HK$'000***	*'000*	*HK$'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	**3,245,520**	**324,552**	3,241,520	324,152
Share options exercised (note)	**–**	**–**	4,000	400
At 31 December	**3,245,520**	**324,552**	3,245,520	324,552

Note:

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

23. 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, eligible employees and consultants 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 exercise price are as follows:

	2016		2015	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	'000	***HK$***	*'000*	*HK$*
Outstanding at 1 January	**150,210**	**0.7087**	189,970	0.7533
Exercised	**–**	**–**	(4,000)	0.52
Lapsed	**(500)**	**0.5200**	(35,760)	0.967
Outstanding at 31 December	**149,710**	**0.7093**	150,210	0.7087
Exercisable at 31 December	**149,710**	**0.7093**	150,210	0.7087

The weighted average share price at the date of exercise during the year ended 31 December 2015 was approximately HK$0.55.

23. SHARE OPTION SCHEME *(Continued)*

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

Grantee	Date of grant	Period during which options are exercisable	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2016	Exercise price per share option *HK$*
Directors								
Wong Kwan (Resigned on 20 October 2016)	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
	10 April 2013	1 September 2013– 14 July 2019	9,500,000	–	–	–	9,500,000	0.52
Zhou Li Yang	9 June 2010	9 June 2010– 14 July 2019	6,000,000	–	–	–	6,000,000	0.9416
	10 April 2013	1 September 2013– 14 July 2019	10,000,000	–	–	–	10,000,000	0.52
Wong Hiu Tung	10 April 2013	1 September 2013– 14 July 2019	10,000,000	–	–	–	10,000,000	0.52
Lam Kwan	10 April 2013	1 September 2013– 14 July 2019	5,000,000	–	–	–	5,000,000	0.52
Chan Kwan Pak	10 April 2013	1 September 2013– 14 July 2019	3,000,000	–	–	–	3,000,000	0.52
Yuen Sau Ying, Christine	10 April 2013	1 September 2013– 14 July 2019	5,000,000	–	–	–	5,000,000	0.52
			58,100,000	–	–	–	58,100,000	
Consultants	9 June 2010	9 June 2010– 14 July 2019	22,200,000	–	–	–	22,200,000	0.9416
	10 April 2013	1 September 2013– 14 July 2019	6,000,000	–	–	–	6,000,000	0.52
Employees	9 June 2010	9 June 2010– 14 July 2019	24,810,000	–	–	–	24,810,000	0.9416
	27 June 2011	27 June 2011– 14 July 2019	6,000,000	–	–	–	6,000,000	0.9416
	1 September 2011	1 September 2011– 14 July 2019	2,200,000	–	–	–	2,200,000	1.03
	10 April 2013	1 September 2013– 14 July 2019	30,900,000	–	–	(500,000)	30,400,000	0.52
			92,110,000	–	–	(500,000)	91,610,000	
			150,210,000	–	–	(500,000)	149,710,000	

The share options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.56 years (2015: 3.56 years).

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

24. RESERVES

Group

Capital reserve

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.

Treasury shares reserve

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2016 the Group held 4,872,000 ordinary shares of the Company (31 December 2015: 4,872,000 ordinary shares).

Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2015	2,220,823	45,348	55,875	(443,292)	1,878,754
Total comprehensive loss for the year	–	–	–	(1,808,563)	(1,808,563)
Share option exercised	2,663	–	(983)	–	1,680
Share options lapsed	–	–	(12,850)	12,850	–
At 31 December 2015 and 1 January 2016	2,223,486	45,348	42,042	(2,239,005)	71,871
Total comprehensive loss for the year	–	–	–	(2,216)	(2,216)
Share options lapsed	–	–	(123)	123	–
At 31 December 2016	**2,223,486**	**45,348**	**41,919**	**(2,241,098)**	**69,655**

24. RESERVES *(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 2016 are approximately HK$27,736,000 (2015: HK$29,829,000).

25. OPERATING LEASE COMMITMENT

The Group leases certain office properties under operating leases. The leases are negotiated for terms of one to three years. At 31 December 2016, the total future minimum lease payments payable by the Group under non-cancellable operating leases in respect of land and buildings are as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**2,523**	3,247
In the second to fifth years	**1,808**	112
	4,331	3,359

26. RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

	2016	2015
	HK$'000	*HK$'000*
Key management personnel:		
— Short term employee benefits	**6,811**	7,152
— Pension scheme contribution	**51**	45
	6,862	7,197

(b) Related party transactions

	2016	2015
	HK$'000	*HK$'000*
Interest expenses paid to related parties	**–**	95

27. 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.

27.1 Categories of financial assets and liabilities

(i) Financial assets

	2016	2015
	HK$'000	*HK$'000*
Loans and receivables:		
— Deposits and other receivables	**2,356**	3,602
— Bank balances and cash	**4,735**	17,459
	7,091	21,061

(ii) Financial liabilities

	2016	2015
	HK$'000	*HK$'000*
At amortised cost:		
— Other payables and accruals	**3,469**	11,700
— Other unsecured loan	**33,000**	20,000
	36,469	31,700

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

27.2 Foreign currency risk

The Group's functional currency is Hong Kong Dollars by using the currency of the primary economic environment in which the Group operates. However, the Group's majority trade transactions are denominated in the US Dollars. Management considers no significant exposure to foreign currency risk because of the Hong Kong Dollars pegged to US Dollars.

27.3 Interest rate risk

The Group's interest-earning financial assets comprise bank balances. The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings, the Group's policy is to obtain the most favourable interest rates available and also by reviewing the terms of the interest-bearing liabilities to minimise the adverse effects of changes in interest rates.

27.4 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 maximum exposure to credit risk on recognised financial assets is limited to the carrying amount of receivables at the reporting date as summarised in note 27.1(i).

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

The management considers the credit risk on 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.

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

27.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and an availability of funding through the ability to close-out market positions. In the opinion of the Directors, the Group should have adequate resources to meet its obligation in the forthcoming year on the basis set out in note 2.3 to the consolidated financial statements.

27.6 Fair value measurements

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

28. 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:

	2016	2015
	HK$'000	*HK$'000*
Other unsecured loan	**33,000**	20,000
Less: Cash and cash equivalents	**(4,735)**	(17,459)
Net debt	**28,265**	2,541
Total equity	**527,075**	392,759
Net debt to equity ratio	**5.4%**	0.6%

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'000	2015 HK$'000
Non-current assets		
Interests in subsidiaries	**466,344**	455,488
Current assets		
Prepayment, deposits and other receivables	**3,829**	2,279
Bank balances and cash	**2,911**	16,372
	6,740	18,651
Current liabilities		
Other payables and accruals	**1,364**	2,048
Other unsecured loan	**33,000**	20,000
	34,364	22,048
Net current liabilities	**(27,624)**	(3,397)
Total assets less current liabilities	**438,720**	452,091
Non-current liabilities		
Amounts due to subsidiaries	**44,513**	55,668
Net assets	**394,207**	396,423
Equity		
Share capital	**324,552**	324,552
Reserves	**69,655**	71,871
Total equity	**394,207**	396,423

Zhou Li Yang
Executive Director

Wong Hiu Tung
Executive Director

30. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2016 are as follows:

Name of company	Place of incorporation/ operation	Issued ordinary share capital	Percentage of issued capital held indirectly by the Company	Principal activities
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
Pearl Oriental International Assets Limited	Hong Kong	HK$1	100%	Provision of corporate services
Festive Oasis Limited	The British Virgin Islands ("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.

Details of non-wholly owned subsidiaries that have material non-controlling interests ("NCI")

The table below shows details of a non-wholly owned subsidiary of the Group that has material NCI:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by NCI		Profit allocated to NCI		Accumulated NCI	
		2016	2015	**2016**	2015	**2016**	2015
				HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
China Environmental Resources Limited	Hong Kong	**40%**	40%	**2,097**	977	**(24,425)**	(26,522)
Individually immaterial subsidiaries with NCI				**144**	400	**4,318**	4,174
				2,241	1,377	**(20,107)**	(22,348)

30. PRINCIPAL SUBSIDIARIES *(Continued)*

Summarised financial information in respect of the Group's subsidiary that has material NCI is set out below. The summarised financial information below represents amounts before intra-group eliminations.

China Environmental Resources Limited	**2016** *HK$'000*	2015 *HK$'000*
NCI percentage	**40%**	40%
Non-current assets	**–**	–
Current assets	**70,327**	71,096
Non-current liabilities	**–**	–
Current liabilities	**(47)**	(6,058)
Net assets	**70,280**	65,038
Carrying amount of NCI	**28,112**	26,015
Revenue	**–**	–
Profit for the year	**5,242**	2,442
Total comprehensive income for the year	**5,242**	2,442
Profit attributable to NCI	**2,097**	977
Dividend paid to NCI	**–**	–
Net cash (outflow)/inflow from operating activities	**(10)**	14
Net cash inflow from investing activities	**–**	–
Net cash inflow from financing activities	**–**	–

31. COMPARATIVE FIGURES

Certain comparative figures have been restated to confirm to the presentation of discontinued operation.

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

	2016 ***HK$'000***	2015 *HK$'000* *(Restated)*	2014 *HK$'000* *(Restated)*	2013 *HK$'000* *(Restated)*	2012 *HK$'000* *(Restated)*
Turnover	**518**	889	97,367	408,413	444,176
Profit/(loss) before tax	**182,766**	(1,955,366)	(125,960)	(166,597)	(401,447)
Income tax (expense)/credit	**(48,450)**	469,166	1,979	3,983	97,576
Profit/(loss) for the year	**134,316**	(1,486,200)	(123,981)	(162,614)	(303,871)
Profit/(loss) for the year attributable to:					
Owners of the Company					
— from continuing operations	**132,844**	(1,461,623)	(119,954)	(155,259)	(296,494)
— from discontinued operations	**(769)**	(25,954)	(3,171)	(6,168)	(6,827)
Non-controlling interests					
— from continuing operations	**144**	400	413	(761)	(35)
— from discontinued operations	**2,097**	977	(1,269)	(426)	(515)
	134,316	(1,486,200)	(123,981)	(162,614)	(303,871)
Total assets	**698,559**	511,024	2,453,087	2,597,555	2,824,390
Total liabilities	**(171,484)**	(118,265)	(576,208)	(577,407)	(582,922)
Net assets	**527,075**	392,759	1,876,879	2,020,148	2,241,468