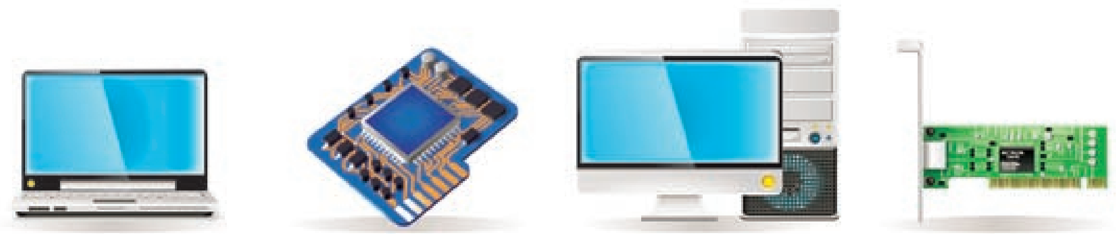
SSP 南海石油

Growing with South Sea Petroleum



South Sea Petroleum Holdings Limited

Annual Report 2009

STOCK CODE : 76

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Zhou Ling, *Executive Director and Chairman*
Lee Sin Pyung, *Executive Director and Managing Director*
Zhang Xue, *Executive Director*
Lu Ren Jie, *Independent Non-Executive Director*
Chai Woon Chew, *Independent Non-Executive Director*
Ho Choi Chiu, *Independent Non-Executive Director*

COMPANY SECRETARY

Lam Lee Yu

REGISTERED OFFICE

Room 6605, 66/F, The Centre
99 Queen's Road Central
Hong Kong

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank

AUDITORS

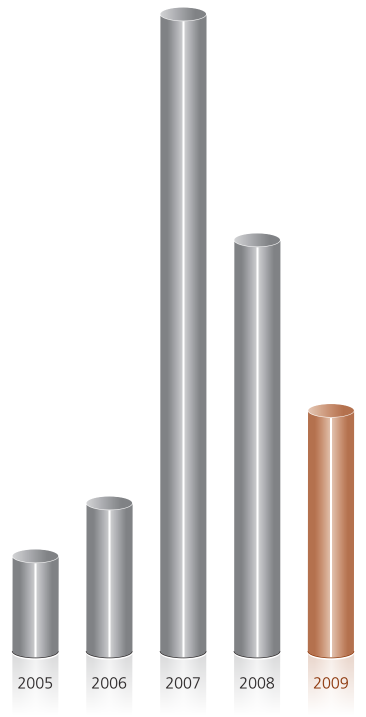
JP Union & Co.

FINANCIAL HIGHLIGHTS

	2009 **US$'000**	2008 US$'000
Turnover	**38,446**	53,767
Loss from Operating Activities	**(69,245)**	(100,083)
Net Loss Attributable to Shareholders	**(69,304)**	(98,297)
Funds Attributable to Equity Holders of the Company	**116,944**	181,497
Basic Loss Per Share (US Cents)	**(0.632)**	(0.896)

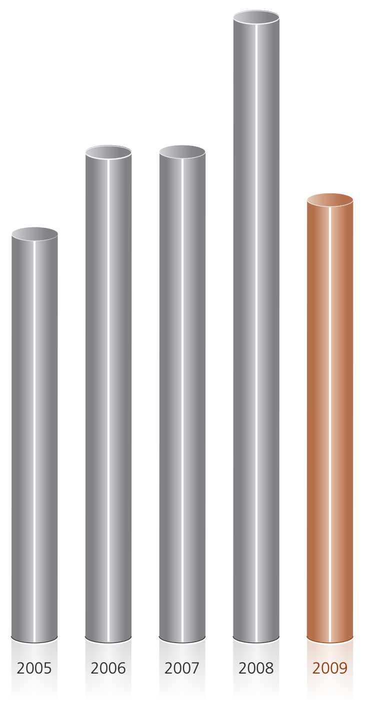
FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

US$'000



TURNOVER

US$'000



DIRECTORS' BUSINESS REVIEW

(In this review, all the "$" refers to the legal currency of the United States of America, unless otherwise specified)

For the year ended 31 December 2009, the Group's turnover was $38.446 million, as compared to $53.767 million for fiscal 2008. The net loss attributable to shareholders was $69.304 million, or $0.632 cents per share, as compared to net loss of $98.297 million, or $0.896 cents per share, for the same period of 2008. On the balance sheet, the total assets of the Group as at 31 December 2009 were $104.176 million, as compared $197.918 million at 31 December 2008, and the net assets of the Group were $119.767 million at 31 December 2009, as compared $185.854 million at 31 December 2008.

BUSINESS DEVELOPMENT

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil and mining, such as graphite, in Asian countries. The second line of business is to provide electronic manufacturing services in the United Kingdom.

Through its wholly-owned subsidiary, Kalrez Petroleum (Seram) Limited, the Company operates oilfields in Indonesia under the Bula Petroleum Production Sharing Contract ("Bula PSC"), which the Group entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will expire in 2019.

Through its majority owned subsidiary, Heilongjiang Beifang Graphite Co., Ltd., the Company is engaged in the business of exploration, production and sale of graphite products in Luobei, Heilongjiang Province of China.

Through its majority owned subsidiary Axiom Manufacturing Services Ltd. ("Axiom") in the United Kingdom, the Company provides electronics manufacturing services in the business-to-business or business-to-industry sectors and to original equipment manufacturers in the following market sectors:

- Medical devices
- Industrial control equipment
- Domestic appliances
- Computer and related products
- Testing and instrumentation products
- Ministry of Defense products

As a result of efficiently managing costs and assets, Axiom is able to offer its customers an outsourcing solution that represents a lower total cost of acquisition than that typically provided by the OEM's own manufacturing operation. OEMs sign contracts with Axiom to build their products or to obtain services related to product development and prototyping, volume manufacturing or aftermarket support.

In many cases Axiom builds products that carry the brand name of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis whereby the Company purchases customer-specific components from suppliers, assembles the components onto printed circuit boards, performs post production testing and provide the customer with production process and test documentation. Axiom also provides manufacturing services on a consignment basis whereby material is provided by the customer for Axiom to build into finished printed circuit boards or products. Axiom offers its customers flexible just-in-time delivery programs, which allow product shipments to be closely coordinated with the customers' inventory requirements. Additionally Axiom completes the assembly of final products for its customers by integrating the manufactured printed circuit boards into the customers' finished products. Most of Axiom's customers are located within the United Kingdom.

DIRECTORS' BUSINESS REVIEW

(In this review, all the "$" refers to the legal currency of the United States of America, unless otherwise specified)

RESULTS OF OPERATIONS

For the year ended 31 December 2009, the Group's turnover was $38.446 million, a decrease of $15.32 million, or 28.5%, as compared to $53.77 million for the year of 2008. For the fiscal 2009, the turnover of the Group's crude oil operation was $9.238 million as compared to $17.23 million in 2008. The decrease in oil revenue was primarily due to declining oil prices during this period. For the same period the Group's graphite operation generated revenues of $6.915 million, an increase of $0.96 million, or 16.1%, as compared to $5.96 million in 2008. The turnover of the Group's electronics manufacturing service operation in 2009 was $22.27 million, a decrease of $8.28 million, or 27.1%, as compared to $30.55 million for the same period of the prior year. The decrease in sales was largely due to the financial decline within the United Kingdom, and customers were being more cautious and keeping their order books to a minimum.

At the year end, an impairment loss of oil properties of $43.56 million, an impairment loss of project advance of $9.74 million and an impairment loss of other receivable of $11.21 million were recognized. Although the management has tried to recover the costs and expenses by leasing out certain oil properties, as a conservative approach, such amounts were nearly fully impaired, such impairments are attributable to the exploratory activities that did not discover hydrocarbon deposits which would warrant commercial exploitation.

LIQUIDITY AND CAPITAL RESOURCES

The Group's operations are primarily funded by cash flows from its operations, and to a certain extent, from issuance of the Company's ordinary shares.

At 31 December 2009, the Group's cash and cash equivalents were $19.81 million, as compared to $44.70 million as at 31 December 2008. For the year ended 31 December 2009, the Group's operating activities used net cash of $23.20 million. During the same period, the Group's investing activities generated net cash of $0.5 million, primarily attributable to sale of available-for-sale investments of $3.32 million. For the year of 2009, the Group's financing activities used net cash of $3.016 million.

On 4 August 2009, the Company contracted to issue convertible debenture for an aggregate amount of HK$171 million with 6% interest and due 2012. The net proceeds are used as working capital reserve to increase the Group's oil and graphite production.

On 9 December 2009, the Company contracted to issue convertible debenture for an aggregate amount of US$100 million with 6% interest and due 2015. The net proceeds are intended to be used as capital reserve to increase graphite ore reserve and expand graphite production capacity in China.

At 31 December 2009, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

DIRECTORS' BUSINESS REVIEW

(In this review, all the "$" refers to the legal currency of the United States of America, unless otherwise specified)

OFF BALANCE SHEET ARRANGEMENTS

At 31 December 2009, the Group had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group had a total of approximately 575 full-time employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

From time to time, the Group may also use the services of independent consultants and contractors to perform various professional services. The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility.

MATERIAL UNCERTAINTIES

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

FOREIGN EXCHANGE EXPOSURE

The Group's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. During the year under review, the Group has not engaged in any hedging activities. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flows.

LEGAL PROCEEDINGS

The Group is not aware of any pending or threatened legal proceeding that, if determined in a manner adverse to us, could have a material adverse effect on the business and operations of the Group.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the unaudited Interim Accounts for the year of 2009.

DIRECTORS' BUSINESS REVIEW

(In this review, all the "$" refers to the legal currency of the United States of America, unless otherwise specified)

CHANGE IN EXECUTIVE DIRECTOR AND AUTHORIZED REPRESENTATIVE

On 28 August 2009, the board of directors of the Company announced that Ms. Zhang Xue had been appointed as an executive director and the Company's authorized representative with effect from 1 September 2009. Ms. Sit Mei resigned, due to her personal reason, as the executive director of the Company with effect from 1 October 2009.

As at the date of this report, the board of directors comprised of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Zhang Xue being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.

PUBLICATION OF RESULTS

This report will be published in due course on website of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and website of the Company (http://finance.thestandard.com.hk/en/comp_reports.asp?code=00076). The Company's Annual Report 2009 will also be dispatched to all shareholders of the Company before 30 April 2010.

On behalf of the Board

Zhou Ling
Chairman

Hong Kong, 21 April 2010

REPORT OF THE DIRECTORS

The directors are pleased to present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009, which were approved by the Board of Directors of the Company on 21 April 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of Company and its subsidiaries are set out in note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 24.

For the year ended 31 December 2009, the Company has not declared or paid any dividend on its ordinary shares (2008: Nil). The Company currently intends to retain all available funds for use in the operations and expansion of its business.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 29 and note 33 to the financial statements, respectively.

CHARITABLE DONATIONS

The Group made no charitable donations during the year (2008: US$40,000).

FIXED ASSETS

During the year the Group's fixed assets increased to US$31.960 million from US$63.917 million at the end of 2008.

Details of the movements during the year in the fixed assets of the Group and the Company are set out in note 16 to the financial statements.

CONVERTIBLE DEBENTURES

Details of the convertible debentures are set out in note 30 to the financial statements.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2009 (2008: Nil).

SHARE CAPITAL

During the year, no ordinary shares were issued by the Company. Details of movements in the share capital of the Company are set out in note 31 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS AND SERVICE CONTRACTS

The Board of Directors of the Company currently comprises six (6) directors, whose biographical information is as below:

Zhou Ling, age of 60, has been the Chairman of the Board of Directors of the Company since August 2003. Mr. Zhou also serves president of Fortune World Publishing Co., Ltd., and president of Shen-Shen Venture Capital Investment Co., Ltd. in China.

Lee Sin Pyung, age of 46, has been the Company's Managing Director since 2002. Prior to her joining the company, Ms. Lee had worked for a number of multi-international companies, and has experience and exposure to international business.

Zhang Xue, age of 32, has been the Company's Director since 2009. She obtained a bachelor degree in Accountancy from Qingdao University in 1996. From 2001 to 2007, Ms. Zhang was employed as Account Manager in Beifang Mining Group Limited. Ms. Zhang is the wife of Mr. Song Xiu Qiang ("Mr. Song"), the Vice President of Marketing of the Company.

Lu Ren Jie, age of 75, has been a director of the Company since 1999 and is a member of the audit committee. Mr. Lu has over 40 years experience in petroleum industry and had been responsible for many oilfield projects in China. He was an associate of the World Associate of Production Science and Chairman of Shengli Branch of Society of Petroleum Engineers.

Chai Woon Chew, age of 52, has been the Company's independent director since 2002. From 1994 to the present, Mr. Chai has been a partner at Michael Chai & Co., a law firm in Kuala Lumpur, Malaysia. From 1991 to 1994, he was a legal associate with Shook Lin & Bok, a law firm in Kuala Lumpur, Malaysia. Mr. Chai holds a Bachelor of Laws (Hons) degree from the University of Buckingham and a Bachelor of Science (Hons) degree in Chemistry from University of Surrey, UK. Mr. Chai is qualified as Barrister at Law from Lincoln's Inn, England.

Ho Choi Chiu, age of 78, has been non-executive director of the Company since 2004. Mr. Ho is a practicing Certified Public Accountant and a partner of C.C. Ho & Co., a public accounting firm in Hong Kong. Mr. Ho is a member of the Audit Committee of the Board of Directors of the Company.

Under the existing Articles of Association of the Company, all the directors are subject to retirement by rotation and re-election at the annual general meeting. In accordance with Articles of Association of the Company, Ms. Lee Sin Pyung, Ms. Zhang Xue, and Mr. Chai Woon Chew retire by rotation and, being eligible, offer themselves for re-election at the coming annual general meeting.

No director being proposed for re-election at the forthcoming 2010 annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTOR'S AND CHIEF EXECUTIVES' INTERESTS IN SHARES

Save as disclosed in the section "Substantial Shareholders" as set forth in the Company's Corporate Governance Report stated below, at 31December 2009, none of the directors or chief executives of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the registers maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

All directors have confirmed that they complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules throughout the review period.

DIRECTORS' INTERESTS IN CONTRACTS

During the year under review, none of the Company's directors had a material interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company or any its subsidiaries was a party.

At no time during the year was the Company or any of the Company's subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.

SHARE OPTIONS

As of 31 December 2009, there were no share options outstanding.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Company's directors or chief executives to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTEREST IN SHARES

As at 31 December 2009, no person, other than Mr. Zhou Ling's interests which are disclosed in the "Corporate Governance Report," had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept record by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchases from the five largest suppliers accounted for approximately 37.6% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 12.15% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 81.88% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 24.03% of the Group's total sales.

REPORT OF THE DIRECTORS

None of the directors of the Company, their associates, nor any shareholders which to the best knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest customers and suppliers in 2009 and 2008.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in note 38 to the financial statements.

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Annual Report as required under the Listing Rules.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent Non-Executive Directors to be independent.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 42 to the financial statements.

INDEPENDENT AUDITORS

A resolution for the re-appointment of JP Union & Co., Certified Public Accountants as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Zhou Ling
Chairman

Hong Kong, 21 April 2010

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness. The Board has adopted the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as its own Code on Corporate Governance Practices.

Throughout the year ended 31 December 2009, the Company was in compliance with the Code of Corporate Governance Practices, save for a deviation from code provision A.4.1 of the Code in respect of the service term of independent non-executive directors.

Under code provision A.4.1 of the Code, Non-Executive Directors (including independent non-executive directors) shall be appointed for a specific term and subject to re-election. None of the Company's existing Independent Non-Executive Directors was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all Independent Non-Executive Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

In addition to complying with applicable statutory requirements, the Board of the Directors of the Company expects continually reviewing and enhancing its corporate governance practices in light of local and international best practices.

BOARD OF DIRECTORS

The Board of Directors of the Company determines the overall strategies, monitors and controls operating and financial performance and set appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Company's business is delegated to the executive directors or officers in charge. The functions and power that are so delegated are reviewed periodically by the Board to ensure that they remain appropriate.

Matters reserved for the Board of Directors are those affecting the Group's overall strategic policies, finances and shareholders, including financial statements, dividend policy, significant changes in accounting policies, material contracts and major investments. All board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon the directors' requests.

CORPORATE GOVERNANCE REPORT

The Board currently consists of three executive directors and three independent non-executive directors:

Executive Directors:

Mr. Zhou Ling – *Chairman*
Ms. Lee Sin Pyung – *Managing Director*
Ms. Zhang Xue

Independent Non-executive Directors:

Mr. Lu Ren Jie
Mr. Chai Woon Chew
Mr. Ho Choi Chiu

The Company Secretary is responsible for taking minutes of the Board meetings and draft of which will be circulated to all directors for their review, comments and approval after the meetings. The minute books are kept at the registered office of the Company and will be opened for inspection by the directors upon request. All Directors have access to the advice and service of the Company Secretary who is responsible to the Board for ensuring that the procedures are followed and that all applicable laws and regulations are complied with.

All Directors, other than three Executive Directors, are non-executive and independent of Management. The Board includes three active independent non-executive directors to whom shareholders concerns can be conveyed. The Non-Executive Directors may also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group.

Under the Company's Articles of Association, every Director is subject to retirement by rotation at least once every three years. One-third of the Directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

The details of all Directors, including Chairman, Executive Directors and Independent Non-Executive Directors are given on page 9 of the Company's Report of the Directors.

There was no financial, business, family or other material or relevant relationships among members of the Company's Board of Directors.

During the year ended 31 December 2009, the Board at all times fulfilled the requirements of the Listing Rules relating to the appointment of at least three independent Non-Executive Directors.

Directors ensure that they can give sufficient time and attention to the affairs of the Company. Directors have disclosed to the Company the number and nature of offices held in public companies or organizations and other significant commitments, with the identity of the public companies or organizations and an indication of the time involved.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORD AT BOARD MEETINGS

During the year ended 31 December 2009, four Board meetings were held. All Directors are given an opportunity to include any matter in the agenda for regular Board meetings and are given sufficient time to review the documents and information to be discussed in Board meeting in advance. The following table sets out the details of Directors' attendance at the annual general meeting ("AGM"), board and board committee meetings held in 2009:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	AGM
Mr. Zhou Ling	4	N/A	N/A	1
Ms. Lee Sin Ping	4	N/A	N/A	0
Ms. Zhang Xue (appointed on 1 September 2010)	0	N/A	N/A	N/A
Mr. Lu Ren Jie	4	2	1	0
Mr. Chai Woon Chrew	3	2	1	0
Mr. Ho Choi Chiu	3	2	1	0
Ms. Sit Mei (resigned on 1 October 2009)	4	N/A	N/A	1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code A.2.1 stipulates that the responsibilities between the Chairman and Chief Executive officer should be divided. The Chairman of the Board of the Directors of the Company is Mr. Zhou Lin, and the Managing Director is Ms. Lee Sin Pyung, who is the Chief Executive Officer as described in Appendix 14 of the Listing Rules. The Chairman's and the Managing Director's roles are clearly defined to ensure the independence, accountability and responsibility.

The Chairman takes the lead in formulating overall strategies and policies of the Company; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices; and encourages and facilitates active contribution of Directors in Board activities and constructive relations between Executive and Non-Executive Directors. The Chairman also ensures effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information.

The Managing Director, supported by other Board members and the senior management, is responsible for the day-to-day business of the Company. The Managing Director is also accountable to the board for the implementation of the Company's overall strategies, and coordination of overall business operations.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-Executive Directors. Independent Non-Executive Directors are expect to participate in the activities of the board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal check and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that exercise of the Board authority is within the powers conferred to the board under its Articles of Association and applicable laws, rules and regulations.

The Company has received, from each of the Independent Non-Executive Directors, annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the Independent Non-Executive Directors are independent.

CORPORATE GOVERNANCE REPORT

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Non-executive directors of the Company are not appointed for a specific term but they are subject to the retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. A retiring director is eligible for re-election.

Currently the Company has no Nomination Committee. Directors are responsible for making recommendations to the board for consideration and approval on nominations, appointment of directors, with a view to appoint to the board individuals with those experienced, high caliber individuals. The board formulates the policy, reviews the size, structure and composition of the board, and assesses the independence of its independent non-executive directors in accordance with the criteria prescribed under the Listing Rules and the Code.

BOARD COMMITTEES

The board has established two committees under the board, namely Audit Committee and Remuneration Committee to oversee different aspects of the Group's affairs and to assist in the execution of the board's responsibilities.

AUDIT COMMITTEE

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The Audit Committee consists of all the independent non-executive directors.

For the year ended 31 December 2009, the members of the Audit Committee consisted of:

- Mr. Ho Choi Chiu;
- Mr. Lu Ren Jie; and
- Mr. Chai Woon Chew.

The major roles and functions of the Audit Committee are as follows:

- To be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any issue in relation to the resignation or dismissal of such auditors;

- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- To monitor integrity of financial statements of the Company and the Company's annual report and accounts and interim reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts and half-year reports before submission to the Board, focusing particularly on any significant adjustments resulting from the audit; compliance with accounting standards and compliance with the Listing Rules and other legal requirements in relation to financial reporting;

- To review the Company's financial controls, internal control and risk management systems;

- To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

- To consider any findings or major investigations of internal control matters as delegated by the Board or its own initiative and management response;

CORPORATE GOVERNANCE REPORT

- Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resources and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

- To review the Group's financial and accounting policies and practices;

- To review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response; and

- To ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter.

The Audit Committee held four meetings in 2009. Each committee meeting has supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

During the year under review, the Audit Committee had performed the following work:

- Reviewed the annual results for the year ended 31 December 2009 and the interim results for the six months ended 30 June 2009;

- Discussed with the management of the Company over the completeness, fairness and adequacy of accounting standards and policies of the Group in the preparation of the 2009 interim and annual financial statements;

- Reviewed and discussed with the external auditors over the financial reporting of the Company;

- Recommended to the Board, for the approval by shareholders, of the reappointment of the auditors; and

- Reviewed the internal control procedures of the Group.

Based on these review and discussions, and the report of the external auditors, the Audit Committee recommended to the bard of directors approval of the consolidated financial statements for the year ended 31 December 2009 with the Auditors' Report thereon.

The Committee recommended to the board that the shareholders be asked to re-appoint JP Union & Co., Certified Public Accountants, as the Company's independent auditors for 2010.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company formulated written terms of reference for the Remuneration Committee in accordance with requirements of the Stock Exchange. The Remuneration Committee consists of three independent non-executive directors. During the year, the members of the Remuneration Committee were:

- Mr. Lu Ren Jie;
- Mr. Chai Woon Chew; and
- Mr. Ho Choi Chiu.

The major roles and functions of the Company's Remuneration Committee are, but not limited to, as follows:

- To make recommendation to the Board on matters relating to the Company's policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- To have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, and make recommendations to the Board of the remuneration of non-executive Directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

- To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

- To ensure that no director or any of his associates is involved in deciding his own remuneration; and

- To form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders who are Directors with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, to advise whether such contracts are in the interests of the Company and its shareholders as a whole, and advise shareholders on how to vote.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Companies Ordinance requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the directors are required to select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable; state the reasons for any significant departure from accounting standards; prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any matters uncertainly relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMPLIANCE OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. All directors have confirmed that, following specific enquiry by the Company, they complied with the required standard as set out in the Model Code throughout the year of 2009.

Directors are required to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the board of directors at board meetings and withdraw from the meetings as appropriate. At each financial reporting period, the Company seeks confirmation from directors in respect of any transactions of the Company or its subsidiaries that are related to Directors or their associates.

At 31 December 2009, the directors of the Company held following long position in the ordinary share of the Company:

	Number of Ordinary Shares held		
Name	**Personal Interests**	**Corporate Interests**	**Approximate % of shareholding**
Zhou Ling	–	32,000,000	0.29%

Save as disclosed above, as at 31 December 2009, none of the directors and executive officers of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

All directors have confirmed that throughout the year ended 31 December 2009 they complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS

Remuneration Committee of the Board of Directors comprises three Independent Non-Executive Directors. The Committee was set up to review and approve the remuneration packages of the Directors.

The main elements of the Company's remuneration policies are:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom the Company competes for human resources; and
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The role of non-executive directors has become more complex and demanding due to regulatory changes and the increasing part they play in the governance of listed companies. The Company believes that the level of remuneration for any particular Non-Executive Directors should reflect the likely workload, the scale and complexity of the business and the responsibility involved.

Non-Executive Directors of the Company are paid fees in line with market practice. Executive Directors serving on the board and board committees are not entitled to any directors' fees. The Non-Executive Directors of the Company received no other compensation from the Company except for the fees disclosed above.

EXECUTIVE DIRECTORS' REMUNERATION

In determining the remuneration of Executive Directors, the remuneration data of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced.

The remuneration paid to the Executive Directors of the Company in 2009 was as below:

Name of Executive Directors	**Compensation Per Annum** (US$'000)
Mr. Zhou Ling	67
Ms. Lee Sin Pyung	62
Ms. Sit Mei	43
Ms. Zhang Xue	17

No Executive Directors has a service contract with the Company or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination that exceeds one year's salary and benefits in kind.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

In order to maintain their independence, the Company's independent auditors, JP Union & Co., will not be employed for non-audit work unless it is permissible under the Listing Rules of the Hong Kong Stock Exchange and have been pre-approved by the Audit Committee of the Company.

The following is a summary of the fees billed to us by our principal independent auditors during the financial years ended 31 December 2009 and 2008:

Fee Category	**2009** **US$'000**	2008 US$'000
Audit fees	**183**	142
Other services	**42**	30

The Audit Committee of the Group intends to re-appoint JP Union & Co., Certified Public Accountants as its statutory auditor for the fiscal year 2010. The resolution has been approved by the board of directors and is subject to final approval and authorization by the shareholders at the 2010 annual general meeting.

INTERNAL CONTROLS

The Board has overall responsibility for maintaining a proper and effective system of internal control of the Group. The internal control system includes safeguard of the interest of shareholders and the Group's assets. The Board has delegated to management the implementation of all relevant financial, operational, compliance controls and risk management function without a defined framework. During the year ended 31 December 2009, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. No significant areas of concern that might affect shareholders were identified. The Board shall conduct such review at least once annually.

FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the board and management with an appropriate consideration to materiality. The directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

During the year of 2009, the Company adopted some new and revised Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations which came into effect on 1 January 2009. They are set out in the Significant Accounting Policies of the Notes to the Accounts on page 32 to 33.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on pages 22 to 23.

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. Mr. Zhou Ling, the chairman of the Board and Mr. Ho Choi Chiu, the chairman of the Audit and Remuneration Committees together with the external auditors attended the 2009 annual general meeting of the Company to answer shareholders' questions. The annual report together with the annual general meeting notice are distributed to all the shareholders at least 20 clear business days before the annual general meeting.

By Order of the Board

Lam Lee Yu
Company Secretary

Hong Kong, 21 April 2010

INDEPENDENT AUDITOR'S REPORT

中順聯合會計師事務所
JP UNION & CO., Certified Public Accountants

TO THE SHAREHOLDERS OF SOUTH SEA PETROLEUM HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of South Sea Petroleum Holdings Limited (the "Company") set out on pages 24 to 71, which comprise the consolidated and Company balance sheets as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements gives a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

JP Union & Co.
Certified Public Accountants
Hong Kong, 21 April 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
TURNOVER	*6*	**38,446**	53,767
COST OF SALES		**(29,237)**	(33,951)
		9,209	19,816
Other income	*6*	**2,586**	3,432
General and administrative expenses		**(16,570)**	(14,103)
Drilling and operating expenses		**(6,371)**	(10,426)
Gain (loss) in fair value of financial assets held for trading		**8,318**	(12,318)
Other taxes		**(290)**	(1,884)
Impairment loss on project advance		**(9,739)**	–
Impairment loss on oil properties		**(43,559)**	–
Impairment loss on goodwill		**(1,619)**	–
Impairment loss on other receivables		**(11,210)**	(7,604)
Exploratory dry hole costs		**–**	(76,996)
LOSS FROM OPERATING ACTIVITIES	*7*	**(69,245)**	(100,083)
Finance costs	*8*	**(295)**	(468)
LOSS BEFORE TAX		**(69,540)**	(100,551)
INCOME TAX	*11*	**(276)**	426
LOSS FROM CONTINUING OPERATIONS		**(69,816)**	(100,125)
DISCONTINUED OPERATIONS			
Gain from discontinued operations	*12*	**–**	1,723
LOSS FOR THE YEAR		**(69,816)**	(98,402)
ATTRIBUTABLE TO:			
Equity shareholders of the Company	*13*	**(69,304)**	(98,297)
Minority interests		**(512)**	(105)
		(69,816)	(98,402)
EARNINGS (LOSS) PER SHARE – BASIC (US Cents)	*14*		
From continuing and discontinued operations		**(0.632)**	(0.896)
From continuing operations		**(0.632)**	(0.912)
From discontinued operations		**–**	0.016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	**2009** **US$'000**	2008 US$'000
Loss for the year		**(69,816)**	(98,402)
Other comprehensive income			
Exchange differences		**1,713**	(4,610)
Revaluation of land and buildings		**896**	(1,141)
Total comprehensive income for the year		**(67,207)**	(104,153)
ATTRIBUTABLE TO:			
Equity shareholders of the Company	*13*	**(66,807)**	(103,971)
Minority interests		**(400)**	(182)
		(67,207)	(104,153)

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Notes	2009 US$'000	2008 US$'000
NON-CURRENT ASSETS			
Fixed assets	15		
– Other property, plant and equipment		**19,904**	61,990
– Investment properties		**2,439**	1,927
		22,343	63,917
Goodwill	16	**1,262**	2,523
Project advances for oil field exploration and mining		**–**	9,739
Available-for-sale investments	18	**771**	11,792
Deferred tax assets	19	**168**	414
		24,544	88,385
CURRENT ASSETS			
Cash and bank balances		**21,401**	44,703
Financial assets at fair value held for trading	20	**22,888**	11,376
Tax prepaid		**–**	195
Trade and notes receivables	21	**12,063**	6,841
Other loans receivable	22	**3,149**	2,547
Due from an investee company	23	**–**	3,094
Inventories	24	**6,788**	7,415
Prepayments, deposits and other receivables	25	**49,343**	33,362
		115,632	109,533
CURRENT LIABILITIES			
Trade payables	26	**3,312**	3,010
Other payables and accrued expenses		**2,170**	4,537
Bank loan on discounted debtors		**1,980**	2,429
Bank overdraft		**1,587**	–
Finance lease-current portion	27	**320**	313
Government grant received in advance-current portion	28	**–**	8
		9,369	10,297
NET CURRENT ASSETS		**106,263**	99,236
TOTAL ASSETS LESS CURRENT LIABILITIES		**130,807**	187,621
NON-CURRENT LIABILITIES			
Finance lease	27	**525**	745
Provisions	29	**1,429**	1,022
Convertible debentures	30	**9,087**	–
		11,041	1,767
NET ASSETS		**119,766**	185,854

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Notes	2009 US$'000	2008 US$'000
CAPITAL AND RESERVES			
Share capital	*31*	**109,722**	109,722
Revaluation reserve		**3,843**	2,706
Special capital reserve		**12,037**	12,037
Share premium		**199,947**	199,947
Convertible debenture equity reserve	*30*	**2,253**	–
Translation reserve		**5,918**	4,558
Accumulated losses		**(216,777)**	(147,473)
Total equity attributable to equity shareholders of the Company		**116,943**	181,497
Minority interests		**2,823**	4,357
		119,766	185,854

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

BALANCE SHEET

As at 31 December 2009

	Notes	2009 US$'000	2008 US$'000
NON-CURRENT ASSETS			
Fixed assets	15	**4**	6
Interests in subsidiaries	17	**110,147**	181,018
		110,151	181,024
CURRENT ASSETS			
Cash and bank balances		**2,141**	337
Financial assets at fair value held for trading	20	**2**	2
Prepayments, deposits and other receivables		**13,920**	205
		16,063	544
CURRENT LIABILITIES			
Other payables and accrued expenses		**186**	73
NET CURRENT ASSETS		**15,877**	471
TOTAL ASSETS LESS CURRENT LIABILITIES		**126,028**	181,495
NON-CURRENT LIABILITIES			
Convertible debentures	30	**9,087**	–
		116,941	181,495
CAPITAL AND RESERVES			
Share capital	31	**109,722**	109,722
Reserves	33	**7,219**	71,773
		116,941	181,495

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company									
	Share capital US$'000	Share premium US$'000	Convertible debenture equity reserve US$'000	Special capital reserve US$'000	Translation reserve US$'000	Revaluation reserve US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1.1.2009	**109,722**	**199,947**	**–**	**12,037**	**4,558**	**2,706**	**(147,473)**	**181,497**	**4,357**	**185,854**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(69,304)**	**(69,304)**	**(512)**	**(69,816)**
Other comprehensive income	**–**	**–**	**–**	**–**	**1,360**	**1,137**	**–**	**2,497**	**112**	**2,609**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**1,360**	**1,137**	**(69,304)**	**(66,807)**	**(400)**	**(67,207)**
Acquisition of additional interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,134)**	**(1,134)**
Convertible debenture – equity component	**–**	**–**	**2,253**	**–**	**–**	**–**	**–**	**2,253**	**–**	**2,253**
At 31.12.2009	**109,722**	**199,947**	**2,253**	**12,037**	**5,918**	**3,843**	**(216,777)**	**116,943**	**2,823**	**119,766**

	Attributable to equity holders of the Company									
	Share capital US$'000	Share premium US$'000	Convertible debenture equity reserve US$'000	Special capital reserve US$'000	Translation reserve US$'000	Revaluation reserve US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1.1.2008	109,722	199,947	–	12,037	7,791	5,147	(49,176)	285,468	8,399	293,867
Loss for the year	–	–	–	–	–	–	(98,297)	(98,297)	(105)	(98,402)
Other comprehensive income	–	–	–	–	(3,233)	(2,441)	–	(5,674)	(77)	(5,751)
Total comprehensive income for the year	–	–	–	–	(3,233)	(2,441)	(98,297)	(103,971)	(182)	(104,153)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(3,860)	(3,860)
At 31.12.2008	109,722	199,947	–	12,037	4,558	2,706	(147,473)	181,497	4,357	185,854

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
NET CASH USED IN OPERATING ACTIVITIES	*34(a)*	**(23,201)**	(25,249)
INVESTING ACTIVITIES			
Additions of fixed assets		**(1,520)**	(17,277)
Payment for project advances for oil field and mining exploration		**–**	13
Cash receipts from (payment for) available-for-sale investments		**3,315**	(2,092)
Cash outflow on disposal of subsidiaries	*34(b)*	**–**	(1,339)
Cash outflow on increase in shareholding of subsidiaries		**(1,492)**	–
Interest received		**198**	367
Net cash from (outflow) from investing activities		**501**	(20,328)
FINANCING ACTIVITIES			
Issue of convertible debentures		**11,340**	–
Deposit to financial advisor		**(8,194)**	–
Payment for financial projects		**(5,500)**	–
Capital element of finance lease		**(213)**	(437)
Net proceeds from loan from debtors discounted		**(449)**	(1,535)
Net cash used in financing activities		**(3,016)**	(1,972)
DECREASE IN CASH AND CASH EQUIVALENTS		**(25,716)**	(47,549)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**44,703**	93,260
EFFECT OF FOREIGN EXCHANGE RATES		**827**	(1,008)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**19,814**	44,703
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**21,401**	44,703
Bank overdraft		**(1,587)**	–
		19,814	44,703

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability. Its principal place of business is situated at Room 6605, 66/F, The Centre, 99 Queen's Road Central, Hong Kong. The Company's Securities are listed on the Stock Exchange of Hong Kong Limited for trading (Stock Code: 76).

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil and mining, such as graphite, in Asian countries. The second line of business is to provide electronic manufacturing services in the United Kingdom.

Through its wholly-owned subsidiary, Kalrez Petroleum (Seram) Limited, the Company operates oilfields in Indonesia under the Bula Petroleum Production Sharing Contract ("Bula PSC"), which the Group entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will expire in 2019.

Through its majority owned subsidiary, Heilongjiang Beifang Graphite Co., Ltd., the Company is engaged in the business of exploration, production and sale of graphite products in Luobei, Heilongjiang Province of China.

Through its majority owned subsidiary Axiom Manufacturing Services Ltd. ("Axiom") in the United Kingdom, the Company provides electronics manufacturing services in the business-to-business or business-to-industry sectors and to original equipment manufacturers in the following market sectors:

- Medical devices
- Industrial control equipment
- Domestic appliances
- Computer and related products
- Testing and instrumentation products
- Ministry of Defense products

As a result of efficiently managing costs and assets, Axiom is able to offer its customers an outsourcing solution that represents a lower total cost of acquisition than that typically provided by the OEM's own manufacturing operation. OEMs sign contracts with Axiom to build their products or to obtain services related to product development and prototyping, volume manufacturing or aftermarket support.

In many cases Axiom builds products that carry the brand name of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis whereby the Company purchases customer-specific components from suppliers, assembles the components onto printed circuit boards, performs post production testing and provide the customer with production process and test documentation. Axiom also provides manufacturing services on a consignment basis whereby material is provided by the customer for Axiom to build into finished printed circuit boards or products. Axiom offers its customers flexible just-in-time delivery programs, which allow product shipments to be closely coordinated with the customers' inventory requirements. Additionally Axiom completes the assembly of final products for its customers by integrating the manufactured printed circuit boards into the customers' finished products. Most of Axiom's customers are located within the United Kingdom.

NOTES TO FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

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

The measurement basis in the preparation of the financial statements is historical cost, except for the measurement of land and buildings, investment properties and certain financial instrument, which are measured at revalued amount or fair values, as explained in the accounting policies set out below.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5 to the financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is dealt with in equity directly.

3. APPLICATION OF NEW AND REVISED HKFRSS

The Group adopted the following new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendments)	Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKFRSs (Amendments)	Improvements to HKFRSs 2008

Other than as noted below, the adoption of these new and revised HKFRSs has had no material impact on this financial report.

NOTES TO FINANCIAL STATEMENTS

3. APPLICATION OF NEW AND REVISED HKFRSS (Continued)

HKAS 1 (Revised) Presentation of Financial Statements

As a result of the adoption of HKAS 1 (Revised), details of changes in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognized as part of profit or loss for the year, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 7 (Amendments)

As a result of the adoption of the HKFRS 7 (Amendments), the consolidated financial statements include expanded disclosures about the fair value measurement of the financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

HKFRS 8 Operating Segments

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. On first-time adoption of HKFRS 8 "Operating Segments", the Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 "Segment Reporting".

The Group has not early adopted the new and revised standards, amendments or interpretations that have been issued but not yet effective during the year. The Group is in the process of assessment of the impact of these amendments to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purpose of impairment testing, goodwill is allocated to cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised immediately in profit or loss.

Oil properties

The successful efforts method of accounting is followed for oil exploration and development costs. The initial acquisition costs of oil properties and the costs of drilling and equipping successful exploratory wells are capitalised. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Exploratory drilling costs are capitalised pending determination of proven reserves. The costs of exploration wells classified as unsuccessful and all other exploration costs, as incurred, are charged to the income statement. All development costs are capitalised. Maintenance and repairs are charged to the income statement while renewals and betterments, which extend the economic lives of assets, are capitalised.

Depreciation, depletion and amortisation of oil properties

The capitalised costs of proven oil properties, plant and equipment are depleted/depreciated using the unit of production method based on estimated proven oil reserves.

The capitalised costs of significant unproven oil properties are assessed regularly to determine whether an impairment in value has occurred, in which case such amount is charged to the income statement.

Land and buildings

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed by qualified valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. They are stated in the consolidated balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in profit or loss.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets other than oil properties, freehold land and investment properties are stated at cost less accumulated depreciation and impairment loss, if applicable. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Buildings	10 to 36 years
Machinery and equipment	10% – 20%
Furniture, fittings and computer	14% – 50%
Motor vehicles	10 – 30%

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Construction in progress

Construction in progress includes fixed assets in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of fixed assets when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended uses.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. 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.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Gains or losses on investments held for trading are recognised in profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. 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 costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) *The Group as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

(ii) The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Impairment of tangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Impairment of financial assets other than financial assets at fair value through profit or loss

For unquoted equity securities and current receivables carried at costs, the impairment loss is measured as the difference between the carrying amounts of the financial assets and the estimated future cash flow, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out and weighted average method in different subsidiaries. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

(a) Revenue from sale of goods is recognised when the goods are delivered and title has passed.

(b) Interest income is recognized as it accrues using the effective interest method.

(c) Rental income is recognized on the straight-line basis over the lease terms.

(d) Service income is recognized when services are rendered.

(e) Dividend income from investments is recognized when the shareholders' rights to receive dividends have been established.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are recognized in the income statement as revenue on a systematic basis over the useful life of the asset.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. It is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible debentures

The component of convertible debentures that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debentures; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debentures based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Trade payable

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

Foreign currency transactions

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Hong Kong Dollars. The Group's presentation currency of the financial statements is the United States Dollars, which is the functional currency of the Group's main operations, crude oil business.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are translated at the rates ruling at the balance sheet date. All exchange differences are dealt with in the income statement.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions (Continued)

(iii) Group companies

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing rate of that balance sheet;

(b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) All resulting exchange differences are recognized as a separate component of equity.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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 co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

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

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, 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 constituting the discontinued operation.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management that makes strategic decisions.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Salaries, bonus and leave entitlements

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Retirement benefits

The Group has arranged in Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. Under the MPF Scheme, each of the Group (the "employer") and its employees makes monthly contributions to the Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Ordinance. The contributions from employer and each of the employees respectively are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. The assets of the MPF Scheme are held separately from those of the Group and managed by an independent trustee.

The subsidiary in United Kingdom operates a defined contribution scheme for its employees. The assets of the scheme are held separately from those of the subsidiary. Contributions to defined contribution retirement schemes are charged to the income statement as incurred.

Cash equivalents

Cash equivalents comprise cash at banks and on hand, net of outstanding bank overdrafts, which are repayable on demand, and short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

(a) Impairment of receivables

The ageing analysis of accounts and collectability of the accounts receivable are reviewed by the management during the year. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

NOTES TO FINANCIAL STATEMENTS

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

(c) Impairment of available-for-sale investments

The Group determines that the Available-for-sale investments are impaired when there has been a significant of prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Any indication of deterioration of the above factors will affect the fair value.

(d) Impairment of oil properties

The Group reviews the carrying amounts of the oil properties to determine whether there is any indication that these assets have suffered an impairment loss. The determination involves management estimates and judgements as to the future crude oil price and production. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment.

6. TURNOVER, INCOME AND SEGMENT INFORMATION

Turnover represents amounts invoiced for goods and services net of value added tax and revenue from the sale of crude oil.

	2009 **US$'000**	2008 US$'000
An analysis of the Group's turnover and income is as follows:		
Turnover		
Crude oil sales	**9,238**	17,234
Sales of goods and services	**29,208**	36,533
	38,446	53,767
Other income		
Bank interest income	**14**	332
Other interest income	**185**	35
Rental income	**1,241**	1,038
Release of Government grant	**54**	1,107
Dividend income	**429**	632
Gain on revaluation of investment properties	**513**	–
Sundry income	**150**	288
	2,586	3,432
	41,032	57,199

Dividend income was derived from financial assets at fair value held for trading.

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	Continuing operations				Discontinued operations			
	Oil 2009 US$'000	Sale of minerals 2009 US$'000	Contract Electronic manufacturing 2009 US$'000	Trading securities 2009 US$'000	Oil in Philippines 2009 US$'000	Exploration of minerals 2009 US$'000	Other 2009 US$'000	Total 2009 US$'000
Revenue from external customers	9,238	6,915	22,272	–	–	–	21	38,446
Segment results	(69,675)	(3,018)	(1,853)	8,426	–	–	–	(66,120)
Unallocated income and expenses								(3,125)
Loss from operation								(69,245)
Finance costs	–	–	(253)	–	–	–	(42)	(295)
Taxation	–	–	(276)	–	–	–	–	(276)
Loss for the year								(69,816)
Segment assets	12,590	47,338	23,885	25,243	–	–	–	109,056
Unallocated assets								31,120
Total assets								140,176
Segment liabilities	(2,483)	(103)	(8,534)	–	–	–	–	(11,120)
Unallocated liabilities								(9,290)
Total liabilities								(20,410)
Depreciation	453	372	1,097	49	–	–	5	1,976
Significant non-cash expenses	66,606	–	447	–	–	–	–	67,053
Capital expenditure								
Additions	978	307	231	–	–	–	2	1,518

NOTES TO FINANCIAL STATEMENTS

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment (Continued)

	Continuing operations				Discontinued operations			
	Oil 2008 US$'000	Sale of minerals 2008 US$'000	Contract Electronic manufacturing 2008 US$'000	Trading securities 2008 US$'000	Oil in Philippines 2008 US$'000	Exploration of minerals 2008 US$'000	Other 2008 US$'000	Total 2008 US$'000
Revenue from external customers	17,234	5,963	30,551	–	–	–	19	53,767
Segment results	(78,874)	(898)	948	(3,038)	(7,105)	(36)	–	(89,003)
Unallocated income and expenses								(11,203)
Loss from operation								(100,206)
Gain on disposal of subsidiaries	1,845	–		–	–	–	–	1,845
Finance costs	–	–	(467)	–	–	–	–	(467)
Taxation	–	–	426	–	–	–	–	426
Loss for the year								(98,402)
Segment assets	112,576	30,090	20,174	16,833	–	–	–	179,673
Unallocated assets								18,245
Total assets								195,918
Segment liabilities	(4,768)	(1,128)	(6,045)	–	–	–	–	(11,941)
Unallocated liabilities								(123)
Total liabilities								(12,064)
Depreciation	467	299	1,161	49	–	–	33	2,009
Significant non-cash expenses	77,496	–	–	–	20,156	–	–	97,652
Capital expenditure Additions	21,924	1,177	1,837	–	67	–	2	25,007

NOTES TO FINANCIAL STATEMENTS

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2009	2008	**2009**	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Indonesia	**9,238**	17,234	**18,773**	89,427	**978**	21,924
United Kingdom	**22,272**	30,551	**23,762**	21,297	**231**	1,837
China	**6,915**	5,963	**41,873**	30,754	**307**	1,177
Philippines	**–**	–	**–**	–	**–**	67
America	**–**	–	**123**	136	**–**	–
Hong Kong	**21**	19	**55,642**	54,304	**2**	2
	38,446	53,767	**140,173**	195,918	**1,518**	25,007

7. LOSS FROM OPERATING ACTIVITIES

Continuing operations

The Group's loss from operating activities is arrived at after charging:

	2009	2008
	US$'000	US$'000
Depreciation:		
– owned fixed assets	**1,718**	1,712
– leased fixed assets	**258**	297
Operating lease rentals on		
– land and buildings	**994**	734
– plant and machinery	**885**	1,060
Costs of inventories sold	**33,047**	38,528
Impairment loss on inventories	**447**	–
Staff costs (including directors' remuneration – *note 9*)	**10,410**	12,508
Auditors' remuneration		
– audit fee	**183**	142
– other services	**42**	30
Net loss (gain) in fair value of financial assets held for trading		
– realized	**8,678**	(233)
– unrealised	**(16,996)**	12,551
Provision for plug and abandonment	**480**	500
Foreign exchange losses, net	**126**	151

NOTES TO FINANCIAL STATEMENTS

8. FINANCE COSTS

Continuing operation

	2009 US$'000	2008 US$'000
Debenture interest	**42**	–
Bank discounting charges	**60**	159
Bank interest paid	**52**	222
Interest on finance lease	**20**	27
Bank charges	**121**	60
	295	468

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

Name of directors	**Fees US$'000**	**Salaries, allowances and benefits in kind US$'000**	**Pension scheme contributions US$'000**	**2009 Total US$'000**
Executive directors				
Zhou Ling	**–**	**66**	**1**	**67**
Lee Sin Pyung	**–**	**62**	**–**	**62**
Sit Mei	**–**	**42**	**1**	**43**
Zhang Xue	**–**	**17**	**–**	**17**
Independent non-executive directors				
Lu Ren Jie	**20**	**–**	**–**	**20**
Chai Woon Chew	**15**	**–**	**–**	**15**
Ho Choi Chiu	**15**	**–**	**–**	**15**
	50	**187**	**2**	**239**

Name of directors	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Pension scheme contributions US$'000	2008 Total US$'000
Executive directors				
Zhou Ling	–	77	2	79
Lee Sin Pyung	17	38	–	55
Sit Mei	–	60	1	61
Independent non-executive directors				
Lu Ren Jie	20	–	–	20
Chai Woon Chew	15	–	–	15
Ho Choi Chiu	15	–	–	15
	67	175	3	245

NOTES TO FINANCIAL STATEMENTS

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2008: Nil), details of whose remuneration are set out in note 9 above. The details of the remuneration of the five non-directors (2008: five), highest paid employees are set out below.

	2009	2008
	US$'000	US$'000
Salaries, allowances and benefits in kind	**1,213**	1,360

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of non-directors	
	2009	2008
US$Nil to US$129,000	**3**	–
US$129,001 to US$192,300	**–**	2
US$192,301 to US$256,410	**2**	3
	5	5

11. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2009	2008
	US$'000	US$'000
Overseas tax charge		
– overprovision in respect of prior year	**–**	(185)
Deferred tax charge (credited) – *note 19*	**276**	(241)
Tax charge (credit) for the year	**276**	(426)

No provision for Hong Kong profits tax has been made as, in the opinion of the Company's directors, the Group did not have any estimated assessable profits or has tax losses to set off current year's profits in Hong Kong for the year.

No provision for PRC profits tax has been made as , in the opinion of the Company's directors, the Group did not have any estimated assessable profits in PRC for the year.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Tax represented deferred tax assets reversed (2008: provided) and nil corporate tax (2 provided in an England subsidiary.

NOTES TO FINANCIAL STATEMENTS

11. INCOME TAX (Continued)

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

	2009 **US$'000**	2008 US$'000
Loss before tax	**(69,540)**	(100,551)
(Tax credit)/notional tax on loss before tax, calculated at the rates applicable to profits in the countries concerned	**(33,301)**	(44,534)
Tax effect of non-deductible expenses	**727**	11
Tax effect of non-taxable income	**(183)**	(94)
Tax effect of tax losses not recognized	**33,834**	44,908
Tax loss recognized	**(1,110)**	(22)
Other timing difference	**309**	(511)
Overprovision in prior year	**–**	(184)
Tax expenses (tax credit)	**276**	(426)

12. DISCONTINUED OPERATIONS

On 21 May 2008, the Group disposed the entire interests in its subsidiaries, Comp Assets International Limited, PT. Global Select Indonesia, Mega Resources International Enterprises Limited, and South Sea Petroleum (Philippines) Corporation at a consideration of US$9,700,000 satisfied by the shares in the new Joint Venture Company. The Group's oil exploration business in Philippines, a small part of oil exploration business in Indonesia and the mineral exploration business in China were discontinued.

The results and the cash flows of the discontinued operations were as follows:

	2009 **US$'000**	2008 US$'000
Other revenue	**–**	4
Administration expenses	**–**	(126)
Loss from discontinued operations	**–**	(122)
Gain on disposal of discontinued operations	**–**	1,845
	–	1,723
Net cash used in operating activities	**–**	(87)
Net cash used in investing activities	**–**	(54)
Net cash used in financing activities	**–**	(6,720)
Decrease in cash and cash equivalent	**–**	(6,861)

NOTES TO FINANCIAL STATEMENTS

12. DISCONTINUED OPERATIONS (Continued)

The net assets of the discontinued operations are as follows:

	US$'000
Fixed assets	14,241
Project advances for oil field exploration and mining	11,141
Cash and bank balances	1,339
Prepayments, deposits and other receivables	4,851
Other payable and accrued expenses	(19,849)
Exchange reserve	(8)
Minority interests	(3,860)
Net assets disposed	7,855
Gain on disposal	1,845
	9,700
Satisfied by:	
Shares in new Joint Venture	9,700

13. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$66,807,000 (2008: US$103,973,000).

14. BASIC LOSS/EARNING PER SHARE

(i) From continuing and discontinued operations

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of US$69,304,000 (2008: US$98,297,000), and 10,972,239,359 (2008: 10,972,239,359) ordinary shares in issue during the year.

(ii) From continuing operations

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of US$69,304,000 (2008: US$100,020,000) and 10,972,239,359 (2008: 10,972,239,359) ordinary shares in issue during the year.

(iii) From discontinued operations

The calculation of basic earning (loss) per share is based on the net profit attributable to shareholders for the year of US$ Nil (2008: net profit of US$1,723,000), and 10,972,239,359 (2008: 10,972,239,359) ordinary shares in issue during the year.

There is no fully diluted earnings per share for the year (2008: Nil).

NOTES TO FINANCIAL STATEMENTS

15. FIXED ASSETS

Group

	Oil properties US$'000	Land and buildings US$'000	Plant and machinery US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Construction in progress US$'000	Sub-total US$'000	Investment properties US$'000	Total US$'000
Cost or valuation:									
At 1.1.2009	56,411	7,939	19,100	5,737	775	75	90,037	1,927	91,964
Exchange differences	–	746	1,818	592	(13)	–	3,143	–	3,143
Additions	978	24	253	2	65	196	1,518	–	1,518
Impairment	(43,559)	–	–	–	–	–	(43,559)	–	(43,559)
Revaluation	–	728	–	–	–	–	728	512	1,240
At 31.12.2009	**13,830**	**9,437**	**21,171**	**6,331**	**827**	**271**	**51,867**	**2,439**	**54,306**
Representing:									
Cost	13,830	948	21,171	6,331	827	271	43,378	–	43,378
Valuation	–	8,489	–	–	–	–	8,489	2,439	10,928
	13,830	9,437	21,171	6,331	827	271	51,867	2,439	54,306
Accumulated depreciation:									
At 1.1.2009	7,987	27	14,405	5,361	267	–	28,047	–	28,047
Exchange difference	–	7	1,547	558	(4)	–	2,108	–	2,108
Charge for the year	453	212	1,089	116	106	–	1,976	–	1,976
Revaluation	–	(168)	–	–	–	–	(168)	–	(168)
At 31.12.2009	**8,440**	**78**	**17,041**	**6,035**	**369**	**–**	**31,963**	**–**	**31,963**
Net book value:									
At 31.12.2009	**5,390**	**9,359**	**4,130**	**296**	**458**	**271**	**19,904**	**2,439**	**22,343**

15. FIXED ASSETS (Continued)

Group

	Oil properties US$'000	Land and buildings US$'000	Plant and machinery US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Construction in progress US$'000	Sub-total US$'000	Investment properties US$'000	Total US$'000
Cost or valuation:									
At 1.1.2008	125,518	11,979	22,569	7,578	512	167	168,323	2,073	170,396
Exchange differences	–	(3,086)	(5,397)	(1,954)	14	2	(10,421)	–	(10,421)
Additions	21,991	539	1,809	113	249	306	25,007	–	25,007
Disposal of subsidiaries	(14,102)	–	–	–	–	(139)	(14,241)	–	(14,241)
Transfer	–	142	119	–	–	(261)	–	–	–
Dry hole costs	(76,996)	–	–	–	–	–	(76,996)	–	(76,996)
Revaluation	–	(1,635)	–	–	–	–	(1,635)	(146)	(1,781)
At 31.12.2008	56,411	7,939	19,100	5,737	775	75	90,037	1,927	91,964
Representing:									
Cost	56,411	923	19,100	5,737	775	75	83,021	–	83,021
Valuation	–	7,016	–	–	–	–	7,016	1,927	8,943
	56,411	7,939	19,100	5,737	775	75	90,037	1,927	91,964
Accumulated depreciation:									
At 1.1.2008	7,519	339	18,361	7,063	175	–	33,457	–	33,457
Exchange difference	–	(131)	(4,951)	(1,845)	2	–	(6,925)	–	(6,925)
Charge for the year	468	313	995	143	90	–	2,009	–	2,009
Revaluation	–	(494)	–	–	–	–	(494)	–	(494)
At 31.12.2008	7,987	27	14,405	5,361	267	–	28,047	–	28,047
Net book value:									
At 31.12.2008	48,424	7,912	4,695	376	508	75	61,990	1,927	63,917

NOTES TO FINANCIAL STATEMENTS

15. FIXED ASSETS (Continued)

Company

	Furniture, fittings and computers US$'000	**Motor vehicles** US$'000	**Total** US$'000
Cost:			
At 1.1.2008	138	105	243
Addition	2	–	2
At 31.12.2008	140	105	245
Addition	2	–	2
At 31.12.2009	**142**	**105**	**247**
Accumulated depreciation:			
At 1.1.2008	103	104	207
Charge for the year	31	1	32
At 31.12.2008	134	105	239
Charge for the year	4	–	4
At 31.12.2009	**138**	**105**	**243**
Net book value:			
At 31.12.2009	**4**	**–**	**4**
At 31.12.2008	6	–	6

The analysis of net book value of land and buildings is as follows:

	Group	
	2009 **US$**	2008 US$
Land and buildings		
– freehold outside Hong Kong	**8,489**	7,016
– medium lease outside Hong Kong	**870**	923
	9,359	7,939

NOTES TO FINANCIAL STATEMENTS

15. FIXED ASSETS (Continued)

During the year, the exploratory oil properties of the Group were leased to an independent third party for further exploration. The management recognised an impairment loss of these oil properties to an amount of US$43,559,000 together with the project advance for oil field exploration of US$9,739,000.

Investment properties of the Group are held on long lease situated outside Hong Kong. In 2008, the freehold land and buildings are pledged to secure general banking facilities.

The Freehold land and buildings were revalued on 5 March 2010 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors. In the opinion of the directors, the carrying amount of the freehold land and buildings as at 31.12.2009 is not different materially from this valuation.

Had the Group's Freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$5,333,000 (2008: US$4,953,000).

The investment properties were revalued on 24 February 2010 on the basis of their open market value by Youlanda, an independent firm of chartered surveyors. The value is not different materially from the carrying amount at 31.12.2009 and no adjustment is made.

The net book value of plant and machinery held under finance leases of the Group was US$1,168,000 (2008: US$1,323,000).

16. GOODWILL

Group

	2009 US$'000	2008 US$'000
Net carrying value		
At 1 January	**2,523**	2,523
Arising on increase additional interests in subsidiaries	**378**	–
Impairment	**(1,619)**	–
At 31 December	**1,262**	2,523

17. INTERESTS IN SUBSIDIARIES

Company

	2009 US$'000	2008 US$'000
Unlisted shares, at cost	**364**	414
Amounts due from subsidiaries	**298,356**	306,097
Amount due to a subsidiary	**–**	(50)
	298,720	306,461
Provision for impairment in values	**(188,573)**	(125,443)
Carrying value at 31 December	**110,147**	181,018

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

NOTES TO FINANCIAL STATEMENTS

17. INTERESTS IN SUBSIDIARIES (Continued)

Company (Continued)

Details of the subsidiaries are as follows:

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Directly %	Percentage of issued share capital held by the Company Indirectly %	Principal activities
Global Select Limited	British Virgin Islands	Indonesia	3 ordinary shares of US$1 each	100	–	Investment holding, securities trading and exploration of oil and gas
Seaunion Energy (Limau) Limited#	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	Dormant
PT. Seaunion Energy Resources#	British Virgin Islands	Indonesia	10,000 ordinary shares of US$100 each	5	95	Dormant
Kalrez Petroleum (Seram) Limited*	Mauritius	Indonesia	2 ordinary shares of US$1 each	–	100	Development and production of crude oil
Kalrez Petroleum Limited	British Virgin Islands	Indonesia	1 ordinary share of US$1 each	–	100	Investment holding
Great Admirer Limited	Hong Kong	Hong Kong	200 ordinary shares of HK$1 each	100	–	Investment holding and securities trading
Axiom Manufacturing Services Limited*	United Kingdom	United Kingdom	13,564,002 ordinary shares of £1 each	–	94.81	Assemble of electronic components
Comp Hotel International Limited	British Virgin Islands	PRC	1 ordinary shares of US$1 each	100	–	Properties investment
Comp International Limited	British Virgin Islands	Hong Kong	64,300 ordinary shares of US$1 each	100	–	Travelling agency

NOTES TO FINANCIAL STATEMENTS

17. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Directly %	Percentage of issued share capital held by the Company Indirectly %	Principal activities
Comp Property International Limited	British Virgin Islands	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Comp Media & Advertising Limited	Hong Kong	Hong Kong	200 ordinary shares of US$1 each	99.5	0.5	Dormant
Prime Reward Group Limited	British Virgin Islands	Hong Kong	1 ordinary shares of US$1 each	–	100	Dormant
Oxford Technologies Inc.	USA	USA	18,564,002 ordinary shares of US$0.0001 each	–	94.81	Investment holding
Easton Technologies Corp.	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
Cowley Technologies Inc.	USA	USA	16,100,000 ordinary shares of US$0.0001 each	–	88.51	Investment holding
Greenway Technologies Inc.	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant
China Resources Development Limited	Hong Kong	Hong Kong	85,000,000 ordinary shares of HK$1 each	–	100	Investment holding and marketing
Heilongjiang Sinorth Graphite Co., Limited+	PRC	PRC	RMB90,023,000	–	82.92	Exploration, production and selling of mineral products

disposed during the year
* not audited by JP Union & Co.
\+ established in PRC as a sino-foreign joint ventures with limited liability

NOTES TO FINANCIAL STATEMENTS

17. INTERESTS IN SUBSIDIARIES (Continued)

On 1 December 2009, China Resources Development Group Limited repurchased 15,000,000 ordinary shares of HK$1 each at a consideration of US$1,490,000.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

18. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2009	2008
	US$'000	US$'000
Unlisted shares, at cost	**771**	13,079
Less: Impairment	**–**	1,287
	771	11,792

19. DEFERRED TAX ASSETS

	Group	
	2009	2008
	US$'000	US$'000
At 1 January	**414**	284
(Charge) credited for the year	**(276)**	241
Exchange difference	**30**	(111)
At 31 December	**168**	414

The balance of the deferred tax assets consists of the tax effect of timing differences in respect of excess of taxation allowances over depreciation on fixed assets US$20,000 (2008: excess depreciation US$195,000) and tax losses available of US$188,000 (2008: US$293,000).

Deferred tax assets not recognized in the financial statements comprised of excess depreciation over capital allowances of US$Nil (2008: US$155,000) and unused losses of US$9,689,000 (2008: US$15,752,000).

NOTES TO FINANCIAL STATEMENTS

20. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING

	Group		Company	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares	**22,888**	11,376	**2**	2

21. TRADE AND NOTES RECEIVABLES

	Group	
	2009	2008
	US$'000	US$'000
Trade receivables	**9,589**	6,841
Notes receivables	**2,474**	–
	12,063	6,841

The ageing analysis of the trade and note receivables is as follows:

	Group	
	2009	2008
	US$'000	US$'000
0 – 30 days	**3,415**	5,215
31 – 60 days	**5,459**	256
61 – 90 days	**957**	92
Over 90 days	**2,232**	1,278
	12,063	6,841

Included in trade receivables an amount of US$1,631,000 which was due from minority interest.

The average credit period of the Group's sales is 60 days. At the reporting date, the Group has not provide impairment on those receivables which are past due since they have a good track record with the Group.

At 31.12.2009, trade receivable of approximately US$4,308,000 (2008: US$3,800,000) were pledged to bank to secure a loan on these discounted debtors.

NOTES TO FINANCIAL STATEMENTS

22. OTHER LOANS RECEIVABLE

The amounts due are unsecured, bear interest rate of 0.3% to 0.44% per month, and repayable within a year. Included in other loans receivable an amount of US$1,611,000 which was guaranteed by a staff of the Company. This amount was repaid in February 2010.

23. AMOUNT DUE FROM AN INVESTEE COMPANY

The amount due was unsecured, interest free and was fully repaid after the balance sheet date.

24. INVENTORIES

	Group	
	2009	2008
	US$'000	US$'000
Production supplies and raw materials	**4,547**	4,257
Work in progress	**1,363**	1,096
Goods in transit	**532**	–
Finished goods	**346**	2,062
	6,788	7,415

25. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2009	2008
	US$'000	US$'000
Advances to supplier	**19,928**	–
Deposit to financial advisor	**8,192**	–
Deposit for investments	**–**	3,806
Deposit for purchase of fixed assets	**4,657**	–
Other deposits and prepayments	**9,093**	7,525
Other receivables	**7,051**	21,076
Deferred expenses	**422**	955
	49,343	33,362

The Group paid deposit of US$8,192,000 and prepayment of US$5,500,000 to financial advisor, Kelton Capital Group Limited, for mainly providing financial consultancy services. The amount of deposit paid is unsecured and interest free. On 9 December 2009, Kelton Capital Group Limited entered into a subscription agreement with the Company to subscribe for an aggregate amount of US$100,000,000 of 6% interest unlisted convertible debentures due December 2015.

In 2008, included in other receivables an amount of US$19,604,000 in respect of amounts due from former subsidiaries were previously spent on oil exploratory activities. Although the management has tried to recover the costs and expenses by leasing out certain oil properties, as a conservative approach, impairment of US$7,604,000 and US$10,800,000 was recognised in 2008 and 2009 respectively. Such impairments are attributable to the exploratory activities that did not discover hydrocarbon deposits which would warrant commercial exploitation.

NOTES TO FINANCIAL STATEMENTS

26. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2009	2008
	US$'000	US$'000
0 – 30 days	**2,087**	744
31 – 60 days	**872**	683
61 – 90 days	**84**	299
Over 90 days	**269**	1,284
	3,312	3,010

27. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2009, the group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**370**	380	**320**	313
After one year but within two years	**468**	628	**454**	509
After two year but within five years	**71**	299	**71**	236
	909	1,307	**845**	1,058
Less: Future finance charges	**64**	249		
Present value of finance lease	**845**	1,058		
Less: Amount shown under current liabilities			**320**	313
			525	745

NOTES TO FINANCIAL STATEMENTS

28. GOVERNMENT GRANT RECEIVED IN ADVANCE

The Government grant received relates to a regional assistance grant awarded by the Welsh Assembly Government in England to the subsidiary of the Company, Axiom Manufacturing Services Limited. The grant relates to capital expenditure and the safeguarding of jobs. The employment related element is spread over the period during which the jobs are required to be maintained by the grant. The element of the grant relating to capital expenditure is released to the income statement over the useful economic life of the assets.

Under the terms of the grant, Axiom is required to maintain a specific level of jobs. Should this level not be maintained for the minimum period specified a proportion of the grant may become repayable.

29. PROVISIONS

	Employee benefits US$'000	Plug and abandonment US$'000	Total US$'000
At 1.1.2009	73	949	1,022
Provision for the year	–	480	480
Provision written back	(73)	–	(73)
At 31.12.2009	**–**	**1,429**	**1,429**

The provisions for employee benefits represents annual leave and severance payment provided for the employees.

The Group estimate the expenditure incurred in the abandonment of exploratory wells and the restoration of their drill sites. The amount estimated is recovered from BP MIGAS.

30. CONVERTIBLE DEBENTURES

	Group and Company	
	2009 US$'000	2008 US$'000
Principal amounts	**11,937**	–
Transaction costs	**(597)**	–
Net proceeds	**11,340**	–
Equity component	**(2,253)**	–
Liability component at date of issue	**9,087**	–

NOTES TO FINANCIAL STATEMENTS

30. CONVERTIBLE DEBENTURES (Continued)

On 4 August 2009, the Company entered into a subscription agreement with Megabucks International Limited for an aggregate amount of HK$171,000,000 of 6% interest unlisted convertible debentures due August 2012 (Debenture August 2012). Megabucks International Limited will be entitled to 5% of the principal amounts of the debentures issued as finder's fee.

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the principal amounts of the Debentures in whole or in part in multiples of HK$10,000 into the Company's shares of US$0.01 each at the conversion price of HK$0.0775, within the conversion period from the time of Debenture issued to the Maturity Date (3 August 2012).

During the year 2009, the Company issued the Debenture August 2012 for approximately US$11,937,000. Finder's fee of US$597,000 has been paid to Megabucks International Limited. Subsequent to the balance sheet date, conversion right was exercised to convert US$4,968,000 of the convertible debentures for 500,000,000 shares of US$0.01 each.

On 9 December 2009, the Company entered into a subscription agreement with Kelton Capital Group Limited for an aggregate amount of US$100,000,000 of 6% interest unlisted convertible debentures due December 2015. (Debenture December 2015). Kelton Capital Group Limited will be entitled to 5% of the principal amounts of the debentures issued as finder's fee.

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the principal amounts of the Debentures in whole or in part in multiples of HK$10,000 into the Company's shares of US$0.01 each at the conversion price of US$0.01, within the conversion period from the time of Debenture issued to the Maturity Date (9 December 2015).

31. SHARE CAPITAL

	Group and Company	
	2009	2008
	US$'000	US$'000
Authorised:		
14,000,000,000 ordinary shares of US$0.01 each	**140,000**	140,000
Issued and fully paid:		
10,972,239,359 ordinary shares of US$0.01 each	**109,722**	109,722

Pursuant to an ordinary resolution passed on 8 January 2010, the company's authorised share capital was increased to US$500,000,000 by the creation of US$360,000,000 ordinary shares of US$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

NOTES TO FINANCIAL STATEMENTS

32. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company (the "Scheme") approved on 23 December 1998, which replaced the former share option scheme adopted since November 1989, the board of directors of the Company (the "Board") is authorised to grant options to any executive director or full time employee of the Group to subscribe for shares of the Company (the "Shares").

A summary of the principal terms of the Scheme is set out below:

1. The Purpose

The purpose of the Scheme is to provide incentive to the participants.

2. The Participants

The Board may, at its discretion offer any full time employee or executive director of the Company or any of its subsidiaries to take up options.

3. Maximum number of Shares available for issue under the Scheme

The total number of Shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Scheme and any other scheme adopted by resolution of the Company in general meeting which provides for the acquisition of or subscription for Shares may not exceed 10 per cent of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time.

4. Maximum entitlement of each participant

No option may be granted to any person which, if exercised in full, would result in the total number of Shares already issued and issuable to him or her under the Scheme exceeding 25 per cent of the aggregate number of Shares for the time being issued and issuable under the Scheme.

5. Exercise period

An option may be exercised in accordance with the terms of the Scheme at any time during the period commencing on the date of the grant of the option and expiring on a day to be determined by the Board, which shall be not later than the fifth anniversary of the date of grant of such option or 10 years from the date of adoption of the Scheme, whichever shall occur earlier.

6. Payment on acceptance of option

Options granted should be taken up at the amount of HK$1 per option.

7. Basis of determining the exercise price

The exercise price will be determined by the Board in its absolute discretion and will not be less than the greater of (a) 80% of the average closing price of the Shares on the five trading days immediately preceding the offer of the options; and (b) the nominal value of the Shares.

8. The remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 1 January 1999.

No share option was granted during the year.

NOTES TO FINANCIAL STATEMENTS

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statements of changes in equity on page 29 of the financial statements.

(b) Company

	Share premium	Convertible debenture equity reserve	Special capital reserve	Exchange reserve	Accumulated losses	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1.1.2008	199,947	–	12,037	535	(36,773)	175,746
Loss for the year	–	–	–	–	(103,973)	(103,973)
At 31.12.2008	199,947	–	12,037	535	(140,746)	71,773
Loss for the year	–	–	–	–	(66,807)	(66,807)
Convertible debenture – equity component	–	2,253	–	–	–	2,253
At 31.12.2009	**199,947**	**2,253**	**12,037**	**535**	**(207,553)**	**7,219**

At the balance sheet date, the Company had no reserves, as calculated under the provisions of Section 79B of the Companies Ordinance, available for distribution to shareholders.

The Company's share premium account may be utilised for distribution by way of bonus share issues.

Special capital reserve represents surplus of US$12,037,000 transferred upon capital reduction after eliminating the retained losses of US$54,510,000 by the share capital reduction of US$66,547,000 during the year ended 31 December 2001.

The convertible debenture equity reserve represents the equity component (conversion right) of the US$11,936,000 6% convertible debentures issued during the year.

NOTES TO FINANCIAL STATEMENTS

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2009 US$'000	2008 US$'000
Loss before tax	(69,540)	(100,551)
Interest income	(198)	(367)
Interest expenses	295	468
Government grant released	(8)	(1,219)
(Gain) loss in fair value of financial assets held for trading	(16,996)	12,552
Impairment loss on project advance	9,739	–
Impairment loss on goodwill	1,619	–
Impairment loss on other receivables	11,210	7,604
Impairment loss on oil properties	43,559	–
Impairment loss on inventories	447	
Exploratory dry hole costs	–	76,996
(Gain) loss on revaluation of investment properties	(513)	146
Depreciation of fixed assets	1,976	2,009
Discontinuous operation	–	(123)
Operating loss before working capital	(18,410)	(2,485)
Decrease (increase) in financial assets held for trading	5,484	(4,530)
(Increase) decrease in trade receivables	(5,222)	1,505
Decrease in inventories	180	976
Increase in other loans receivable	(602)	(2,547)
Increase in prepayments, deposits and other receivables	(5,772)	(33,365)
Decrease (increase) in amount due from an investee company	3,094	(3,094)
Increase (decrease) in trade payables	302	(2,011)
(Decrease) increase in other payables and accrued expenses	(2,367)	21,772
Increase in provision	407	432
Decrease in amount due to a minority shareholder	–	(1,282)
Cash used in operating activities	(22,906)	(24,629)
Overseas tax paid	–	(152)
Interest paid	(295)	(468)
Net cash used in operating activities	(23,201)	(25,249)

NOTES TO FINANCIAL STATEMENTS

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of the outflow of cash and cash equivalents on disposal of subsidiaries

	2009	2008
	US$'000	US$'000
Fixed assets	–	14,241
Project advances for oil field exploration and mining	–	11,141
Cash and bank balances	–	1,339
Prepayments, deposits and other receivables	–	4,851
Other payable and accrued expenses	–	(19,849)
Exchange reserve	–	(8)
Minority interests	–	(3,860)
Net assets disposed	–	7,855
Gain on disposal	–	1,845
	–	9,700
Satisfied by:		
Shares in new Joint Venture	–	9,700

Outflow of cash and cash equivalents

	US$'000	US$'000
Cash and bank balances disposed of	–	(1,339)

(c) Major non-cash transaction

(i) In 2008, the consideration for disposal of subsidiaries was satisfied by the shares in the new Joint Venture Company at a fair value of US$9,700,000.

NOTES TO FINANCIAL STATEMENTS

35. COMMITMENTS

Commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
(a) Total future minimum lease payments receivable under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**951**	427	**–**	–
In the second to fifth years inclusive	**475**	–	**–**	–
Over five years	**1**	–	**–**	–
	1,427	–	**–**	–
(b) Total future minimum lease payments payable under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**617**	204	**515**	126
In the second to fifth years inclusive	**221**	159	**85**	67
	838	363	**600**	193
(ii) on other fixed assets expiring:				
Within one year	**39**	150	**–**	–
In the second to fifth years inclusive	**67**	66	**–**	–
	106	216	**–**	–

NOTES TO FINANCIAL STATEMENTS

36. PLEDGE OF ASSETS

Fixed and floating charges have been created over all of the assets of the subsidiaries in United Kingdom to secure general banking and discounting facilities granted. At 31 December 2009, fixed assets and current assets of these subsidiaries pledged were US$2,917,000 (2008: US$10,331,000) and US$11,388,000 (2008: US$9,292,000) respectively.

37. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During the year, the remuneration of directors and other member of key management was as follows:

	2009 **US$'000**	2008 US$'000
Salaries, allowances and benefits in kind	**1,461**	1,667

38. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2009 **US$'000**	2008 US$'000
Sales to minority interest	**3,951**	–

39. FINANCIAL INSTRUMENTS

	Group	
	2009 **US$'000**	2008 US$'000
Financial assets		
Available-for-sales investments	**771**	11,792
Financial assets at fair value held for trading	**22,888**	11,376
Loans and receivables (include cash and cash equivalent)	**54,787**	99,525
Financial Liabilities		
Amortised cost	**10,478**	10,999
Obligation under finance lease	**845**	1,058

NOTES TO FINANCIAL STATEMENTS

40. FINANCIAL RISK MANAGEMENT

40A Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group intends to use a combination of financial instruments to manage its financial risks.

The risk management of the Company, and its subsidiaries, are centralized at head office level in accordance with the Group's risk management policy. The Group identifies, evaluates and monitors financial risks closely with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

(a) Foreign exchange risk

The Group's entities have only a small amount of sales that are denominated in currencies other than the functional currency of that group entities. Therefore, the Group is not exposed much to foreign exchange currency rise.

The Group's reporting currency is US dollar. Foreign currency exposures of the Group primarily arise from the Group's operations in China and United Kingdom, whose functional currency are Renminbi and Pound Sterling. Foreign exchange swaps or forward contract and foreign exchange option may be employed to minimise the net exposure to foreign currency fluctuations.

(b) Interest rate risk

The interest rate risk arises from debt borrowing. Borrowing issued at variable rates exposes the Group to cash flow interest rate risk while borrowing issued at fixed rates expose the Group to fair value interest rate risk.

(c) Price risk

Kalrez Petroleum (Seram) Limited, a wholly owned subsidiary of the Company, sells crude oil it produces in Indonesia to BP MIGAS, the national petroleum company of Indonesia, at market prices, which exposes the Group at price risk, if the crude oil price falls significantly. The Group will actively monitor and manage the crude oil price risk.

(d) Other price risk

The Group is exposed to equity price risk through its investment in listed equity securities. The management manage this exposure by maintaining a portfolio of investments with different risk and return profiles.

At 31 December 2009, it is estimated that an increase/decrease of 10% in market value of the trading securities, with all other variable held constant, loss for the year and the equity would decrease/increase by US$2,289,000 (2008: US$1,138,000).

NOTES TO FINANCIAL STATEMENTS

40. FINANCIAL RISK MANAGEMENT (Continued)

40A Financial risk factors (Continued)

(e) Credit risk

The credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company and its operating subsidiaries have established the credit policy to limit the credit risk exposure. All receivables are due for settlement no more than 60 days after issue and collectability is reviewed on an ongoing basis.

(f) Liquidity risk

Liquidity risk is prudently managed by maintaining sufficient amount of available committed credit facilities. In addition, the Group actively manages and extends its debt maturity profile to ensure that the Group's maturing debt each year will not exceed the anticipated cash flow and the Group's ability to refinance the debt in that year.

Convertible debentures of US$4,968,000 were converted into shares of the Company subsequent to the balance sheet date. The contractual maturity of the remaining convertible debentures of US$6,968,000 was due within 2 to 5 years after the balance sheet date.

The contractual maturity of the obligation under finance lease is shown on notes 27 of the financial statements. The following non-derivative financial liabilities of the Group are repayable within one year or on demand.

	Group	
	2009	2008
	US$'000	US$'000
Trade and other payables	**5,406**	5,547
Bank overdraft	**1,587**	–
Bank loan on discounted debtors	**1,981**	2,429
	8,793	7,976

NOTES TO FINANCIAL STATEMENTS

40. FINANCIAL RISK MANAGEMENT (Continued)

40B Fair value of financial instruments

The carrying amounts of the Group's financial instruments are as follows:

(i) The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

(ii) The fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

(iii) The carrying value of bank and cash balances, trade and other receivables, amounts due from subsidiaries and trade and other payables are assumed to approximate their fair values due to the short term maturities of these assets and liabilities.

40C Fair value measurement recognized in the consolidated financial statements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair values measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair values measurement are those derived from inputs other than quoted prices include within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair values measurement are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	**2009** **Total** **US$'000**
Available-for-sale investments				
– equity securities	–	–	771	**771**
Financial assets at fair value				
held for trading	22,888	–	–	**22,888**
	22,888	–	771	**23,659**

NOTES TO FINANCIAL STATEMENTS

41. CAPITAL RISK MANAGEMENT

The purpose of the Group's capital management is to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of debt, which includes the bank loan on discounted debtors, convertible debentures, cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, issuance of new capital shares, convertible debentures or new debts.

42. EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to an ordinary resolution passed on 8 January 2010, the company's authorised share capital was increased to US$500,000,000 by the creation of US$360,000,000 ordinary shares of US$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

Subsequent to the balance sheet date, the Company issued 500,000,000 ordinary shares by conversion of convertible debentures of US$4,968,000.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 21 April 2010.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

For the years ended 31 December

	2009	2008	2007	2006	2005
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**38,446**	53,767	41,840	41,940	34,462
Loss before tax	**(69,540)**	(100,551)	(29,167)	(7,150)	(5,185)
Income tax	**(276)**	426	(492)	126	523
Discontinued operation	**–**	1.723	–	–	–
Loss for the year	**(69,816)**	(98,402)	(29,659)	(7,024)	(4,662)
Minority interests	**512**	105	30	53	25
Net loss attributable to shareholders	**(69,304)**	(98,297)	(29,629)	(6,971)	(4,687)

ASSETS, LIABILITIES AND MINORITY INTERESTS

As at 31 December

	2009	2008	2007	2006	2005
	US$'000	US$'000	US$'000	US$'000	US$'000
Goodwill	**1,262**	2,523	2,523	2,523	2,934
Fixed assets	**22,343**	63,917	136,939	33,749	13,033
Available-for-sale investment	**771**	11,792	–	–	–
Project advance for oil field exploration and mining	**–**	9,739	27,813	10,139	5,944
Deferred tax assets	**168**	414	284	617	335
Other assets	**–**	–	–	–	288
Current assets	**115,632**	109,533	141,846	29,764	30,321
Total assets	**140,176**	197,918	309,405	76,792	54,565
Total liabilities	**(20,410)**	(12,064)	(15,538)	(15,156)	(15,955)
Minority interests	**(2,823)**	(4,357)	(8,399)	(812)	(867)
	116,943	181,497	258,468	60,824	37,743