SSP 南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76

Growing with South Sea Petroleum

Annual Report
2011

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Guan Xinmin, *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 504, 5/F, Chinachem Tower
34-37 Connaught Road Central
Hong Kong

SHARE REGISTRAR

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

PRINCIPAL BANKER

Standard Chartered Bank

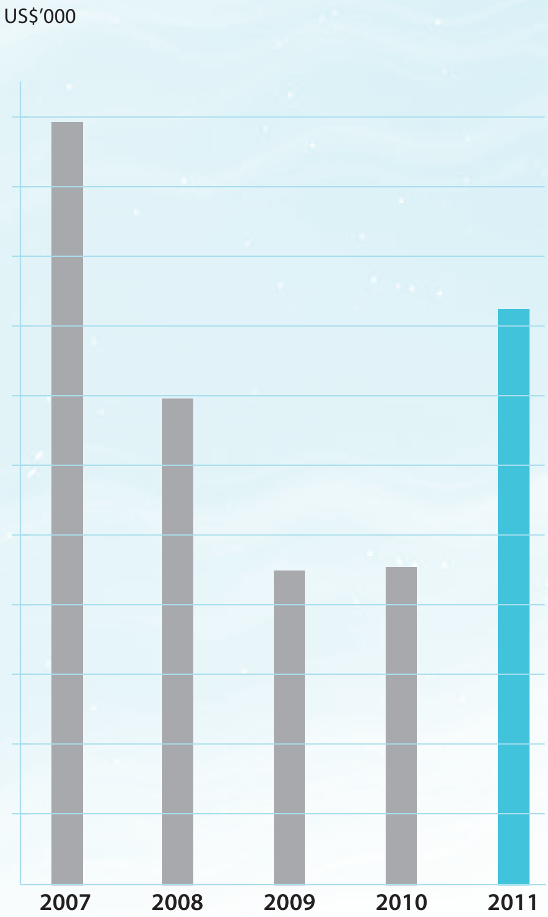
AUDITOR

JP Union & Co.

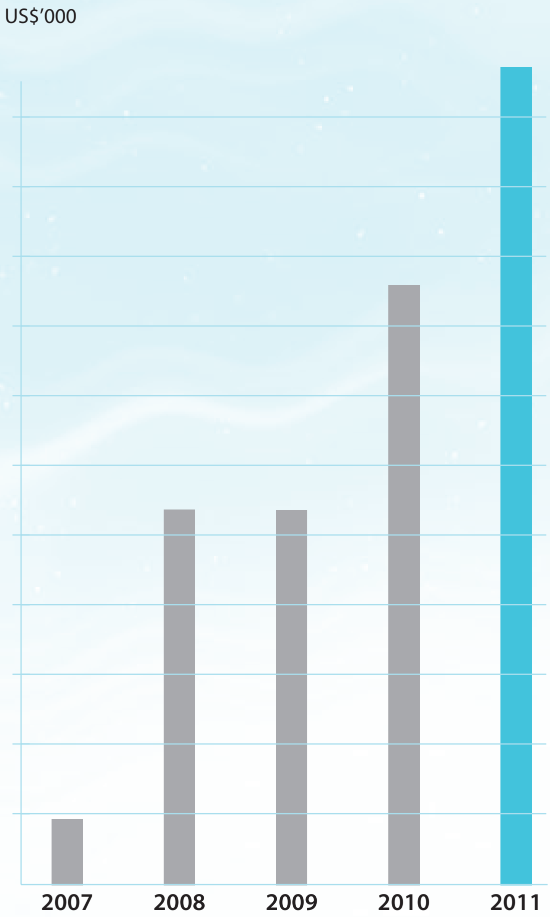
FINANCIAL HIGHLIGHTS

	2011 US$'000	2010 US$'000
Turnover	92,162	61,677
Profit (Loss) from Operating Activities	53,072	(17,518)
Net Profit (Loss) Attributable to Shareholders	46,601	(18,683)
Funds Attributable to Equity Holders of the Company	215,206	118,182
Earnings (Loss) Per Share (US Cents)		
– Basic	14.19	(7.52)
– Diluted	14.18	N/A

FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



TURNOVER



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 2011, the turnover of the Group was $92.162 million, representing an increase of $30.485 million, or 49.43%, as compared to $61.677 million for the prior year. The net profit attributable to shareholders was $46.601 million, or 14.19 cents per share, as compared to net loss of $18.683 million, or 7.52 cents per share, for the same period of 2010. On the statement of financial position, at 31 December 2011 the total assets of the Group were $245.022 million, as compared to $138.651 million at 31 December 2010, and the net assets of the Group were $220.780 million at 31 December 2011, as compared to $121.366 million at 31 December 2010.

BUSINESS REVIEW

The Group is engaged in the business of developing and producing crude oil in Indonesia, minerals in China, and provision of 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, South Sea Graphite (Luobei) Co., Limited ("SSG") and wholly owned subsidiary, Liaoning Sinorth Resources Co., Limited, the Company is engaged in the business of production and sale of graphite products in Luobei, Heilongjiang Province of China, and in Liaoning Province respectively. Through its wholly 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 contract 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 names of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis where Axiom purchases customer specific components from suppliers, assembles the components onto printed circuit boards, performs post production testing and provides customers with production process and test documentation. Axiom also provides manufacturing services on a consignment basis where materials are provided by the customers 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)

PROSPECTS

The Company believes that mineral resources are strategically valuable and worth investment over the long term, and the Company deems it strategically important to procure a steady supply of graphite raw materials to ensure sustainable operation and growth of its graphite business. If financing is available on terms acceptable to the Company, the Company intends to acquire additional graphite mineral resources, increase oil production, and develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK, supported by an e-commence platform, thereby enhancing high-tech contents in its electronics and other products. The Company believes that these endeavors will enable it to strengthen earnings and profitability, and deliver more value to its shareholders.

RESULTS OF OPERATIONS

For the year ended 31 December 2011, the Group's turnover was $92.162 million, an increase of $30.485 million, or 49.43%, as compared to $61.677 million for the prior year. Specifically, for the year ended 31 December 2011, the turnover of the Group's crude oil operation was $15.901 million as compared to $11.006 million for the year of 2010, representing an increase of 44.48%. The increase in oil revenue was primarily due to increased production and increased average sales price of crude oil. For the same period, the Group's graphite operation generated revenues of $45.413 million, or an increase of 97.1%, as compared to $23.044 million for the year ended 31 December 2010. The increase in the Group's graphite operation revenue was due primarily to the increase in customer orders, solicitoring additional new customers, acquisition of new subsidiary as well as general increase in mineral selling price. For the year ended 31 December 2011, the turnover of the Group's electronics manufacturing service operation was $30.741 million, representing an increase of $3.18 million, or 11.5%, as compared to $27.561 million for the prior year. The turnover increase in the Group's electronics manufacturing service operation was largely due to an increase in sales orders and new customers.

LIQUIDITY AND CAPITAL RESOURCES

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

At 31 December 2011, the Group's cash and cash equivalents were $33.122 million as compared to $21.591 million as at 31 December 2010. For the year ended 31 December 2011, the Group's operating activities used net cash of $33.972 million. By comparison, net cash used in operating activities was $4.340 million for the year of 2010. During the same period, the Group's investing activities used net cash of $2.895 million, primarily due to purchase of property and equipment. By comparison, net cash provided by the Group's investing activities in 2010 was $6.612 million. For the year ended 31 December 2011, the Group's financing activities generated net cash of $47.415 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $12.327 million for the year of 2010.

On 4 April 2011, the Company entered into a Subscription Agreement with a US based institutional investor for an aggregate of US$250 million 3% interest convertible debentures due April 2021. The net proceeds were intended to be used as funding for potential acquisitions of graphite mineral resources and capital reserve to increase oil production in the Bula Oilfields, Indonesia, and to develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK, thereby enhancing high-tech contents in its electronics products.

DIRECTORS' BUSINESS REVIEW

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

At the extraordinary general meeting held on 8 November 2011, the shareholders of the Company approved that the Company's authorized share capital be reduced from US$500,000,000 divided into 1,000,000,000 shares of US$0.500 each to US$1,000,000 divided into 1,000,000,000 reduced shares of US$0.001 each. The credit arising from the capital reduction was credited to the share premium account of the Company. Upon such capital reduction being effective, the authorised share capital of the Company be increased from US$1,000,000 (divided into 1,000,000,000 reduced shares of US$0.001 each) to US$500,000,000 (divided into 500,000,000,000 reduced shares of US$0.001 each) by the creation of 499,000,000,000 unissued reduced shares of US$0.001 each, and that each such reduced share, upon issue, shall rank pari passu in all respects with the existing reduced shares. The Capital Reorganization was approved by the shareholders of the Company at the meeting and was effective on 9 November 2011.

At 31 December 2011, 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.

OFF BALANCE SHEET ARRANGEMENTS

At 31 December 2011, the Group had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2011, the Group had a total of 902 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. For the year ended 31 December 2011, the Group did not engage 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 flow, and when appropriate to hedge its currency risks.

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.

DIRECTORS' BUSINESS REVIEW

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

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 audited financial statements of the Group for the year ended 31 December 2011.

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://www.southseapetro.com.hk) (together, the "Websites") and be dispatched to shareholders who elected to receive the printed version of the corporate communication of the Company before 20 April 2012.

On behalf of the Board

Guan Xinmin
Chairman

Hong Kong, 29 March 2012

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 2011, which were approved by the Board of Directors of the Company on 29 March 2012.

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 2011 are set out in the consolidated income statement on page 23.

For the year ended 31 December 2011, the Company has not declared or paid any dividend on its ordinary shares (2010: 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 28 and note 31 to the financial statements respectively.

FIXED ASSETS

During the year the Group's fixed assets increased to US$27.388 million at 31 December, 2011 from US$22.375 million at the end of 2010.

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.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2011 (2010: Nil).

SHARE CAPITAL

At the extraordinary general meeting held on 8 November 2011, a capital reorganization (the "Capital Reorganization") was proposed to the shareholders of the Company that the Company's authorized share capital be reduced from US$500,000,000 divided into 1,000,000,000 shares of US$0.500 each to US$1,000,000 divided into 1,000,000,000 reduced shares of US$0.001 each. The credit arising from the capital reduction was credited to the share premium account of the Company. Upon such capital reduction being effective, the authorised share capital of the Company be increased from US$1,000,000 (divided into 1,000,000,000 reduced shares of US$0.001 each) to US$500,000,000 (divided into 500,000,000,000 reduced shares of US$0.001 each) by the creation of 499,000,000,000 unissued reduced shares of US$0.001 each, and that each such reduced share, upon issue, shall rank pari passu in all respects with the existing reduced shares. The Capital Reorganization was approved by the shareholders of the Company at the meeting and was effective on 9 November 2011.

During the year, 338,200,986 ordinary shares were issued by the Company. Details of movements in the share capital of the Company are set out in note 29 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:

Guan Xinmin, age of 49, has been the Company's executive Director and Chairman of the Board of Directors since 8 July 2011. Prior to this appointment, he was the Company's General Purchasing Manager. Mr. Guan has highly valued experience in trading mineral products in China and European countries.

Lee Sin Pyung, age of 48, has been the Company's executive Director and 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 34, has been the Company's executive Director since 2009. She held a bachelor degree in Accountancy from Qingdao University. From 2001 to 2007, Ms. Zhang served as Accounting Manager in Beifang Mining Group Limited. Ms. Zhang is the wife of Mr. Song Xiu Qiang, the Vice President of Marketing of the Company.

Lu Ren Jie, age of 77, 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 54, has been the Company's independent non-executive Director since 2002. From 1994 to 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 80, has been the independent 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 the chairman of the Audit Committee of the Board of Directors of the Company.

Under the existing Articles of Association of the Company, all of 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 and Ms. Zhang Xue retire by rotation and, being eligible, offer themselves for re-election at the coming annual general meeting. Mr. Guan Xinmin was appointed by the Board on 8 July 2011, will also be eligible for re-election at the coming general meeting.

No Director being proposed for re-election at the forthcoming 2012 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

At 31 December 2011, 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 of 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 2011, 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 2011, no person 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchases from the five largest suppliers accounted for approximately 27.52% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 10.40% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 71.65% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 26.50% of the Group's total sales.

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 2011 and 2010.

RELATED PARTY TRANSACTIONS

Details of related party transactions during the year are set out in note 36 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 40 to the financial statements.

INDEPENDENT AUDITOR

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

On Behalf of the Board

Guan Xinmin
Chairman

Hong Kong, 29 March 2012

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 2011, 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.

Recently the Hong Kong Stock Exchange Limited issued Amendments to the Main Board Listing Rules Relating to the Corporate Governance Code and Associated Listing Rules, which are effective 1 January and 1 April 2012. The Company has taken steps to comply with the requirements.

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.

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. Guan Xinmin – *Chairman* (appointed on 8 July 2011)
Mr. Zhou Ling (resigned on 8 July 2011)
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 8 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 2011, the Board at all times fulfilled the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors.

All Directors have actively participated in the review and monitoring of the Company's business and operations. 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 AND COMMITTEE MEETING

During the year ended 31 December 2011, 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 2011:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	AGM
Mr. Guan Xinmin (1)	2/4	N/A	N/A	0/1
Mr. Zhou Ling (2)	2/4	N/A	N/A	1/1
Ms. Lee Sin Pyung	4/4	N/A	N/A	0/1
Ms. Zhang Xue	4/4	N/A	N/A	1/1
Mr. Lu Ren Jie	4/4	2/2	1/1	0/1
Mr. Chai Woon Chew	2/4	2/2	1/1	0/1
Mr. Ho Choi Chiu	2/4	2/2	1/1	0/1

(1) Mr. Guan Xinmin was appointed Chairman of the Board and executive Director on 8 July 2011.

(2) Mr. Zhou Ling resigned as Chairman of the Board and executive Director on 8 July 2011.

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. Guan Xinmin, 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.

CORPORATE GOVERNANCE REPORT

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 expected 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.

BOARD COMMITTEES

The board has established three committees under the board, namely Audit Committee, Remuneration Committee, and Nomination 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 2011, the members of the Audit Committee consisted of:

- Mr. Ho Choi Chiu *(Chairman)*
- 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;

CORPORATE GOVERNANCE REPORT

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

The Audit Committee held two meetings in 2011. 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 2011 and the interim results for the six months ended 30 June 2011;
- 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 2011 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 Board of Directors approval of the consolidated financial statements for the year ended 31 December 2011 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 auditor for 2012.

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. Chai Woon Chew *(Chairman)*
- Mr. Lu Ren Jie and
- Mr. Ho Choi Chiu

CORPORATE GOVERNANCE REPORT

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

- To make recommendations to the Board on matters relating to the Company's policy and structure for the remuneration of the Directors and senior management;
- 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;
- 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.

During the year, the remuneration policy and compensation arrangements of the Company remained unchanged.

NOMINATION COMMITTEE

By passing a board resolution, the Nomination Committee was established on 29 March 2012. The Company formulated written terms of reference for the Nomination Committee in accordance with the requirements of the Stock Exchange. The Nomination Committee consists of three independent non-executive Directors. As of the date of this Annual Report, the members of the Nomination Committee were:

- Mr. Lu Ren Jie *(Chairman)*
- Mr. Ho Choi Chiu and
- Mr. Chai Woon Chew

The major roles and functions of the Company's Nomination Committee are as follows:

- Review and recommend the structure, size and composition of the Board at least annually to complement the Company's corporate strategy;
- Identify and recommend individuals suitably qualified to become Board member(s);
- Assess the independence of the independent non-executive Directors; and
- Recommend to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors.

In evaluating whether an appointment is suitable to act as a Director, the Board will consider the skills and expertise of the appointee, as well as personal ethics, integrity and the willingness to commit time to the affairs of the Company.

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 Board is not aware of any matters uncertainly relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements of the Group.

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") as set out in Appendix 10 of the Listing Rules. All Directors have confirmed that, following specific enquiry by the Company, they fully complied with the Model Code throughout the year of 2011.

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 2011, 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 2011 they complied with the required standard set out in the Model Code.

REMUNERATION OF DIRECTORS

The Board's Remuneration Committee, which comprises three independent non-executive Directors, is responsible for the review and approval of 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.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF NON-EXECUTIVE DIRECTORS

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 in this Annual Report.

EXECUTIVE DIRECTORS' REMUNERATION

The remuneration paid to the executive Directors of the Company in 2011 was as below:

Name of Executive Directors	**Compensation Per Annum** (US$'000)
Mr. Guan Xinmin[1]	40
Mr. Zhou Ling[2]	66
Ms. Lee Sin Pyung	76
Ms. Zhang Xue	75

(1) Mr. Guan Xinmin was appointed as executive Director and Chairman of the Board on 8 July 2011. For the year ended 31 December 2011, his remuneration as a Director is HK$312,000 per year.

(2) Mr. Zhou Ling resigned as executive Director and Chairman on 8 July 2011.

No executive Director 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.

AUDITORS' REMUNERATION

In order to maintain their independence, the Company's independent auditor, 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 2011 and 2010:

Fee Category	**2011** **US$'000**	2010 US$'000
Audit fees	**191**	165
Other services	**44**	29

The Audit Committee of the Group intends to re-appoint JP Union & Co as its statutory auditor for the fiscal year 2012. The resolution has been approved by the board of Directors and is subject to final approval and authorization by the shareholders at the 2012 annual general meeting.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has the responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the interest of the Company and its shareholders.

Based on a guidance, which is Internal Control and Risk Management – A Basic Framework issued by the Hong Kong Institute of Certified Public Accountants, the Company has enhanced its internal control and risk management aiming to provide reasonable assurance against material errors, losses or fraud. At the end of the year of 2011, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. Under the reviews, no significant areas of concern that might affect shareholders were identified, and the Board was satisfied that the systems are effective and adequate for their purposes.

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 2011, 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 2011. They are set out in the Application of New and Revised HKFRSs of the notes to the Accounts on page 31.

The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditor's Report on pages 21 to 22.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board is committed to providing clear performance information of the Company to the investors through timely publication of interim and annual results and reports. Copies of the annual reports and interim reports of the Company are distributed to its shareholders in accordance with statutory and regulatory requirements and also to interested parties recorded in the Company's mailing lists. The publications of the Company, including financial reports, circulars and announcements, are also available for download from the Company's corporate website. The corporate website is another channel through which the Company provides up-to-date key information of the Group to its shareholders.

The Company's annual general meeting is also a valuable forum for the Board to communicate directly with the shareholders. At the annual general meeting, each substantially separate issue will be considered by a separate resolution, including the election of individual Directors. The Chairman of the Board and the respective Board Committees usually attend annual general meetings to answer shareholders' questions.

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") and its subsidiaries (together the "Group") set out on pages 23 to 71, which comprise the consolidated and Company statement of financial position as at 31 December 2011, 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 2011 and of the Group's profit 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, 29 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
TURNOVER	6	**92,162**	61,677
COST OF SALES		**(47,783)**	(42,027)
		44,379	19,650
Other income	6	**3,884**	3,016
General and administrative expenses		**(25,017)**	(20,957)
Drilling and operating expenses		**(12,025)**	(9,388)
Net gain (loss) in fair value of financial assets held for trading		**42,351**	(4,631)
Other taxes		**(500)**	(346)
Impairment loss on oil properties		**–**	(3,600)
Impairment loss on goodwill		**–**	(1,262)
PROFIT (LOSS) FROM OPERATING ACTIVITIES	7	**53,072**	(17,518)
Finance costs	8	**(749)**	(674)
PROFIT (LOSS) BEFORE TAX		**52,323**	(18,192)
INCOME TAX	11	**(3,479)**	(218)
PROFIT (LOSS) FOR THE YEAR		**48,844**	(18,410)
ATTRIBUTABLE TO:			
Equity shareholders of the Company	13	**46,601**	(18,683)
Non-controlling interests		**2,243**	273
		48,844	(18,410)
EARNINGS (LOSS) PER SHARE (US Cents)			
– Basic	14	**14.19**	(7.52)
– Diluted	14	**14.18**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit (loss) for the year	**48,844**	(18,410)
Other comprehensive income		
Exchange differences	**964**	47
Revaluation of land and buildings	**319**	–
Total comprehensive income for the year	**50,127**	(18,363)
ATTRIBUTABLE TO:		
Equity shareholders of the Company	**47,707**	(18,694)
Non-controlling interests	**2,420**	331
	50,127	(18,363)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Fixed assets	14		
– Other property, plant and equipment		25,114	19,936
– Investment properties		2,274	2,439
		27,388	22,375
Prepaid lease payments	15	3,033	–
Goodwill	16	–	–
Available-for-sale investments	18	–	771
Deferred tax assets	19	1,114	368
		31,535	23,514
CURRENT ASSETS			
Cash and bank balances		33,122	22,682
Financial assets at fair value held for trading	20	58,525	16,798
Trade and notes receivables	21	26,771	8,550
Other loan receivable	22	2,700	–
Inventories	23	14,857	10,747
Prepayments, deposits and other receivables	24	77,512	56,360
		213,487	115,137
CURRENT LIABILITIES			
Trade payables	25	5,343	5,035
Other payables and accrued expenses		9,332	4,502
Bank loan on discounted debtors		1,314	104
Bank overdraft		–	1,091
Finance lease-current portion	26	225	272
Taxation		4,291	472
		20,505	11,476

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
NET CURRENT ASSETS		**192,982**	103,661
TOTAL ASSETS LESS CURRENT LIABILITIES		**224,517**	127,175
NON-CURRENT LIABILITIES			
Finance lease	*26*	**109**	280
Provision	*27*	**2,605**	1,909
Convertible debentures	*28*	**1,023**	3,650
		3,737	5,839
NET ASSETS		**220,780**	121,336
CAPITAL AND RESERVES			
Share capital	*29*	**602**	131,667
Revaluation reserve		**3,908**	3,710
Special capital reserve		**12,037**	12,037
Share premium		**380,711**	198,851
Convertible debenture equity reserve	*28*	**–**	1,478
Translation reserve		**6,807**	5,899
Accumulated losses		**(188,859)**	(235,460)
Total equity attributable to equity shareholders of the Company		**215,206**	118,182
Non-controlling interests		**5,574**	3,154
		220,780	121,336

LEE SIN PYUNG
Managing Director

GUAN XINMIN
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Fixed assets	14	**53**	79
Interests in subsidiaries	17	**203,957**	111,426
		204,010	111,505
CURRENT ASSETS			
Cash and bank balances		**12,982**	5,761
Financial assets at fair value held for trading	20	**3**	3
Prepayments, deposits and other receivables		**255**	4,708
		13,240	10,472
CURRENT LIABILITIES			
Other payables and accrued expenses		**1,021**	145
NET CURRENT ASSETS		**12,219**	10,327
TOTAL ASSETS LESS CURRENT LIABILITIES		**216,229**	121,832
NON-CURRENT LIABILITIES			
Convertible debentures	28	**1,023**	3,650
NET ASSETS		**215,206**	118,182
CAPITAL AND RESERVES			
Share capital	29	**602**	131,667
Reserves	31	**214,604**	(13,485)
		215,206	118,182

LEE SIN PYUNG
Managing Director

GUAN XINMIN
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	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	Non-controlling interests US$'000	Total equity US$'000
At 1.1.2011	131,667	198,851	1,478	12,037	5,899	3,710	(235,460)	118,182	3,154	121,336
Profit for the year	–	–	–	–	–	–	46,601	46,601	2,243	48,844
Other comprehensive income	–	–	–	–	908	198	–	1,106	177	1,283
Total comprehensive income for the year	–	–	–	–	908	198	46,601	47,707	2,420	50,127
Capital reduction	(172,870)	172,870	–	–	–	–	–	–	–	–
Issue of shares upon conversion of convertible debentures	41,805	8,990	(8,876)	–	–	–	–	41,919	–	41,919
Convertible debenture – equity component	–	–	7,398	–	–	–	–	7,398	–-	7,398
At 31.12.2011	602	380,711	–	12,037	6,807	3,908	(188,859)	215,206	5,574	220,780

	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	Non-controlling interests US$'000	Total equity US$'000
At 1.1.2010	109,722	199,947	2,253	12,037	5,918	3,843	(216,777)	116,943	2,823	119,766
Loss for the year	–	–	–	–	–	–	(18,683)	(18,683)	273	(18,410)
Other comprehensive income	–	–	–	–	122	(133)	–-	(11)	58	47
Total comprehensive income for the year	–	–	–	–	122	(133)	(18,683)	(18,694)	331	(18,363)
Issue of shares upon conversion of convertible debentures	21,945	(1,096)	(2,253)	–	(141)	–	–	18,455	–	18,455
Convertible debenture – equity component	–	–	1,478	–	–	–	–	1,478	–-	1,478
At 31.12.2010	131,667	198,851	1,478	12,037	5,899	3,710	(235,460)	118,182	3,154	121,336

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
NET CASH USED IN OPERATING ACTIVITIES	*32(a)*	**(33,972)**	(4,340)
INVESTING ACTIVITIES			
Additions of fixed assets		**(4,722)**	(6,842)
Dividend income received		**386**	221
Cash inflow on acquisition of subsidiaries	*32(b)*	**1,434**	–
Interest received		**7**	9
Net cash used in investing activities		**(2,895)**	(6,612)
FINANCING ACTIVITIES			
Issue of convertible debentures		**46,423**	14,615
Redemption of convertible debentures		**–**	(119)
Capital element of finance lease		**(218)**	(293)
Net proceeds of loan from discounted debtors		**1,210**	(1,876)
Net cash from financing activities		**47,415**	12,327
INCREASE IN CASH AND CASH EQUIVALENTS		**10,548**	1,375
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**21,591**	19,814
EFFECT OF FOREIGN EXCHANGE RATES		**983**	402
CASH AND CASH EQUIVALENTS AT END OF YEAR		**33,122**	21,591
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**33,122**	22,682
Bank overdraft		**–**	(1,091)
		33,122	21,591

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability. Its principal place of business is situated at Room 504, 5/F, Chinachem Tower, 34-37 Connaught 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, South Sea Graphite (Luobei) Co., Ltd, and wholly owned subsidiary, Liaoning Sinorth Resources Co., Limited, the Company is engaged in the business of exploration, production and sale of graphite products in Luobei, Heilongjiang Province of China, and Liaoning Province respectively.

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

For the year ended 31 December 2011

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 incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

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 2011.

HKAS 24 (Revised)	Related Party Disclosures
HKAS 34 (Amendment)	Interim Financial Reporting
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised HKFRSs has had no material impact on this financial report.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES

Business combinations

Business combinations that took place on or after 1st January, 2011

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place prior to 1st January, 2011

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling shareholder's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, are depleted/depreciated using the unit of production method based on estimated proven oil reserves. Plant and equipment are depreciated at rates from 10% to 50% per annum.

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 end of reporting period.

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.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which care the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement financial position 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.

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

For the year ended 31 December 2011

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

For the year ended 31 December 2011

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 consolidated statement of financial position 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 the end of each reporting period, 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

For the year ended 31 December 2011

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 statement of financial position 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 statement of financial position. It is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period 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

For the year ended 31 December 2011

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 statement of financial position, 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.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value using the Binomial Option Pricing model and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 using the exchange rates prevailing of the dates of transactions. Monetary assets and liabilities denominated in other currencies are translated at the year-end exchange rates. All exchange differences are dealt with in the income statement.

(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 statement of financial position presented are translated at the closing rate at the reporting date;

(b) Income and expenses for each statement of comprehensive income 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 reporting date, and are discounted to present value where the effect is material.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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.

	Note	**2011 US$'000**	2010 US$'000
An analysis of the Group's turnover and income is as follows:			
Turnover			
Crude oil sales		**15,901**	11,006
Sales of goods and services		**76,261**	50,671
		92,162	61,677
Other income			
Bank interest income		**7**	9
Rental income		**1,057**	1,069
Government grant		**–**	47
Dividend income		**472**	1,710
Gain on bargain purchase	*32(b)*	**2,299**	–
Sundry income		**49**	181
		3,884	3,016
		96,046	64,693

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	Oil 2011 US$'000	Sale of minerals 2011 US$'000	Contract electronic manufacturing 2011 US$'000	Trading securities 2011 US$'000	Other 2011 US$'000	Total 2011 US$'000
Revenue from external customers	15,901	45,413	30,741	–	107	92,162
Segment results	(2,310)	18,514	1,383	42,301	–	59,888
Unallocated income and expenses						(6,816)
Profit from operating activities						53,072
Finance costs	–	–	(277)	–	(472)	(749)
Taxation	–	(4,228)	749	–	–	(3,479)
Profit for the year						48,844
Segment assets	7,882	124,730	27,575	63,274	–	223,461
Unallocated assets						21,561
Total assets						245,022
Segment liabilities	(4,865)	(7,169)	(10,149)	–	–	(22,183)
Unallocated liabilities						(2,059)
Total liabilities						(24,242)
Depreciation	558	1,349	878	–	28	2,813
Significant non-cash income	–	2,299	–	43,111	–	45,410
Significant non-cash expenses	696	–	–	–	–	696
Capital expenditure additions	–	4,406	314	–	2	4,722

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment (Continued)

	Oil 2010 US$'000	Sale of minerals 2010 US$'000	Contract electronic manufacturing 2010 US$'000	Trading securities 2010 US$'000	Other 2010 US$'000	Total 2010 US$'000
Revenue from external customers	11,006	23,044	27,561	–	66	61,677
Segment results	(8,569)	884	881	(3,460)	–	(10,264)
Unallocated income and expenses						(7,254)
Loss from operating activities						(17,518)
Finance costs	–	–	(287)	–	(387)	(674)
Taxation	–	(460)	242	–	–	(218)
Loss for the year						(18,410)
Segment assets	6,018	66,972	24,232	21,201	–	118,423
Unallocated assets						20,228
Total assets						138,651
Segment liabilities	(3,240)	(1,776)	(8,488)	–	–	(13,504)
Unallocated liabilities						(3,811)
Total liabilities						(17,315)
Depreciation	327	984	1,085	28	6	2,430
Significant non-cash expenses	5,432	–	–	–	–	5,432
Capital expenditure additions	323	6,087	352	–	80	6,842

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000
Indonesia	**15,901**	11,006	**7,976**	6,112	**314**	323
United Kingdom	**30,741**	27,561	**27,469**	24,119	**–**	352
China	**45,413**	23,044	**125,013**	67,726	**4,406**	6,087
America	**–**	–	**45,106**	113	**1**	–
Hong Kong	**107**	66	**39,458**	40,581	**1**	80
	92,162	61,677	**245,022**	138,651	**4,722**	6,842

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. PROFIT (LOSS) FROM OPERATING ACTIVITIES

The Group's profit (loss) from operating activities is arrived at after charging (crediting):

	2011 US$'000	2010 US$'000
Depreciation:		
– owned fixed assets	**2,619**	2,130
– leased fixed assets	**194**	300
Operating lease rentals on		
– land and buildings	**1,401**	1,212
– plant and machinery	**1,763**	988
Costs of inventories sold	**60,170**	48,326
Fixed assets written off	**365**	498
Staff costs (including directors' remuneration – *note 9)*	**13,502**	12,822
Auditors' remuneration		
– audit fee	**191**	165
– other services	**44**	29
Net (gain) loss in fair value of financial assets held for trading		
– realized	**760**	1,583
– unrealised	**(43,111)**	3,048
Provision for plug and abandonment	**696**	480
Foreign exchange (gain) loss, net	**(1)**	20

8. FINANCE COSTS

	2011 US$'000	2010 US$'000
Debenture interest	**472**	386
Bank discounting charges	**45**	67
Bank interest paid	**44**	41
Interest on finance lease	**18**	18
Bank charges	**170**	162
	749	674

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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**	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**2011 Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Executive directors				
Guan Xin Min	**–**	**39**	**1**	**40**
Zhou Ling	**–**	**65**	**1**	**66**
Lee Sin Pyung	**–**	**76**	**–**	**76**
Zhang Xue	**–**	**74**	**1**	**75**
Independent non-executive directors				
Lu Ren Jie	**20**	**–**	**–**	**20**
Chai Woon Chew	**15**	**–**	**–**	**15**
Ho Choi Chiu	**15**	**–**	**–**	**15**
	50	**254**	**3**	**307**

Name of directors	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	2010 Total
	US$'000	US$'000	US$'000	US$'000
Executive directors				
Zhou Ling	–	67	1	68
Lee Sin Pyung	–	48	–	48
Zhang Xue	–	21	1	22
Independent non-executive directors				
Lu Ren Jie	20	–	–	20
Chai Woon Chew	15	–	–	15
Ho Choi Chiu	15	–	–	15
	50	136	2	188

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2010: Nil), details of whose remuneration are set out in note 9 above. The details of the remuneration of the five non-directors (2010: five), highest paid employees are set out below.

	2011	2010
	US$'000	US$'000
Salaries, allowances and benefits in kind	**1,548**	1,245

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of non-directors 2011	2010
US$Nil to US$129,000	**–**	3
US$129,001 to US$192,300	**2**	–
US$320,500 to US$384,600	**1**	–
US$384,601 to US$448,700	**1**	1
US$448,701 to US$512,800	**1**	1
	5	5

11. INCOME TAX

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

	2011 US$'000	2010 US$'000
Overseas tax charge		
– current year	**4101**	463
– overprovision in respect of prior years	**–**	(36)
Deferred tax credited – *note 19*	**(622)**	(209)
Tax charge for the year	**3,479**	218

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 in Hong Kong for the year.

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

Deferred tax credit for the year represents deferred tax assets provided in an England and a PRC subsidiary.

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

	2011 US$'000	2010 US$'000
Profit (loss) before tax	**52,323**	(18,192)
Tax (notional tax) on profit (loss) before tax, calculated at the rates applicable to profits in the countries concerned	**9,101**	(5,737)
Tax effect of non-deductible expenses	**1,041**	726
Tax effect of non-taxable income	**(7,677)**	(283)
Tax effect of tax losses not recognized	**1,661**	5,983
Tax loss recognized	**(90)**	(292)
Other timing difference	**(557)**	(143)
Overprovision in prior years	**–**	(36)
Tax expenses	**3,479**	218

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is US$47,974,000 (2010: loss of US$18,692,000).

13. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the net profit attributable to equity shareholders for the year of US$46,601,000 (2010: loss of US$18,683,000) and weighted average of 328,425,171 (2010: 248,612,465) ordinary shares in issue during the year.

The diluted earnings per share for the year is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the convertible debentures at the date of issuing the potential ordinary shares to 328,763,108; and the adjusted profit attributable to equity shareholders of the Company of US$46,603,000, being the profit attributable to the shareholders of the Company of US$46,601,000 adjusted to eliminate the interest expense of US$2,000.

14. 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 1.1.2011	3,556	9,426	20,570	6,077	1,500	430	41,559	2,439	43,998
Exchange differences	–	56	243	(32)	53	20	340	–	340
Acquisition of subsidiaries	–	2,519	516	–	32	–	3,067	–	3,067
Additions	–	449	360	32	260	3,621	4,722	–	4,722
Transfer	–	1,843	2,203	–	–	(4,046)	–	–	–
Disposal	(392)	–	(76)	(11)	–	–	(479)	–	(479)
Revaluation	–	(78)	–	–	–	–	(78)	(165)	(243)
At 31.12.2011	3,164	14,215	23,816	6,066	1,845	25	49,131	2,274	51,405
Representing:									
Cost	3,164	6,143	23,816	6,066	1,845	25	41,059	–	41,059
Valuation	–	8,072	–	–	–	–	8,072	2,274	10,346
	3,164	14,215	23,816	6,066	1,845	25	49,131	2,274	51,405
Accumulated depreciation:									
At 1.1.2011	1,769	292	13,180	5,875	507	–	21,623	–	21,623
Exchange difference	–	7	14	(31)	13	–	3	–	3
Charge for the year	558	351	1,658	64	182	–	2,813	–	2,813
Written back	–	–	(103)	(11)	–	–	(114)	–	(114)
Revaluation	–	(308)	–	–	–	–	(308)	–	(308)
At 31.12.2011	2,327	342	14,749	5,897	702	–	24,017	–	24,017
Net book value:									
At 31.12.2011	837	13,873	9,067	169	1,143	25	25,114	2,274	27,388

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. 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 1.1.2010	13,830	9,437	21,171	6,331	827	271	51,867	2,439	54,306
Exchange differences	–	(260)	(418)	(213)	19	9	(863)	–	(863)
Additions	324	50	4,458	5	746	1,259	6,842	–	6,842
Transfer	–	199	891	–	–	(1,090)	–	–	–
Disposal	(6,998)	–	(5,532)	(46)	(92)	(19)	(12,687)	–	(12,687)
Impairment	(3,600)	–	–	–	–	–	(3,600)	–	(3,600)
At 31.12.2010	3,556	9,426	20,570	6,077	1,500	430	41,559	2,439	43,998
Representing:									
Cost	3,556	1,231	20,570	6,077	1,500	430	33,364	–	33,364
Valuation	–	8,195	–	–	–	–	8,195	2,439	10,634
	3,556	9,426	20,570	6,077	1,500	430	41,559	2,439	43,998
Accumulated depreciation:									
At 1.1.2010	8,440	78	17,041	6,035	369	–	31,963	–	31,963
Exchange difference	–	1	(383)	(204)	5	–	(581)	–	(581)
Charge for the year	327	213	1,645	91	154	–	2,430	–	2,430
Written back	(6,998)	–	(5,123)	(47)	(21)	–	(12,189)	–	(12,189)
At 31.12.2010	1,769	292	13,180	5,875	507	–	21,623	–	21,623
Net book value:									
At 31.12.2010	1,787	9,134	7,390	202	993	430	19,936	2,439	22,375

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. FIXED ASSETS (Continued)

Company

	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:			
At 1.1.2010	142	105	247
Addition	2	78	80
At 31.12.2010	144	183	327
Addition	1	–	1
At 31.12.2011	**145**	**183**	**328**
Accumulated depreciation:			
At 1.1.2010	138	105	243
Charge for the year	3	2	5
At 31.12.2010	141	107	248
Charge for the year	1	26	27
At 31.12.2011	**142**	**133**	**275**
Net book value:			
At 31.12.2011	**3**	**50**	**53**
At 31.12.2010	3	76	79

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. FIXED ASSETS (Continued)

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

	Group 2011 US$	2010 US$
Land and buildings		
– freehold outside Hong Kong	**8,072**	8,195
– medium lease outside Hong Kong	**5,801**	1,231
	13,873	9,426

Since 2009, the exploratory oil properties of the Group have been leased to an independent third party for further exploration. The management recognised an impairment loss of these oil properties to an amount of US$3,600,000 in 2010.

Investment properties of the Group are held on long lease situated outside Hong Kong.

The Freehold land and buildings were revalued on 31 December 2011 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors.

Had the Group's Freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$4,839,000 (2010: US$5,007,000).

The investment properties were revalued on 31 December 2011 on the basis of their open market value by Youlanda, an independent firm of chartered surveyors.

The net book value of plant and machinery held under finance leases of the Group was US$613,000 (2010: US$916,000).

15. PREPAID LEASE PAYMENTS

	Group 2011 US$'000	2010 US$'000
Acquisition of subsidiary	**3,048**	–
Accumulated amortisation	**15**	–
At 31 December	**3,033**	–

The Group's leasehold land is situated in the PRC and held under medium lease terms.

The cost of land use rights is amortised over 50 years on a straight-line basis.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. GOODWILL

Group

	2011 **US$'000**	2010 US$'000
Net carrying value		
At 1 January	**1,262**	1,262
Impairment	**(1,262)**	(1,262)
At 31 December	**–**	–

17. INTERESTS IN SUBSIDIARIES

Company

	2011 **US$'000**	2010 US$'000
Unlisted shares, at cost	**364**	364
Amounts due from subsidiaries	**349,037**	311,589
	349,401	311,953
Provision for impairment in values	**(145,444)**	(200,527)
Carrying value at 31 December	**203,957**	111,426

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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, trading of minerals and subletting of oil properties
Seaunion Energy (Limau) Limited#	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	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
Axiom MS Limited	United Kingdom	United Kingdom	1,000 ordinary shares of £1 each	–	94.81	Property holding
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
Comp Property International Limited	British Virgin Islands	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 %	Indirectly %	Principal activities
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
South Sea Graphite (Loubei) Co., Limited.+	PRC	PRC	RMB90,023,000	–	82.92	Exploration, production and selling of mineral products
Unicorn Arts Limited	Hong Kong	Hong Kong	1 ordinary shares of HK$1 each	–	100	Dormant
Moderation Limited ++	Hong Kong	Hong Kong	6 ordinary shares of HK$1 each	–	100	Investment holding
Liaoning Sinorth Resources Co. Limited ++	PRC	PRC	RMB70,461,854	–	100	Production and selling of mineral products

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

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2011	2010
	US$'000	US$'000
Unlisted shares, at cost	**–**	771

19. DEFERRED TAX ASSETS

	Group	
	2011	2010
	US$'000	US$'000
At 1 January	**368**	168
Acquisition of subsidiary	**126**	–
Charge for the year	**622**	209
Exchange difference	**(2)**	(9)
At 31 December	**1,114**	368

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 of US$366,000 (2010: Nil) and tax losses available of US$1,113,000 (2010: US$368,000).

Deferred tax assets not recognized in the financial statements comprised of unused losses of approximately US$16,333,000 (2010: US$14,597,000).

20. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING

	Group		Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares	**13,525**	16,798	**3**	3
Shares traded on the OTC Bulletin Board in the United States	**45,000**	–	**–**	–
	58,525	16,798	**3**	3

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. TRADE AND NOTES RECEIVABLES

	Group 2011 US$'000	2010 US$'000
Trade receivables	**6,556**	7,135
Notes receivables	**20,215**	1,415
	26,771	8,550

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

	Group 2011 US$'000	2010 US$'000
0 – 30 days	**8,921**	4,424
31 – 60 days	**11,827**	1,997
61 – 90 days	**3,244**	1,518
Over 90 days	**2,779**	611
	26,771	8,550

Included in trade receivables an amount of US$1,148,000 (2010: Nil) which was due from non-controlling interest.

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

At 31.12.2011, trade receivable of approximately US$7,146,000 (2010: US$4,991,000) were pledged to bank to secure a loan on these discounted debtors.

22. OTHER LOAN RECEIVABLE

The amount due was unsecured, bearing interest rate of 6.56% and repayable within one year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. INVENTORIES

	Group	
	2011	2010
	US$'000	US$'000
Production supplies and raw materials	**9,992**	6,541
Work in progress	**929**	1,572
Goods in transit	**–**	711
Finished goods	**3,936**	1,923
	14,857	10,747

24. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2011	2010
	US$'000	US$'000
Advances to supplier	**73,842**	47,707
Deposit to financial advisor	**–**	4,318
Other deposits and prepayments	**1,428**	3,188
Other receivables	**2,242**	1,147
	77,512	56,360

Advances to supplier were paid to Gain Time Management Limited for purchases of graphite ores. The advances are interest free.

In 2010, The Group paid deposit of US$4,318,000 and prepayment of US$4,314,000 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

25. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2011	2010
	US$'000	US$'000
0 – 30 days	**1,595**	1,714
31 – 60 days	**2,442**	2,156
61 – 90 days	**805**	969
Over 90 days	**501**	196
	5,343	5,035

26. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2011, the Group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**237**	289	**225**	272
After one year but within two years	**108**	205	**100**	200
After two year but within five years	**11**	83	**9**	80
	356	577	**334**	552
Less: Future finance charges	**22**	25		
Present value of finance lease	**334**	552		
Less: Amount shown under current liabilities			**225**	272
			109	280

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

27. PROVISION

	Plug and abandonment US$'000
At 1.1.2011	**1,909**
Provision for the year	**696**
At 31.12.2011	**2,605**

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.

28. CONVERTIBLE DEBENTURES

	Group and Company	
	2011 US$'000	2010 US$'000
Principal amounts	**1,077**	5,398
Transaction costs	**(54)**	(270)
Net proceeds	**1,023**	5,128
Equity component	**–**	(1,478)
Derivative component	**(8)**	–
Liability component at date of issue	**1,015**	3,650

Convertible debentures issued to RTM Financial Corp.

On 4 April 2011, the Company entered into a subscription agreement with RTM Financial Corp. for an aggregate of US$250 million 3% interest convertible debentures due 4 April 2021. RTM Financial Corp. 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 higher of (i) 90% of the average closing price of the Shares of any five (5) consecutive trading days (as selected by the Debenture Holder) within the sixty trading days immediately prior to the Conversion Date and (ii) the current par value of the Shares at US$0.50 (equivalent to HK$3.90), or the then effective par value of the Shares at the time of conversion.

The Company may at any time between the issue date of the Convertible Debentures and the Maturity Date to redeem whole or any part of debenture at 112% of the outstanding principal amount of the Convertible Bonds.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. CONVERTIBLE DEBENTURES (Continued)

During the year ended 2011, the Company issued the Debenture April 2021 for approximately US$12,804,000 (year ended 2010: Nil). Finder's fee of US$640,000 was payable to RTM Financial Corp. After the share consolidation effective on 9 November 2011, conversion right was exercised to convert US$11,309,000 of the Convertible Debentures for 255,100,986 shares of US$0.001 each.

The fair values of these Convertible Debentures are determined by independent professional valuer, BMI Appraisals Limited, using the Binomail Option Pricing model. The followings are the inputs and significant assumptions adopted in calculating the fair value of the Convertible Debentures:

	Group	
	2011	2010
Share price	**HK$0.237**	–
Conversion price	**HK$3.900**	–
Risk-free rate	**1.414%**	–
Expected life	**9.26 years**	–
Expected Volatility	**112.204%**	–

The risk-free rate was determined with reference to the yield rate of Hong Kong Exchange Fund Notes. The expected life was estimated based on the terms of the Convertible Debentures. The expected volatility was determined based on the historical price volatilities of the Company's share price under the same periods as the expected lives. Any changes in the major inputs into the model will result in changes in the fair value of the embedded financial derivatives.

The fair values of the convertible debentures at issue date are approximate to those at the conversion date or at the end of the reporting period. No profit or loss for the change in fair values on conversion is recognized.

Two amendments and one supplementary documents were made on 6 January 2012 and 26 January 2012 respectively that Agreement with a RTM Financial Corp.: (1) the total number of conversion shares (for the whole US$250,000,000 debentures) will not exceed 7,500,000,000 Shares; and (2) be changed from flexible payment schedule to specific payment day, i.e. the RTM Financial Corp will complete the payment for US$250,000,000 debentures (by one or more installments) on or before December 31, 2014. The conversion price shall be 90% of the average closing price of the Shares of any five (5) consecutive trading days (as selected by the debenture holder) within sixty (60) trading days immediately prior to the conversion date, but in any case the conversion price shall not be lower than HK$0.10 per Share.

Convertible debentures issued to Kelton Capital Group Limited

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. CONVERTIBLE DEBENTURES (Continued)

Convertible debentures issued to Kelton Capital Group Limited (Continued)

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$0.05 each at the conversion price of US$0.05, within the conversion period from the time of Debenture issued to the Maturity Date (9 December 2015).

During the year ended 2011, the Company issued the Debenture December 2015 for approximately US$36,062,000 (year ended 2010: US$5,398,000). Finder's fee of US$1,803,000 (year ended 31.12.2011: US$270,000) has been paid to Kelton Capital Group Limited. Before the share consolidation effective on 9 November 2011, conversion right was exercised to convert US$41,284,000 of the Convertible Debentures for 83,100,000 shares of US$0.50 each.

The liability components of these Convertible Debentures are determined by independent professional valuer, BMI Appraisals Limited, at the average issue dates using discount rates varied from 9.215% to 18.776 % (2010: estimated by directors).

Three amendments and one supplementary documents were made on 6 January 2012 and 26 January 2012 respectively that Agreement with Kelton Capital Group Limited.: (1) the interest rate be changed from 6% to 3% per annum; (2) the conversion price shall be adjusted from HK$3.875 (fixed price) to the market share price, i.e. the higher of (i) 90% of the average closing price of the Shares of any five (5) consecutive trading days (as selected by the debenture holder) within the sixty (60) trading days immediately prior to the conversion date and (ii) the effective par value of US$0.001 of the Shares; and the total number of conversion shares (for the whole US$100,000,000 debentures) will not exceed 3,000,000,000 Shares; and (3) be changed from flexible payment schedule to specific payment day, i.e the Kelton Capital Group Limited will complete the payment for US$100,000,000 debentures (by one or more installments) on or before December 31, 2013. The conversion price shall be 90% of the average closing price of the Shares of any five (5) consecutive trading days (as selected by the debenture holder) within sixty (60) trading days immediately prior to the conversion date, but in any case the conversion price shall not be lower than HK$0.10 per Share.

On 4 August 2010, 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 2010, the Company issued the Debenture August 2012 for approximately US$9,986,000. Finder's fee of US$499,000 has been paid to Megabucks International Limited. Conversion right was exercised to convert US$21,804,000 of the convertible debentures for 2,194,447,870 shares of US$0.01 each. Convertible debentures of US$119,000 were redeemed.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. SHARE CAPITAL

	Group and Company	
	2011	2010
	US$'000	US$'000
Authorised:		
500,000,000,000 ordinary shares of US$0.001 each (31.12.2010: 1,000,000,000 ordinary shares of US$0.50 each)	**500,000**	500,000
Issued and fully paid:		
601,534,730 ordinary shares of US$0.001 each (31.12.2010: 263,333,744 ordinary shares of US$0.50 each)	**602**	131,667

Pursuant to a special resolution passed on 8 November 2011, the authorised share capital of the Company be reduced from US$500,000,000 divided into 1,000,000,000 existing shares of US$0.500 each to US$1,000,000 divided into 1,000,000,000 reduced shares of US$0.001 each and that such reduction be effected by cancelling share capital paid up or credited as paid up to the extent of US$0.499 per existing share upon each of the share in issue and by reducing the nominal value of all the issued and unissued existing shares in the share capital of the Company from US$0.500 to US$0.001 per reduced share.

Pursuant to an ordinary resolution passed on 8 November 2011,the authorised share capital of the Company be increased from US$1,000,000 (divided into 1,000,000,000 reduced shares of US$0.001 each) to US$500,000,000 (divided into 500,000,000,000 Reduced Shares of US$0.001 each) by the creation of 499,000,000,000 unissued reduced shares of US$0.001 each, and that each such reduced share, upon issue, shall rank pari passu in all respects with the existing reduced shares.

Pursuant to an ordinary resolution passed on 8 January 2010, the Company's authorized share capital was increased to US$500,000,000 from 14,000,000,000 ordinary shares of US$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

During the year before share consolidation effective on 9 November 2011, 255,100,986 shares of US$0.001 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$11,309,000. After the effective date of share consolidation, 83,100,000 shares of US$0.50 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$41,284,000.

As at 2 June 2010, the Company effected a share consolidation on the basis that every fifty (50) existing issued and unissued shares of US$0.01 each in the capital of the Company be consolidated into one (1) consolidated share of US$0.50.

The share consolidation was approved by the board of directors of the Company and by a majority of the Company's shareholders at its Extraordinary General Meeting held on 1 June 2010.

In 2010, 2,194,447,870 ordinary shares of US$0.01 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$21,804,000.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

30. 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

For the year ended 31 December 2011

31. 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 28 of the financial statements.

(b) Company

	Share premium US$'000	Convertible debenture equity reserve US$'000	Special capital reserve US$'000	Exchange reserve US$'000	Accumulated losses US$'000	Total US$'000
At 1.1.2010	199,947	2,253	12,037	535	(207,553)	7,219
Loss for the year	–	–	–	–	(18,692)	(66,807)
Issue of shares upon conversion of convertible debentures	(1,096)	(2,253)	–	(141)	–	(3,490)
Convertible debenture – equity component	–	1,478	–	–	–	1,478
At 31.12.2010	198,851	1,478	12,037	394	(226,245)	(13,485)
Profit for the year	–	–	–	–	47,973	47,973
Capital reduction	172,870	–	–	–	–	172,870
Issue of shares upon conversion of convertible debentures	8,990	(8,876)	–	(266)	–	(152)
Convertible debenture – equity component	–	7,398	–	–	–	7,398
At 31.12.2011	**380,711**	**–**	**12,037**	**128**	**(178,272)**	**214,604**

At 31.12.2011, 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 2010.

The convertible debenture equity reserve represents the equity component (conversion right) of convertible debentures issued.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2011 US$'000	2010 US$'000
Profit (loss) before tax	52,323	(18,192)
Dividend income	(472)	(1,710)
Interest income	(7)	(9)
Interest expenses	749	674
(Gain) loss in fair value of financial assets held for trading	(43,111)	3,048
Loss on revaluation of investment properties	165	–
Impairment loss on goodwill	–	1,262
Negative goodwill	(2,299)	–
Impairment loss on oil properties	–	3,600
Fixed assets written off	365	498
Depreciation of fixed assets	2,813	2,430
Amortisation of prepaid lease payments	15	–
Operating profit (loss) before working capital	10,541	(8,399)
Increase in financial assets held for trading	1,470	4,531
(Increase) decrease in trade receivables	(15,177)	3,513
Increase in inventories	(449)	(3,959)
(Decrease) increase in other loan receivable	(2,700)	3,149
Increase in prepayments, deposits and other receivables	(19,998)	(7,036)
(Decrease) increase in trade payables	(1,708)	1,723
(Decrease) increase in other payables and accrued expenses	(5,568)	2,267
Increase in provision	686	480
Cash used in operating activities	(32,893)	(3,731)
Interest paid	(799)	(609)
Overseas tax paid	(280)	–
Net cash used in operating activities	(33,972)	(4,340)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

(b) Analysis of the inflow of cash and cash equivalents on acquisition of subsidiaries

	2011	2010
	US$'000	US$'000
Fair value of net assets acquired:		
Fixed assets	**3,067**	–
Prepaid lease payments	**2,998**	–
Inventories	**3,661**	–
Prepayments, deposits and other receivables	**1,154**	–
Accounts receivable	**3,044**	–
Deferred tax assets	**126**	–
Cash and bank balances	**1,434**	–
Trade payables	**(2,016)**	–
Other payables	**(10,398)**	–
Net assets acquired	**3,070**	–
Gain on bargain purchase	**2,299**	–
Total consideration	**771**	–
Satisfied by:		
Available-for-sale investment	**771**	
Cash and cash equivalent acquired:		
Cash and bank balances	**1,434**	–

On 26 September 2011, Moderation Limited, a company of which 19.4% equity interest has been held by Global Select Limited (a wholly owned subsidiary of the Group) since incorporation, entered into the Agreement with its shareholders, pursuant to which Moderation Limited will repurchase 80.6% shares from other Shareholders (shareholders other than Global Select Limited) and such 80.6% shares will be cancelled. After the Share Repurchase, Moderation Limited will become a wholly owned subsidiary of the Group. Liaoning Sinorth Resources Co., Limited is a wholly owned subsidiary of Moderation Limited and become the subsidiary of the Group in the same day.

Included in the revenue and the profit for the year are approximately USD6,140,000 and USD241,000 attributable to the additional business generated by these newly acquired subsidiaries.

If the acquisition had occurred on 1 January 2011, management estimates that the consolidated turnover and other income would have been USD102,107,000 and the consolidated profit for the year would have been USD48,824,000.

(c) Major non-cash transactions

(i) The convertible debenture holders converted USD52,593,000 (2010: USD21,804,000) convertible debentures into the Company's shares during the year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. COMMITMENTS

Commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	Group		Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
(a) Capital commitments contracted but not provided for in respect of:				
Acquisition for fixed assets	**40**	620	**–**	–
(b) Total future minimum lease payments receivable under non-cancellable operating leases				
(i) on land and buildings and oil properties expiring:				
Within one year	**1,064**	576	**–**	–
In the second to fifth years inclusive	**1,897**	480	**–**	–
	2,961	1,056	**–**	–
(c) Total future minimum lease payments payable under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**409**	431	**400**	324
In the second to fifth years inclusive	**401**	35	**401**	–
	810	466	**801**	324
(ii) on other fixed assets expiring:				
Within one year	**47**	37	**–**	–
In the second to fifth years inclusive	**40**	40	**–**	–
	87	77	**–**	–

34. PLEDGE OF ASSETS

At 31 December 2011, floating charges have been created over the booked debts of the subsidiaries in United Kingdom amounting to US$7,146,000 to secure general banking and discounting facilities granted (2010: fixed assets and current assets of US$2,252,000 and current assets of US$10,960,000).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2011 **US$'000**	2010 US$'000
Salaries, allowances and benefits in kind	**1,562**	1,432

36. MATERIAL RELATED PARTY TRANSACTIONS

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

	2011 **US$'000**	2010 US$'000
Sales to non-controlling interest	**8,374**	12,814
Purchases from non-controlling interest	**800**	1,755

At 31.12.2011, included in other payables and accrued expenses an amount of US$302,000 which was due to non-controlling interest.

37. FINANCIAL INSTRUMENTS

	Group	
	2011 **US$'000**	2010 US$'000
Financial assets		
Available-for-sales investments	**–**	771
Financial assets at fair value held for trading	**58,525**	16,798
Loans and receivables (include cash and cash equivalent)	**66,264**	39,869
Financial Liabilities		
Amortised cost	**23,908**	13,113
Obligation under finance lease	**334**	552
Financial liabilities at fair value through profit or loss	**8**	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. FINANCIAL RISK MANAGEMENT

38A 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 in Hong Kong and OTC Bulletin Board in the United States. The management manage this exposure by maintaining a portfolio of investments with different risk and return profiles.

At 31 December 2011, it is estimated that an increase/decrease of 10%, 30% and 50% in market value of the trading securities, with all other variable held constant, profit for the year and the equity would increase/decrease by US$5,853,000, US$17,558,000 and US$29,263,000 respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. FINANCIAL RISK MANAGEMENT (Continued)

38A 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.

The contractual maturity of the convertible debentures of US$168,000 was due within 2 to 5 years and US$855,000 was due after 5 years after the balance sheet date.

The contractual maturity of the obligation under finance lease is shown on notes 26 of the financial statements. The following non-derivative financial liabilities of the Group are repayable within one year or on demand.

	Group	
	2011	2010
	US$'000	US$'000
Trade and other payables	**14,675**	9,537
Bank overdraft	**–**	1,091
Bank loan on discounted debtors	**1,314**	104
Taxation	**4,291**	472
	20,280	11,204

38B 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. FINANCIAL RISK MANAGEMENT (Continued)

38C 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$'000	**2011 Total** **US$'000**
Financial assets at fair value held for trading	58,525	–	–	**58,525**
Derivative component of convertible debenture	–	–	8	**8**

39. 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.

40. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Group's shares traded on the OTC Bulletin Board in the United States temporarily decreased in value from USD$45,000,000 at the end of the reporting period to approximately USD$15,150,000 at the report date.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 29 March 2012.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

For the years ended 31 December

	2011	2010	2009	2008	2007
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**92,162**	61,677	38,446	53,767	41,840
Profit (loss) before tax	**52,323**	(18,192)	(69,540)	(100,551)	(29,167)
Income tax	**(3,479)**	(218)	(276)	426	(492)
Discontinued operation	**–**	–	–	1,723	–
Profit (loss) for the year	**48,844**	(18,410)	(69,816)	(98,402)	(29,659)
Non-controlling interests	**(2,243)**	(273)	512	105	30
Net profit (loss) attributable to shareholders	**46,601**	(18,683)	(69,304)	(98,297)	(29,629)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

As at 31 December

	2011	2010	2009	2008	2007
	US$'000	US$'000	US$'000	US$'000	US$'000
Goodwill	**–**	–	1,262	2,523	2,523
Fixed assets	**27,388**	22,375	22,343	63,917	136,939
Prepaid lease payments	**3,033**	–	–	–	–
Available-for-sale investment	**–**	771	771	11,792	–
Project advance for oil field exploration and mining	**–**	–	–	9,739	27,813
Deferred tax assets	**1,114**	368	168	414	284
Current assets	**213,487**	115,137	115,632	109,533	141,846
Total assets	**245,022**	138,651	140,176	197,918	309,405
Total liabilities	**(24,242)**	(17,315)	(20,410)	(12,064)	(15,538)
Non-controlling interests	**(5,574)**	(3,154)	(2,823)	(4,357)	(8,399)
	215,206	118,182	116,943	181,497	258,468