ANNUAL REPORT 2017

東方明珠石油有限公司
Pearl Oriental Oil Limited

Stock Code: 0632

Contents

Corporate Information

DIRECTORS

Executive Directors:

Fan Amy Lizhen *(Chairlady)*
Tang Yau Sing
Cheung Kam Shing, Terry
Cheung Ka Chun, David

Independent Non-Executive Directors:

Lum Pak Sum
Chan Sung Wai
Koo Luen Bong
Chau Wing Man
Wang Jing Ting
Lam Kwan
Chan Kwan Pak

SOLICITORS

Anthony Siu & Co.
Hastings & Co.

PRINCIPAL BANKERS

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

COMPANY SECRETARY

Tang Yau Sing

AUDITOR

Cheng & Cheng Limited

AUTHORISED REPRESENTATIVES

Fan Amy Lizhen
Tang Yau Sing

REGISTERED OFFICE:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE:

Suites 1905-07, 19th Floor
Tower 6, The Gateway, Harbour City
Kowloon, Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

Conyers Corporate Services (Bermuda) Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) 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	2017 HK$'000	2016 HK$'000
For the year ended 31 December			
Revenue		**35,594**	518
(Loss)/profit for the year		**(351,669)**	134,316
(Loss)/profit attributable to shareholders		**(351,633)**	132,075
(Loss)/earnings per share			
Basic (cents)			
— For (loss)/profit for the year		**(10.83)**	4.07
— For (loss)/profit from continuing operations		**(10.83)**	4.09
Diluted (cents)			
— For (loss)/profit for the year		**(10.83)**	4.07
— For (loss)/profit from continuing operations		**(10.83)**	4.09
Average shareholders' equity		**371,365**	481,145
Average capital employed		**449,246**	570,707
At 31 December			
Total indebtedness	1	**–**	—
Shareholders' equity		**195,549**	547,182
Capital employed	2	**236,402**	662,090
Ratio			
Return on average capital employed (%)	3	**(78.3%)**	23.5%
Return on average equity (%)	4	**(94.7%)**	27.5%
Total debt to total capital (%)	5	**22.8%**	5.9%

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,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the annual report of Pearl Oriental Oil Limited (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31st December, 2017.

The operating environment for the business remained challenging in 2017. Oil prices (WTI) hitting bottom at around USD40 per barrel in early 2017 but rebounded gradually to around USD60 per barrel. 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.

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

On behalf of the board of directors of the Company (the "Board"), I would like to take this opportunity to express my appreciation to our customers, suppliers, business associates and shareholders for their support, I would also like to offer special thanks to our staff for their invaluable service and contributions throughout the year.

Fan Amy Lizhen
Chairlady

Hong Kong, 28 February 2018

Profiles of Directors and Senior Management

PROFILES OF DIRECTORS

Executive Directors

MS. FAN AMY LIZHEN

Aged 56, 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. TANG YAU SING

Aged 55, 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 Winto Group (Holdings) Limited since July 2017. He was Executive Director of Million Stars Holdings Limited (previously known as Odella Leather Holding Limited) (Stock code: 8093) for the period from February 2017 to November 2017, 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 55, 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).

MR. CHEUNG KA CHUN, DAVID

Aged 47, has over 20 years' ample experience in the commercial markets. He has been the Deputy General Manager of Otis Elevator Company (H.K.) Limited, which is the world's largest manufacturer of elevators, escalators and moving walkways, since February 2017. Mr. Cheung had been the Service Operations Manager of ThyssenKrupp Elevator (HK) Limited from November 2012 to February 2017 and had been the General Manager of Machinery & Project Development Department of Marubeni Hong Kong & South China Limited from August 1997 to November 2012. Mr. Cheung graduated from University of Hong Kong in 1993 and holds a Bachelor's degree in Arts (major in Japanese Language and Japan Studies). In addition, he gained scholarship from Japanese Government to study at Kanazawa University from 1993 to 1994.

Profiles of Directors and Senior Management

Independent Non-executive Directors ("INEDs")

MR. LUM PAK SUM

Aged 56, obtained a Master's degree in business administration from The University of Warwick in 1994 and a bachelor's degree in laws from University of Wolverhampton in 2002. He has been currently a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants UK since 1996 and 1993 respectively. Mr. Lum possesses over 20 years of working experience in money market and capital market.

Mr. Lum has been Independent Non-executive Director of Great China Properties Holdings Limited (formerly known as Wayfung Global Group Limited until 4 March 2013 and Beauforte Investors Corporation Limited until 8 November 2009) (Stock code: 0021) since August 2007; Independent Non-executive Director of Beautiful China Holdings Company Limited (Stock code: 0706) since January 2014; Independent Non-executive Director of Yuhua Energy Holdings Limited (Stock code: 2728) since December 2014; Independent Non-executive Director of i-Control Holdings Limited (Stock code: 8355) since May 2015; Independent Non-executive Director of Kwan On Holdings Limited (Stock code: 1559) since August 2016; Independent Non-executive Director of Anxian Yuan China Holdings Limited (Stock code: 0922) since May 2017; Independent Non-executive Director of S. Culture International Holdings Limited (Stock code: 1255) since June 2017

Mr. Lum was Independent Non-executive Director of Jimei International Entertainment Group Limited (formerly known as Karce International Holdings Company Limited and Sinogreen Energy International Group Limited) (Stock code: 1159) from April 2009 to November 2014; Independent Non-executive Director of Eagle Ride Investment Holdings Limited (formerly known as Radford Capital Investment Limited) (Stock code: 0901) from May 2010 to October 2013; Independent Non-executive Director of Asia Resources Holdings Limited (Stock code: 0899) from November 2010 to January 2015; Non-executive Director of Orient Securities International Holdings Limited (Stock code: 8001) from April 2011 to July 2015; Independent Non-executive Director of Pak Tak International Limited (Stock code: 2668) from June 2014 to November 2014; Independent Director of Asia Green Agriculture Corporation, a company trading on the Over-the Counter Bulletin Board in the Unites States (Symbol: AGAC) (privatised since November 2014) from September 2011 to November 2014.

MR. CHAN SUNG WAI

Aged 69, has extensive experience in trading, real property and shipping industries. He also has extensive experience in financial and media business. He has been working for a number of years on the major media companies in Hong Kong, and responsible for covering, editing and writing commentaries. Mr. Chan has also been a Chief Editor of the petroleum magazine and has comprehensive knowledge on the media industry in the PRC.

Mr. Chan is a Non-executive Director of Champion Technology Holdings Limited (stock code: 92), and was an Executive Director of Grand Field Group Holdings Limited (stock code: 115) during the period from November 2007 to June 2008, Energy International Investments Holdings Limited (Stock code: 353) during the period from November 2008 to April 2011, Asia Resources Holdings Limited (Stock code: 899) for the period from October 2008 to September 2012 and Karce International Holdings Company Limited (now known as Starlight Culture Entertainment Group Limited) (Stock code: 1159) during the period from April 2009 to June 2014, all of which are listed on Main Board of the Stock Exchange. He was also the deputy chairman of Asia Resources Holdings Limited (stock code: 899) for the period from January 2009 to September 2012.

MR. KOO LUEN BONG

Aged 66, has over 35 years' experience in auditing, accounting and capital market. Mr. Koo has been the founder and director of Easywell Marine Engineering Limited since 1997, had been the Independent Non-executive Director of Greens Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1318) from March to November 2015 and had been an Executive Director of by 21CN Cybernet Corporation Limited (currently known as Alibaba Health Information Technology Limited), a company listed on the Main Board of the Stock Exchange (stock code: 0241) from September 2000 to October 2001. Mr. Koo graduated from Hong Kong Baptist University in 1976 with a major in Business Management and Accounting.

MR. CHAU WING MAN

Aged 46, has long experience in external audit, internal audit, corporate risk control, financial controllership, treasury and taxation. He is a fellow member of the Association of Chartered Certified Accountants and is a senior member of the Institute of Systematic Innovation Hong Kong. He graduated from the Hong Kong Polytechnic University with Bachelor degree of Accountancy. After graduation, he worked for KPMG, followed by Multi-National Corporate and listed companies including Siemens Group as Finance Manager, Shui On Land Limited, a company listed on the Main Board of the Stock Exchange (stock code: 272) as Internal Audit Manager, Dah Chong Hong Holding Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1828) as Internal Audit and Analysis Manager and John Lobb Asia Pacific Group (an European listed company) as Finance & Administration Controller, Asia Pacific.

MR. WANG JING TING

Aged 33, Certified Public Accountant in China, he holds a Bachelor of Arts from Peking University, Master of Business Administration from the Guanghua School of Management of Peking University. Mr. Wang has nearly 10 years of experience in auditing and financial management. He worked for KPMG before and was responsible for enterprise listing in A-share market on the Hong Kong Stock Exchange, and annual audits of certain enormous enterprises. Meanwhile, Mr. Wang has extensive investment and financial experience in relation to energy, intelligent manufacturing, abundant data mining and artificial intelligence. He was a person in charge in financial and risk control and a member of investment committee of a large private equity investment company. Mr. Wang is currently the Chief Financial Officer of Zhejiang Alibaba Robotics Co., Ltd.

MR. LAM KWAN

Aged 49, 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 was an Independent Non-executive Director of Capital VC Limited, a main board listed company in Hong Kong (stock code: 2324) during the period from 27 October 2003 to 30 June 2017.

MR. CHAN KWAN PAK

Aged 61, 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 was a Non-executive Director of Ruifeng Petroleum Chemical Holdings Limited ("Ruifeng"), a company listed on GEM 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. He was an Independent Non-executive Director of Skyway Securities Group Limited, a Company listed on the Main Board of the Stock Exchange (Stock code: 1141) during the period from 31 July 2015 to 28 June 2017.

PROFILE 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.

Management Discussion and Analysis

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2017 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated revenue of HK$35,594,000 (2016: (Reclassified) HK$518,000) mainly contributed from the trading of oil-related products business. Basic loss per share for the Year was HK$10.83 cents (2016: Earnings per share HK$4.07 cents). Loss per share was based on the weighted average of 3,245 million shares in issue in the Year.

Gross loss for the Year amounted HK$1,160,000 (2016: (Reclassified) HK$626,000), which was mainly due to relatively low crude oil and gas prices over a long term.

The loss attributable to the owners of the Company for the Year was HK$351,633,000 (2016: Profit attributable to the owners of the Company HK$132,844,000), mainly attributable to the impairment loss on carrying amount of the Group's intangible assets amount to HK$344,545,000, impairment loss on carrying amount of the Group's property, plant and equipment amount to HK$49,861,000.

BUSINESS REVIEW

Trading Business

During the Year, after careful consideration and for the purpose of maximizing shareholder's return, the Group started the trading of oil-related products business to extend its business to down-stream of the production chain.

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.

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 2017, 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 slightly rebounded from the bottom since early 2016 but the oil price (WTI) and gas price (Henry Hub) are 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 2018, 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 2018 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$58 million unsecured loans repayable within one year (2016: HK$33 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to 0.19 as at 31 December 2017 (31 December 2016: 0.26).

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.

SIGNIFICANT INVESTMENTS

There were no other significant investments for the year ended 31 December 2017.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Saved as disclosed in the financial statements, the Group made no other material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2017.

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 2017, the number of employees of the Group was about 20 (2016: 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

REPORTING SCOPE AND STANDARD

This is the Environmental, Social and Governance ("ESG") Report prepared by the Group pursuant to the ESG Reporting Guide provided in Appendix 27 to the Listing Rules on the Stock Exchange of Hong Kong Limited. This report covers our operation for the financial year end 31 December 2017 and discloses information on the Group's ESG management approach, strategy, priorities, objectives, compliance with the relevant laws and regulations and our performance.

The Board has overall responsibility for the Group's ESG strategy and reporting and has determined to integrate the ideas of environmental and social responsibility into the Group's operation and management activities. The Board has reviewed and approved this ESG report.

STAKEHOLDERS ENGAGEMENT

We believe that stakeholder engagement is crucial from a sustainability perspective, as it supports our understanding of emerging risks and opportunities, and also facilitates the mitigation of these risks as well as the realisation of opportunities. Our stakeholder engagement framework reflects the view that it is vitally important to integrate a stakeholder engagement component into all aspects of our business, from project development to operation, management and decommissioning. Throughout the course of any given year we communicate with our stakeholders through various channels. These include visits to our offices, general meetings and our social community services, so that all stakeholders have a better understanding of our operations. We also actively participate in industry and professional organisations, both locally and internationally, to ensure that we keep track of emerging trends and business drivers, such as technological developments and new industry best practices.

ENVIRONMENTAL

The Group is committed to protecting natural resources and the global environment. Our commitment to emission reduction, energy and resources conservation encompasses every aspect of our operation.

In light of our business nature, our business of operating the Oil and Gas Field in Utah is thoroughly regulated by the relevant laws and regulations, including location and drilling of wells, producing and plugging wells, storage of products, disposal of waste and reclamation, and subjects to routine investigation from the government body. The Group is pleased to report that full compliance has been in place and there is no violation of the relevant laws and regulations noted.

For our operation in Hong Kong, carbon emissions are mainly indirect greenhouse gases emitted by electricity consumption and greenhouse gases emitted by plants. During the year, we have complied with the relevant laws and regulations that are important to the Group relating to emissions and generation of waste. First of all, the Group has taken energy saving measures among our offices and work spaces. The scheme includes adjusting the most suitable temperature of air-conditioning facilities and switching off all unnecessary lightings or air conditioning systems during non-office hours. We also encourage employees to turn off idle computers and other office equipment. In order to reduce greenhouse gas emissions, the Group stipulates that air-conditioners or heaters are available respectively only when the temperature in the plants is higher than 32 degrees Celsius or lower than the specified temperature respectively. The Group emphasizes energy saving and encourages employees to reduce water consumption. We always remind our employees to consider whether it is necessary to print their documents. For those documents which are not statutory or important, employees are encouraged to print double-side and reuse all single-side printed paper.

EMPLOYMENT AND LABOUR PRACTICES

Employment

As a socially responsible enterprise, we are not only responsible to consumers, but also responsible to employees. When pursuing economic goals, we also bear social and environmental responsibilities in order to achieve sustainable development. The Group places considerable value on the staff management and has developed its human resources management procedures, striving to create a favourable working environment for employees and reduce labour and employment risks of the Company. The Group is committed to labour legislation, providing employees with appropriate holidays and paid leave pursuant to various local labour legislations stipulated by the those national and local governments. The specific days of leave varies with reference to years of experience. Every year, the Board of the Group reviews and discusses the improvement measures and implementation of human resources management procedures. The remuneration committee is established for making appropriate annual update on remuneration policy.

The Group places considerable value on the career development of employees and has taken measures for employee retention. Employee development has two aspects in accordance with their abilities, one is the promotion to management position, and the other is the enhancement of professional and technical position. During the year, we have complied with the relevant laws and regulations that are important to the Group relating to the employee's rights and benefits, including the Employment Ordinance, Mandatory Provident Fund Schemes Ordinance, Employees' Compensation Ordinance and Minimum Wage Ordinance.

Health and Safety

The Group attaches importance to the health and safety of its employees. Each subsidiary has established occupational safety and health guidelines to create a safe working environment for employees and protect them from occupational hazards. The Group reviews the health and safety management system for its employees every year, and displays warning signs on facilities and machines which are dangerous or prone to accidents. In addition, the Group actively strengthens the occupational safety awareness of employees to reduce accident. During the year, we have complied with the Occupational Safety and Health Ordinance. The Group did not have any material accidents regarding safety production, and the condition of production is stable and safe.

Development and Training

The Group attaches great importance to the working performance and development of employees during their employment period. The Group has clear training program, in respect of apparel supply management and computer programming. All units are capable to provide training to new employees by following the guidelines, which encourage them to create values for the Group.

The Group mainly provides on-job training for its new entry-level employees. New employees are led by experienced staffs, giving new employees proper guidance on works and enhance their job knowledge and skills. They also promptly help new employees adapt to the Company's operation and culture.

Our employees are also encouraged to pursue work-related advanced studies and attend work-related seminars and courses hone their skills.

Labour Standards

The Group complies with all relevant laws and regulations towards the use of forced labor and child labor in our business operations. The Group aims not to be directly or indirectly complicit in human rights abuses and to ensure that all work that is performed on our behalf is in compliance with all relevant labor laws and regulations.

OPERATING PRACTICES

Supply Chain Management

In respect of supply management of the operation of Oil and Gas Field, suppliers are mainly services providers for on-site support. In view of the complexity of the supply chain, when the operating units select suppliers, different conditions and standards must be considered, including price, service, location, productivity (service capacity) and legal procedures, while the Group also considers special advice and the social responsibility and environmental protection of suppliers, etc.

Product Responsibility

As a diversified enterprise, the Group is committed to providing quality products and services to customers. The Group has formulated stringent policies and procedures to produce and sell products. During the reporting period, the Group did not recall any product due to safety and health reasons. The Group complies with the Personal Data Privacy Ordinance, all personal data collected from employees, customers and suppliers are kept confidential, the computers and servers are protected from access passwords. As stipulated in the Group's Code of Conduct on ethical policy, employees are instructed of their responsibility to ensure data is collected, used, maintained, managed, stored and handled properly and secured appropriately.

Anti-corruption

The Group adheres to stringent anti-corruption policies as stated in the Group's Office Manual that includes Integrity of Business Practices, ethical standard, conflicts of interest, breach of conduct, handling of confidential information and legal requirement on prevention of bribery and against corruption. The Group has adopted best practices with respect to whistle-blowing. Details of our whistle-blowing policy and procedures are published on our Company website. No cases of corruption were reported within the Group during the financial year ended 31 December 2017.

The Group has complied with relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance". During the year ended 31 December 2017, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

COMMUNITY INVESTMENT

As a responsible enterprise, the Group is well aware of its essential role in resource optimization throughout its business operation and promotion of environmental protection in areas where we may affect. As a result, the Group is committed to integrating environmental protection into its daily operation, and encouraging employees, customers, business partners and community to protect environment. During its daily operation, the Group is committed to promoting energy saving scheme, which not only reduce carbon emissions and protect environment, but also promote staff productivity and enhance efficiency and turnover. Besides, the Group has participated and always encourages our employees to participate in charity activities, such as tree planting in countryside, cleaning up garbage, so that employees can develop good environmental awareness through such activities and establish enterprise with social responsibility. In addition to raising the awareness of environmental protection, the Group encourages our staff to donate to the recognised charitable institutions in order to help grass-roots community or those in need. Moreover, the Group is committed to instilling anti-discrimination in its employees, such as anti-sex discrimination and anti-disability discrimination. Not only does it develop the professionalism and professional ethics among employees, but it also creates a more friendly working environment of the Group, a more harmonious and peaceful social atmosphere, thus fulfilling social responsibility

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017 (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 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 29 to 30.

The board of directors (the "Board" or the "Directors") do not recommend the payment of final dividend for the Year (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as members of the Company to attend and vote at the 2018 Annual General Meeting (the "AGM"), the register of members of the Company will be closed from Monday, 25 June 2018 to Friday, 29 June 2018, 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 Friday, 22 June 2018.

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 11 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2017, no 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 21 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:

Fan Amy Lizhen
Tang Yau Sing
Cheung Kam Shing, Terry
Cheung Ka Chun, David (appointed on 16 August 2017)
Wong Hiu Tung (resigned on 24 August 2017)
Liu Ju (resigned on 16 August 2017)
Zhou Li Yang (retired on 16 May 2017)

Independent Non-Executive Directors:

Lum Pak Sum (appointed on 6 December 2017)
Chan Sung Wai (appointed on 6 December 2017)
Koo Luen Bong (appointed on 16 August 2017)
Chau Wing Man (appointed on 16 August 2017)
Wang Jing Ting (appointed on 9 August 2017)
Lam Kwan
Chan Kwan Pak
Yuen Sau Ying, Christine (retired on 16 May 2017)

In accordance with Clause 86(2) of the Company's Bye-Laws, each of Mr. Cheung Ka Chun, David, Mr. Lum Pak Sum, Mr. Chan Sung Wai, Mr. Koo Luen Bong, Mr. Chau Wing Man and Mr. Wang Jing Ting, 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. Lam Kwan and Mr. Chan Kwan Pak 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 7 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 2017, 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**
Chau Wing Man	3,363,000	—	3,363,000	0.10%
Lam Kwan	1,045,000	—	1,045,000	0.03%
Chan Kwan Pak	1,000,000	—	1,000,000	0.03%
Cheung Ka Chun, David	500,000	—	500,000	0.02%

(B) Share Options

Name of Directors	**Capacity**	**Number of options held**	**Exercise period**	**Exercise price** *(HK$)*
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

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 2017.

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 2017, 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	704,530,000	21.70%
Mid-East Petroleum Group Ltd	Beneficial owner	400,000,000	12.32%
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 2017.

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 22 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

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 2017.

The consolidated financial statements for the year ended 31 December 2017 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

Tang Yau Sing
Executive Director

28 February 2018

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 Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, 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 Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, 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 Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, 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") 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 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; and

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.

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 2017.

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:				
Fan Amy Lizhen	4/4	—	—	2/2
Tang Yau Sing	4/4	—	2/2	2/2
Cheung Kam Shing, Terry	4/4	—	2/2	2/2
Cheung Ka Chun, David	3/4	—	—	—
Wong Hiu Tung	1/4	—	—	—
Liu Ju	1/4	—	—	—
Zhou Li Yang	1/4	—	—	—
Independent Non-executive Directors:				
Lum Pak Sum	1/4	—	—	—
Chan Sung Wai	1/4	—	—	—
Wang Jing Ting	3/4	2/2	2/2	2/2
Koo Luen Bong	3/4	2/2	2/2	2/2
Chau Wing Man	3/4	2/2	2/2	2/2
Lam Kwan	4/4	2/2	2/2	2/2
Chan Kwan Pak	4/4	2/2	2/2	2/2
Yuen Sau Ying, Christine	1/4	1/2	1/2	1/2

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 2017. All of them are free to exercise their individual judgments.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee has nine members, comprising Mr. Cheung Kam Shing, Terry and Mr. Tang Yau Sing, Mr. Lum Pak Sum, Mr. Chan Sung Wai, Mr. Chau Wing Man, Mr. Wang Jing Ting, Mr. Lam Kwan and Mr. Chan Kwan Pak. The Remuneration Committee is chaired by Mr. Koo Luen Bong.

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 2017, by band is set out below:

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

Further details of the Directors' remuneration for the year ended 31 December 2017 are disclosed in note 10 to the consolidated financial statements.

NOMINATION OF DIRECTORS

The Nomination Committee has clear terms of reference. The Nomination Committee has ten members, comprising Mr. Cheung Kam Shing, Terry and Mr. Tang Yau Sing, Mr. Lum Pak Sum, Mr. Chan Sung Wai, Mr. Koo Luen Bong, Mr. Chau Wing Man, Mr. Wang Jing Ting, Mr. Lam Kwan and Mr. Chan Kwan Pak 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 2017, Cheng & Cheng Limited, the existing external auditors provided the following services to the Group:

	HK$'000
Annual audit services	780
Other assurance services	150
	930

AUDIT COMMITTEE

The Audit Committee currently comprises all seven Independent Non-executive Directors, namely Mr. Lum Pak Sum (chairman of Audit Committee), Mr. Chan Sung Wai, Mr. Koo Luen Bong, Mr. Chau Wing Man, Mr. Wang Jing Ting, Mr. Lam Kwan and Mr. Chan Kwan Pak.

The Audit Committee held 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 2017.

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 28.

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)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Pearl Oriental Oil Limited (the "Company") and its subsidiaries ("the Group") set out on pages 29 to 77, which comprise the consolidated statement of financial position as at 31 December 2017, 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.

We do not express an opinion on the consolidated financial statements of the Group due to the potential interaction of the multiple uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements and because we have not been able to obtain sufficient appropriate evidence as described in the Basis for Disclaimer of Opinion section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern

As described in Note 2.1 to the consolidated financial statements:–

(i) The Group reported a net loss attributable to the owners of the Company of approximately HK$352 million for the year ended 31 December 2017 and as at 31 December 2017, the Group had net current liabilities of approximately HK$58 million together with total borrowings amounting to approximately HK$58 million classified as current liabilities, and with balance of cash and cash equivalents amounting to approximately HK$5 million only.

(ii) On 24 January 2018, the Company entered into a new loan agreement of HK$30 million with a lender. The loan will fall due on 24 July 2018. Approximately HK$28 million of the loan was used for repayment of the loans outstanding as at 31 December 2017. The unused balance of the new loan of approximately HK$2 million together with the cash and cash equivalents brought forward of approximately HK$5 million may not be enough to cover the Company's daily operating expenses and the other outstanding loan amounts when they fall due. Furthermore, HK$3 million of the loan balance as at 31 December 2017 falling due for repayment on 25 January 2018 is still outstanding up to the date of this report.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

Independent Auditor's Report

As stated in the recent announcements published by the Company, the Company have finalized the terms of a share subscription agreement with a third party and intends to carry out into effect such agreement after the end of the black out period of the results announcement for the year ended 31 December 2017. The aforesaid agreement together with other finance measures and plans as described in Note 2.1 to the consolidated financial statements, provide the basis under which the directors of the Company considered that going concern basis is appropriate for preparing the consolidated financial statements, the validity of which depends on the outcome of the aforesaid agreement and the successful implementation of those finance measures and plans, which are subject to multiple uncertainties. Should the Group fail to successfully implementing it's plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. We report solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements and because we have not been able to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements.

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.

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

Hong Kong, 28 February 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000 (Reclassified)
Continuing operations			
Revenue	4	**35,594**	518
Cost of sales		**(36,754)**	(1,144)
Gross loss		**(1,160)**	(626)
Other income		**1,702**	7,681
Administrative expenses		**(25,616)**	(23,810)
(Impairment loss)/reversal of impairment loss on intangible assets	12	**(344,545)**	202,905
Impairment loss on property, plant and equipment	11	**(49,861)**	–
Loss on disposal of subsidiaries	24	**(21,585)**	–
Finance costs	5	**(6,194)**	(2,615)
(Loss)/profit before tax	6	**(447,259)**	183,535
Income tax credit/(expense)	7	**95,590**	(48,450)
(Loss)/profit for the year from continuing operations		**(351,669)**	135,085
Discontinued operation			
Loss for the year from discontinued operation		**–**	(769)
(Loss)/profit and total comprehensive (loss)/income for the year		**(351,669)**	134,316

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000 (Reclassified)
Attributable to:			
Owners of the Company			
– from continuing operations		**(351,633)**	132,844
– from discontinued operation		**–**	(769)
Non-controlling interests			
– from continuing operations		**(36)**	2,241
– from discontinued operation		**–**	–
		(351,669)	134,316
(Loss)/earnings per share (HK cents) – Continuing and discontinued operations	9		
– Basic and diluted		**(10.83)**	4.07
(Loss)/earnings per share (HK cents) – Continuing operations			
– Basic and diluted		**(10.83)**	4.09

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

The reclassifications have no impact on the Group's financial position as at 1 January 2017 and 31 December 2017 and the Group's financial performance and cash flow for the year ended 31 December 2016 and 31 December 2017.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	11	**38,038**	88,367
Intangible assets	12	**256,000**	600,600
		294,038	688,967
Current assets			
Trade receivables	13	**2,541**	–
Prepayments, deposits and other receivables	14	**6,666**	4,857
Bank balances and cash	15	**4,503**	4,735
		13,710	9,592
Current liabilities			
Trade payables	16	**5,993**	–
Other payables and accruals	17	**7,051**	3,469
Unsecured loans	18	**58,300**	33,000
Tax payable		**2**	–
		71,346	36,469
Net current liabilities		**(57,636)**	(26,877)
Total assets less current liabilities		**236,402**	662,090
Non-current liabilities			
Deferred tax liabilities	19	**35,844**	131,436
Asset retirement obligations	20	**3,579**	3,579
		39,423	135,015
Net assets		**196,979**	527,075

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Equity			
Share capital	21	**324,552**	324,552
Reserves		**(129,003)**	222,630
Equity attributable to owners of the Company		**195,549**	547,182
Non-controlling interests		**1,430**	(20,107)
Total equity		**196,979**	527,075

The consolidated financial statements on page 29 to 77 were approved and authorised for issue by the Board of Directors on 28 February 2018 and are signed on its behalf by:

Tang Yau Sing
Executive Director

Cheung Kam Shing, Terry
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company								
	Share capital	Share premium	Treasury shares reserve	Capital reserve	Share option reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000* (*note 23*)	*HK$'000* (*note 23*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1 January 2017	**324,552**	**2,222,586**	**(10,556)**	**403,851**	**41,919**	**(2,435,170)**	**547,182**	**(20,107)**	**527,075**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(351,633)**	**(351,633)**	**(36)**	**(351,669)**
Share Option lapsed	**–**	**–**	**–**	**–**	**(12,965)**	**12,965**	**–**	**–**	**–**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**21,573**	**21,573**
At 31 December 2017	**324,552**	**2,222,586**	**(10,556)**	**403,851**	**28,954**	**(2,773,838)**	**195,549**	**1,430**	**196,979**

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
(Loss)/profit before tax		**(447,259)**	182,766
Adjustments for:			
Finance costs		**6,194**	2,615
Gain on disposal of property, plant and equipment		**(199)**	(13)
Interest income		**(5)**	(3)
Loss on disposal of subsidiaries		**21,585**	–
Depreciation, depletion and amortisation		**387**	475
Impairment loss/(reversal of impairment loss) on intangible assets		**344,545**	(202,905)
Impairment loss on property, plant and equipment		**49,861**	–
Impairment loss on other receivables		**1,680**	–
Waiver of other payables and accruals		**–**	(7,625)
Operating loss before working capital changes		**(23,211)**	(24,690)
Increase in trade receivables		**(2,541)**	–
Increase in trade payables		**5,993**	–
(Increase)/decrease in prepayments, deposits and other receivables		**(3,489)**	2,482
Increase/(decrease) in other payables and accruals		**3,582**	(606)
Cash used in operations and net cash used in operating activities		**(19,666)**	(22,814)
Cash flows from investing activities			
Interest received		**5**	3
Purchase of property, plant and equipment		**(25)**	(311)
Proceeds from disposal of property, plant and equipment		**360**	13
Net cash outflow from disposal of subsidiaries		**(12)**	–
Net cash generated/(used in) from investing activities		**328**	(295)
Cash flows from financing activities			
Proceeds from unsecured loans		**78,300**	33,000
Repayment of unsecured loans		**(53,000)**	(20,000)
Interest paid		**(6,194)**	(2,615)
Net cash generated from financing activities		**19,106**	10,385
Net decrease in cash and cash equivalents		**(232)**	(12,724)
Cash and cash equivalents at beginning of year		**4,735**	17,459
Cash and cash equivalents at end of year, represented by bank balances and cash	15	**4,503**	4,735

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 Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, 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 consolidated financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 28 February 2018.

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 consolidated financial statements have been prepared on the historical cost basis.

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.

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.

Going concern basis

(i) The Group reported a net loss attributable to the owners of the Company of approximately HK$352 million for the year ended 31 December 2017 and as at 31 December 2017, the Group had net current liabilities of approximately HK$58 million together with total borrowings amounting to approximately HK$58 million classified as current liabilities, and with balance of cash and cash equivalents amounting to approximately HK$5 million only.

2.1 BASIS OF PREPARATION *(Continued)*

Going concern basis *(Continued)*

(ii) On 24 January 2018, the Company entered into a new loan agreement of HK$30 million with a lender. The loan will fall due on 24 July 2018. Approximately HK$28 million of the loan was used for repayment of the loans outstanding as at 31 December 2017. The unused balance of the new loan of approximately HK$2 million together with the cash and cash equivalents brought forward of approximately HK$5 million may not be enough to cover the Company's daily operating expenses and the other outstanding loan amounts when they fall due. Furthermore, HK$3 million of the loan balance as at 31 December 2017 falling due for repayment on 25 January 2018 is still outstanding up to the date of these consolidated financial statements.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

As stated in the recent announcements published by the Company, the Company have finalized the terms of a share subscription agreement with a third party and intends to carry out into effect such agreement after the end of the black out period of the results announcement for the year ended 31 December 2017. The aforesaid agreement together with other finance measures and plans such as renewal of unsecured loans and development project on oil and gas business, provide the basis under which the directors of the Company considered that going concern basis is appropriate for preparing the consolidated financial statements, the validity of which depends on the outcome of the aforesaid agreement and the successful implementation of those finance measures and plans, which are subject to multiple uncertainties. Should the Group fail to successfully implementing it's plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year 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.

Amendments to HKAS 7 Statement of cash flows – Disclosure initiative

Amendments to HKAS 7 require the Group to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and amendments to HKFRSs and interpretations issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretations that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 9 "Financial Instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has undertaken a detailed assessment of the classification and measurement of financial assets and does not consider the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The impacts on the Group's financial results and position upon the adoption of HKFRS 9 are not expected to be material. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2018.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers"

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

(i) Identify the contract(s) with a customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to each performance obligation; and

(v) Recognise revenue when each performance obligation is satisfied.

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group had assessed the impact of adopting HKFRS 15 on the Group's consolidated financial statements, by identifying the separate performance obligations in the contracts with customers and allocating the transactions price, and considered the new guidance does not significantly affect the timing of the Group's revenue recognition.

Other than HKFRS 9 "Financial Instrument" and HKFRS 15 "Revenue from Contracts with Customers", management is in the process of making an assessment on the impact of these new standards and amendments to existing standards and considered on a preliminary basis that, these new standards and amendment to existing standards will not result in any substantive changes of the Group's existing accounting policies and presentation of the consolidated financial statements.

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

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 *(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; and

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

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.

Trade and other payables

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

Unsecured loan

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Revenue from trading of oil-related products is recognised upon transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

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 (i) exploring, exploiting and sales of oil and natural gas ("Oil and gas sales"), and (ii) trading of oil-related products. The procuring, processing and sales of plastic recycling materials were regarded as discontinued operation.

2017

	Oil and gas sales *HK$'000*	Trading of oil-related products *HK$'000*	Total *HK$'000*
Segment revenue	395	35,199	35,594
Segment (loss)/profit	(395,721)	35	(395,686)
Unallocated income			1,686
Unallocated expenses			(25,480)
Loss on disposal of subsidiaries			(21,585)
Finance costs			(6,194)
Loss before tax			(447,259)
Income tax credit			95,590
Loss for the year			(351,669)
Segment assets	297,991	4,058	302,049
Unallocated assets			5,699
Total assets			307,748
Segment liabilities	5,568	5,993	11,561
Deferred tax liabilities			35,844
Unallocated liabilities			63,364
Total liabilities			110,769
Impairment loss on intangible assets	344,545	–	
Impairment loss on property, plant and equipment	49,861	–	
Interest income	5	–	
Depreciation, depletion and amortisation	279	–	

4. SEGMENT INFORMATION *(Continued)*

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)*

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	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
Hong Kong (place of domicile)	**35,199**	–	**33**	278
United States of America ("USA")	**395**	518	**294,005**	688,689
	35,594	518	**294,038**	688,967

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 two (2016: three) customers with whom transactions have exceeded 10% of the Group's total turnover. Revenue from sales to these two customers amounted to HK$15,078,000 and HK$13,663,000 respectively which related to trading of oil-related products segment (2016: sales to those three customers amounted to HK$366,000, HK$84,000 and HK$68,000 respectively which related to oil and gas sales segment).

5. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Interest expenses on unsecured loans	**6,194**	2,615

6. (LOSS)/PROFIT BEFORE TAX

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

	2017 HK$'000	2016 HK$'000
Continuing operations		
Depreciation, depletion and amortisation	**387**	475
Operating lease charges in respect of land and buildings	**2,451**	3,530
Auditors' remuneration:		
– Annual audit	**780**	750
– Other assurance services	**150**	100
Impairment loss/(reversal of impairment loss) on intangible assets	**344,545**	(202,905)
Impairment loss on property, plant and equipment	**49,861**	–
Impairment loss on other receivables	**1,680**	–
Gain on disposal of property, plant and equipment	**(199)**	(13)
Loss on disposal of subsidiaries	**21,585**	–
Employee benefit expense, including director emoluments:		
– Salaries and allowances	**14,852**	11,876
– Retirement scheme contributions	**200**	215

7. INCOME TAX (CREDIT)/EXPENSE

Hong Kong Profits Tax is arrived at 16.5% on the estimated assessable profits for the year (2016: No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the year). Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the country in which the Group operates.

Tax rate adopted to measure the deferred tax balances in reduced to 21% to reflect the reduction in the US federal tax rate from 2018.

	2017 HK$'000	2016 HK$'000
Continuing operations		
Current tax expense	**2**	–
Deferred tax (credit)/expense	**(95,592)**	48,450
	(95,590)	48,450

7. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

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

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
(Loss)/profit before tax	**(447,259)**	183,535
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(78,579)**	45,709
Tax effect of non-taxable revenue	**(25)**	(875)
Tax effect of non-deductible expenses	**40**	2,020
Tax effect of tax losses not recognised	**17,028**	1,618
Tax effect of unrecognised temporary differences	**10**	(22)
Tax relief for the year	**(7)**	–
Effect of change in tax rate	**(34,057)**	–
Income tax (credit)/expense	**(95,590)**	48,450
Discontinued operation		
Loss before tax	**–**	(769)
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**–**	(127)
Tax effect of non-deductible expenses	**–**	127
Income tax expense	**–**	–

8. DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

9. (LOSS)/EARNINGS PER SHARE

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

Continuing and discontinued operations

	2017	2016
(Loss)/profit for the year attributable to owners of the Company *(HK$'000)*	**(351,633)**	132,075
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic (loss)/earnings per share *(HK cents)*	**(10.83)**	4.07

Continuing operations

	2017	2016
(Loss)/profit for the year attributable to owners of the Company *(HK$'000)*	**(351,633)**	132,075
Less: Loss for the year attributable to owners of the Company from discontinued operation *(HK$'000)*	**–**	(769)
(Loss)/profit for the year attributable to owners of the Company from continuing operations *(HK$'000)*	**(351,633)**	132,844
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic (loss)/earnings per share *(HK cents)*	**(10.83)**	4.09

Discontinued operation

	2017	2016
Loss for the year attributable to owners of the Company from discontinued operation *(HK$'000)*	**–**	(769)
Weighted average number of ordinary shares in issue *('000)*	**3,245,520**	3,245,520
Basic loss per share *(HK cents)*	**–**	(0.0237)

During the years ended 31 December 2017 and 31 December 2016, diluted (loss)/earnings per share equals to basic (loss)/earnings per share as the potential ordinary shares were not included in the calculation of diluted (loss)/earnings per share because they are anti-dilutive.

10. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

2017

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Fan Amy Lizhen	–	2,000	18	2,018
Tang Yau Sing	–	1,320	18	1,338
Cheung Kam Shing, Terry	–	1,320	18	1,338
Cheung Ka Chun, David (appointed on 16 August 2017)	–	572	8	580
Liu Ju (resigned on 16 August 2017)	–	700	–	700
Wong Hiu Tung (resigned on 24 August 2017) *(note)*	–	2,702	12	2,714
Zhou Li Yang (retired on 16 May 2017)	–	790	8	798
Independent non-executive directors:				
Lum Pak Sum (appointed on 6 December 2017)	21	–	–	21
Chan Sung Wai (appointed on 6 December 2017)	21	–	–	21
Koo Luen Bong (appointed on 16 August 2017)	78	–	–	78
Chau Wing Man (appointed on 16 August 2017)	78	–	–	78
Wang Jing Ting (appointed on 9 August 2017)	119	–	–	119
Lam Kwan	300	–	–	300
Chan Kwan Pak	300	–	–	300
Yuen Sau Ying, Christine (retired on 16 May 2017)	113	–	–	113
	1,030	9,404	82	10,516

Note:

HK$2,001,500 were paid by the Group as compensation for loss of office during the year ended 31 December 2017.

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

(a) Directors' emoluments *(Continued)*

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

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 year ended 31 December 2016.

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

(b) Five highest paid individuals

During the year ended 31 December 2017, the five highest paid employees in the Group were the Directors, details of whose emoluments, are disclosed in Note 10(a).

During the year ended 31 December 2016, out of the five individuals with the highest emoluments in the Group, three were directors of the Company whose emoluments, details are set out in note (a) above. The emoluments of the remaining two individual for the year ended 31 December 2016 were as follows:

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

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

11. 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 2016	89,519	85	12,163	1,824	103,591
Additions	–	–	5	306	311
Disposal	–	–	–	(446)	(446)
At 31 December 2016 and 1 January 2017	89,519	85	12,168	1,684	103,456
Additions	–	–	25	–	25
Disposal	–	–	–	(1,684)	(1,684)
Disposal of subsidiaries	–	–	(11,579)	–	(11,579)
At 31 December 2017	**89,519**	**85**	**614**	**–**	**90,218**
Accumulated depreciation					
At 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 and 1 January 2017	1,437	85	12,105	1,462	15,089
Charge for the year	224	–	47	61	332
Impairment for the year	49,861	–	–	–	49,861
Eliminated on disposal	–	–	–	(1,523)	(1,523)
Disposal of subsidiaries	–	–	(11,579)	–	(11,579)
At 31 December 2017	**51,522**	**85**	**573**	**–**	**52,180**
Net book value					
At 31 December 2017	**37,997**	**–**	**41**	**–**	**38,038**
At 31 December 2016	88,082	–	63	222	88,367

12. INTANGIBLE ASSETS

	Oil and gas processing rights HK$'000
Cost	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	2,818,920
Accumulated amortisation and impairment	
At 1 January 2016	2,421,120
Amortisation for the year	105
Reversal of impairment for the year	(202,905)
At 31 December 2016 and 1 January 2017	2,218,320
Amortisation for the year	55
Impairment for the year	344,545
At 31 December 2017	**2,562,920**
Net carrying amounts	
At 31 December 2017	**256,000**
At 31 December 2016	600,600

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

For the purposes of impairment testing, property, plant and equipment set out in note 11 and intangible assets set out in note 12 have been allocated to the Oil and Gas segment of the Group, which is an individual CGU.

The recoverable amount for this CGU 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 32 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 15.18% (2016: 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 the discount rate as compared with previous years, the management of the Company is of the opinion that its carrying amount is higher than the recoverable amount as at 31 December 2017, accordingly an impairment loss on the intangible assets of approximately HK$344,545,000 and an impairment loss on the Oil and gas properties under property plant and equipment of approximately HK$49,861,000 (2016: reversal of impairment loss of the intangible assets of HK$202,905,000) was recognized.

13. TRADE RECEIVABLES

All trade receivables from trading of oil-related products segment with an ageing period within 30 days at the year end are not past due and are expected to be recovered within one year. Receivables that were neither past due nor impaired related to a wide range of customer for whom there was no recent history of default.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	**4,488**	2,501
Rental and other deposits paid *(note (c))*	**1,530**	495
Deposit paid for acquiring Russia oil fields *(note (a))*	**69,929**	69,929
Trade deposits paid *(note (b))*	**28,396**	28,396
Other receivables *(note (d))*	**2,328**	1,861
	106,671	103,182
Less: impairment loss on other receivables *(note (a) and (d))*	**(71,609)**	(69,929)
Less: impairment loss on trade deposits paid *(note (b))*	**(28,396)**	(28,396)
	6,666	4,857

Notes:

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

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

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

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

(c) The amount of rental deposits expected to be recovered or recognised as expense after more than one year is HK$1,081,000 (2016: HK$402,000).

(d) Included in the above provision for impairment of other receivables is a provision of HK$1,680,000 for receivables from an individual that was in default in principal payments and the amount is not expected to be recovered in the foreseeable future.

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

15. BANK BALANCES AND CASH

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

16. TRADE PAYABLES

All trade payables are from trading of oil-related products segment with an ageing period within 30 days at the year end and are expected to be settled within one year.

17. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	*HK$'000*
Accruals	**3,325**	1,398
Interests payables	**1,736**	215
Other payables	**1,990**	1,856
	7,051	3,468

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.

18. UNSECURED LOANS

	HK$'000
At 1 January 2016	20,000
Proceeds from unsecured loans	33,000
Repayment of unsecured loans	(20,000)
At 31 December 2016 and 1 January 2017	33,000
Proceeds from unsecured loans	78,300
Repayment of unsecured loans	(53,000)
At 31 December 2017	58,300

Unsecured loans carried interest at range between 8% to 13% per annum and repayable within one year (2016: interest at range between 8% to 10% per annum and repayable within one year).

19. DEFERRED TAX

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

	Fair value adjustment on intangible assets *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2016	97,461	(14,475)	82,986
Recognised in profit or loss	49,686	(1,236)	48,450
At 31 December 2016 and 1 January 2017	147,147	(15,711)	131,436
Recognised in profit or loss	(101,872)	6,280	(95,592)
At 31 December 2017	**45,275**	**(9,431)**	**35,844**

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

	2017 ***HK$'000***	2016 *HK$'000*
Deferred tax assets	**(9,431)**	(15,711)
Deferred tax liabilities	**45,275**	147,147
Net deferred tax liabilities	**35,844**	131,436

At the end of the reporting period, the Group has unused tax losses of approximately HK$44,084,000 (2016: HK$40,020,000) 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.

20. ASSET RETIREMENT OBLIGATIONS

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	**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.

21. SHARE CAPITAL

	2017 Number of shares '000	2017 HK$'000	2016 Number of shares '000	2016 HK$'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 and 31 December	**3,245,520**	**324,552**	3,245,520	324,552

22. 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:

	2017 Number '000	2017 Weighted average exercise price HK$	2016 Number '000	2016 Weighted average exercise price HK$
Outstanding at 1 January	**149,710**	**0.7093**	150,210	0.7087
Lapsed	**(47,120)**	**0.6308**	(500)	0.5200
Outstanding at 31 December	**102,590**	**0.7453**	149,710	0.7093
Exercisable at 31 December	**102,590**	**0.7453**	149,710	0.7093

22. 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 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2017	Exercise price per share option *HK$*
Directors								
Wong Kwan	5 August 2009	5 August 2009– 14 July 2019	3,600,000	–	–	–	3,600,000	0.4666
	9 June 2010	9 June 2010– 14 July 2019	6,000,000	–	–	–	6,000,000	0.9416
	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	–	–	(31,000,000)	27,100,000	
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	–	–	(3,000,000)	3,000,000	0.52
Employees	9 June 2010	9 June 2010– 14 July 2019	24,810,000	–	–	(720,000)	24,090,000	0.9416
	27 June 2011	27 June 2011– 14 July 2019	6,000,000	–	–	(3,000,000)	3,000,000	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	30,400,000	–	–	(7,200,000)	23,200,000	0.52
			91,610,000	–	–	(16,120,000)	75,490,000	
			149,710,000	–	–	(47,120,000)	102,590,000	

The share options outstanding at 31 December 2017 had a weighted average remaining contractual life of 1.56 years (2016: 2.56 years).

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

23. 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 2017 the Group held 4,872,000 ordinary shares of the Company (31 December 2016: 4,872,000 ordinary shares).

Company

	Share premium	Contributed surplus	Share option reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1 January 2017	2,223,486	45,348	41,919	(2,241,098)	69,655
Total comprehensive loss for the year	–	–	–	(196,768)	(196,768)
Share options lapsed	–	–	(12,965)	12,965	–
At 31 December 2017	**2,223,486**	**45,348**	**28,954**	**(2,424,901)**	**(127,113)**

23. 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.

No Company's reserves were available for distribution to shareholders as at 31 December 2017 (2016: HK$27,736,000).

24. DISPOSAL OF SUBSIDIARIES

Loss on disposal of Joyful Delight Limited

On 30 June 2017, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party to dispose of the 100% of issued share capital of Joyful Delight Limited and its subsidiaries ("Joyful Group") at the consideration of HK$1,000. Joyful Delight Limited was principally engaged in investment holding. The transaction was completed on 1 July 2017. The assets and liabilities of Joyful Group at disposal date are disclosed as below:

	2017
	HK$'000
Net assets disposed of:	
– Cash and bank balances	**13**
– Amount due to the Group	**(58,657)**
	(58,644)
Non- controlling interests	**21,573**
	(37,071)
Amount due to the Group disposed of	**58,657**
Loss on disposal of Joyful Group	**(21,585)**
Satisfied by:	
Cash	**1**

24. DISPOSAL OF SUBSIDIARIES *(Continued)*

Loss on disposal of Joyful Delight Limited *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a Joyful Group is as follows:

	2017
	HK$'000
Cash consideration	**1**
Cash and bank balances disposed of	**(13)**
Net outflow of cash and cash equivalents in respect of the disposal of Joyful Group	**(12)**

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 2017, the total future minimum lease payments payable by the Group under non-cancellable operating leases in respect of land and buildings are as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**3,654**	2,523
In the second to fifth years	**6,850**	1,808
	10,504	4,331

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:

Key management personnel remuneration

	2017	2016
	HK$'000	*HK$'000*
Key management personnel:		
— Short term employee benefits	**10,434**	6,811
— Pension scheme contribution	**82**	51
	10,516	6,862

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 and interest rate 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

	2017	2016
	HK$'000	*HK$'000*
Loans and receivables:		
— Trade receivables	**2,541**	–
— Deposits and other receivables	**2,178**	2,356
— Bank balances and cash	**4,503**	4,735
	9,222	7,091

(ii) Financial liabilities

	2017	2016
	HK$'000	*HK$'000*
At amortised cost:		
— Trade payables	**5,993**	–
— Other payables and accruals	**7,051**	3,469
— Unsecured loans	**58,300**	33,000
	71,344	36,469

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 of the oil and gas business 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.

In respect of trade receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, 77% (2016: Nil) of the total trade receivables was due from the group's largest customer within the trading of oil-related products segment.

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.

27.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and an availability of funding through the ability to close-out market positions. Details of going concern basis set out in note 2.1.

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

27.5 Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the end of the reporting period) and the earliest date the company can be required to pay.

		2017	
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	HK$'000	***HK$'000***	***HK$'000***
Trade payables	**5,993**	**5,993**	**5,993**
Other payables and accruals	**7,051**	**7,051**	**7,051**
Unsecured loans	**58,300**	**61,442**	**61,442**
	71,344	**74,486**	**74,486**

		2016	
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*
Other payables and accruals	3,469	3,469	3,469
Unsecured loans	33,000	34,570	34,570
	36,469	38,039	38,039

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.

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 *HK$'000*	2016 *HK$'000*
Non-current assets		
Interests in subsidiaries	**305,012**	466,344
Current assets		
Prepayment, deposits and other receivables	**2,072**	3,829
Bank balances and cash	**1,325**	2,911
	3,397	6,740
Current liabilities		
Other payables and accruals	**4,675**	1,364
Unsecured loans	**58,300**	33,000
	62,975	34,364
Net current liabilities	**(59,578)**	(27,624)
Total assets less current liabilities	**245,434**	438,720
Non-current liabilities		
Amounts due to subsidiaries	**47,995**	44,513
Net assets	**197,439**	394,207
Equity		
Share capital	**324,552**	324,552
Reserves	**(127,113)**	69,655
Total equity	**197,439**	394,207

Tang Yau Sing
Executive Director

Cheung Kam Shing, Terry
Executive Director

30. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2017 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
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
Jet United Development Limited	Hong Kong	HK$1	100%	Trading of oil-related products

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.

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

	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Reclassified)	(Restated)	(Restated)	(Restated)
Turnover	**35,594**	518	889	97,367	408,413
(Loss)/profit before tax	**(447,259)**	182,766	(1,955,366)	(125,960)	(166,597)
Income tax credit/(expense)	**95,590**	(48,450)	469,166	1,979	3,983
(Loss)/profit for the year	**(351,669)**	134,316	(1,486,200)	(123,981)	(162,614)
(Loss)/profit for the year attributable to:					
Owners of the Company					
– from continuing operations	**(351,633)**	132,844	(1,461,623)	(119,954)	(155,259)
– from discontinued operations	–	(769)	(25,954)	(3,171)	(6,168)
Non-controlling interests					
– from continuing operations	**(36)**	2,241	400	413	(761)
– from discontinued operations	–	–	977	(1,269)	(426)
	(351,669)	134,316	(1,486,200)	(123,981)	(162,614)
Total assets	**307,748**	698,559	511,024	2,453,087	2,597,555
Total liabilities	**(110,769)**	(171,484)	(118,265)	(576,208)	(577,407)
Net assets	**196,979**	527,075	392,759	1,876,879	2,020,148