SSP 南海石油

South Sea Petroleum Holdings Limited

Annual Report 2010

STOCK CODE : 76

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CORPORATE INFORMATION

DIRECTORS

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

COMPANY SECRETARY

Lam Lee Yu

REGISTERED OFFICE

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

SHARE REGISTRAR

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

PRINCIPAL BANKER

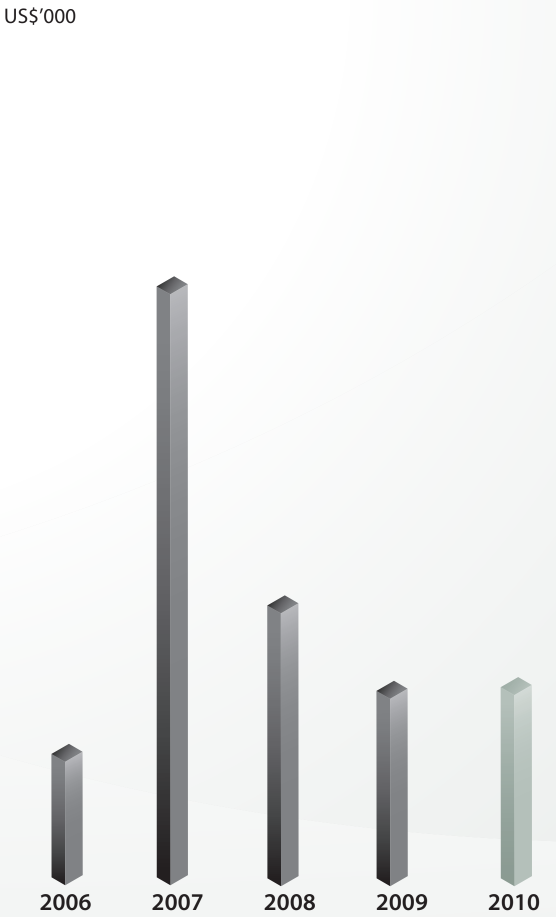
Standard Chartered Bank

AUDITOR

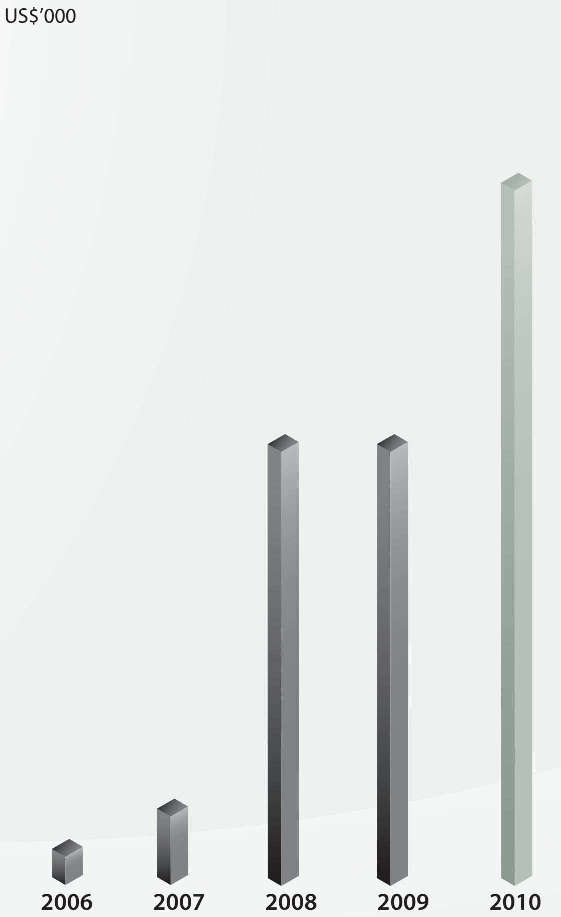
JP Union & Co.

	2010 US$'000	2009 US$'000
Turnover	**61,677**	38,446
Loss from Operating Activities	**(17,518)**	(69,245)
Net Loss Attributable to Shareholders	**(18,683)**	(69,304)
Funds Attributable to Equity Holders of the Company	**118,182**	116,944
Basic Loss Per Share (US Cents) (2009: adjusted)	**(7.52)**	(31.58)

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 2010, the turnover of the Group was $61.677 million, representing an increase of $23.231 million, or 60.43%, as compared to $38.446 million for the same period of the prior year. The net loss attributable to shareholders was $18.683 million, or $7.52 cents per share, as compared to net loss of $69.304 million, or $31.58 per share (adjusted), for the same period of 2009. On the balance sheet, at 31 December 2010 the total assets of the Group were $138.651 million, as compared $140.176 million at 31 December 2009, and the net assets of the Group were $121.336 million at 31 December 2010, as compared $119.766 million at 31 December 2009.

BUSINESS REVIEW

The Group has two principal lines of business. The first line of business is to develop and produce of crude oil and minerals, 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 wholly-owned subsidiary, South Sea Graphite (Luobei) Co., Limited, the Company is engaged in the business of production and sale of graphite products in Luobei, Heilongjiang Province of China.

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 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.

PROSPECTS

The Company believes that mineral resources are strategically valuable and worth investment over the long term. During the year, the price of graphite products doubled in the global market. As a result, the Company's revenue generated from its graphite business increased significantly. 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 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. 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 2010, the Group's turnover was $61.677 million, an increase of $23.231 million, or 60.43%, as compared to $38.446 million for the same period of the prior year. Specifically, for the year of 2010, the turnover of the Group's crude oil operation was $11.066 million as compared to $9.238 million in the same period of 2009, representing an increase of 19.14%. The increase in oil revenue was primarily due to increased oil prices. For the same period, the Group's graphite operation generated revenues of 23.044 million, an increase of $16.129 million, or 233.25%, as compared to $6.915 million for the year ended 31 December 2009. The increase in the Group's graphite operation revenue was primarily due to an increase in customer orders, increase in sales prices, and attaining additional new customers. During the year of 2010, the turnover of the Group's electronics manufacturing service operation was $27.561 million, representing an increase of $5.289 million, or 23.75%, as compared to $22.27 million for the same period of the prior year. The turnover increase in the Group's electronics manufacturing service operation was largely attributable to an increase in customer orders.

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 2010, the Group's cash and cash equivalents were $21.591 million, as compared to $19.81 million as at 31 December 2009. For the year ended 31 December 2010, the Group's operating activities used net cash of $4.340 million. During the same period, the Group's investing activities used net cash of $6.612 million, primarily due to purchase of property and equipment. By comparison, net cash used in operating activities in 2009 was $23.63 million, and net cash generated in investing activities in 2009 was $0.93 million. For the year ended 31 December 2010, the Group's financing activities generated net cash of $12.327 million, primarily from issuance of convertible debentures of the Company.

At 31 December 2010, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

DIRECTORS' BUSINESS REVIEW

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

OFF BALANCE SHEET ARRANGEMENTS

At 31 December 2010, the Group had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had a total of approximately 1,130 full-time employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

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

MATERIAL UNCERTAINTIES

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

FOREIGN EXCHANGE EXPOSURE

The Group's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. During the year of 2010 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 flows.

LEGAL PROCEEDINGS

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

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the audited financial statements of the Group for the year of 2010.

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 11 April 2011.

On behalf of the Board

Zhou Ling
Chairman

Hong Kong, 30 March 2011

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 2010, which were approved by the Board of Directors of the Company on 30 March 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of Company and its subsidiaries are set out in note 16 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 23.

For the year ended 31 December 2010, the Company does not declare or pay any dividend on its ordinary shares (2009: 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 30 to the financial statements, respectively.

FIXED ASSETS

During the year the Group's fixed assets increased to US$22.375 million at 31 December, 2010 from US$22.343 million at the end of 2009.

Details of the movements during the year in the fixed assets of the Group and the Company are set out in note 14 to the financial statements.

DIVIDENDS

The Directors decide not to declare any dividend for the year ended 31 December 2010 (2009: Nil).

SHARE CAPITAL

During the year, 2,194,447,870 ordinary shares were issued by the Company. Details of movements in the share capital of the Company are set out in note 28 to the financial statements.

At its extraordinary general meeting held on 1 June 2010, the shareholders of the Company approved a resolution that every 50 existing issued and unissued ordinary shares of par value US$0.01 each in the share capital of the Company be consolidated into one ordinary share of par value US$0.50. Such consolidation took effect on 2 June 2010.

CONVERTIBLE DEBENTURES

Details of the convertible debentures are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS AND SERVICE CONTRACTS

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

Zhou Ling, age of 61, has been the Company's Executive Director and Chairman of the Board of Directors since August 2003. Mr. Zhou also serves as president of Fortune World Publishing Co., Ltd., and president of Shen-Shen Venture Capital Investment Co., Ltd. in China.

Lee Sin Pyung, age of 47, has been the Company's Executive Director and Managing Director since 2002. Prior to her joining the Company, Ms. Lee worked for a number of multi-international companies, and had experience and exposure to international business.

Zhang Xue, age of 33, has been the Company's Executive Director since 2009. She obtained a bachelor degree in Accountancy from Qingdao University in 1996. 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 76, 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 53, has been the Company's independent non-executive director since 2002. From 1994 to the present, Mr. Chai has been a partner at Michael Chai & Co., a law firm in Kuala Lumpur, Malaysia. From 1991 to 1994, he was a legal associate with Shook Lin & Bok, a law firm in Kuala Lumpur, Malaysia. Mr. Chai holds a Bachelor of Laws (Hons) degree from the University of Buckingham and a Bachelor of Science (Hons) degree in Chemistry from University of Surrey, UK. Mr. Chai is qualified as Barrister at Law from Lincoln's Inn, England.

Ho Choi Chiu, age of 79, has been 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 a member of the Audit Committee of the Board of Directors of the Company.

Under the existing Articles of Association of the Company, all the directors are subject to retirement by rotation and re-election at the annual general meeting. In accordance with Articles of Association of the Company, Mr. Zhou Ling, Mr. Lu Ren Jie, and Mr. Ho Choi Chiu retire by rotation and, being eligible, offer themselves for re-election at the coming annual general meeting.

No director being proposed for re-election at the forthcoming 2011 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.

DIRECTOR'S AND CHIEF EXECUTIVES' INTERESTS IN SHARES

Save as disclosed in the section "Substantial Shareholders" as set forth in the Company's Corporate Governance Report stated below, at 31 December 2010, none of the directors or chief executives of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the registers maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

SHARE OPTIONS

As of 31 December 2010, 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 2010, no person, other than Mr. Zhou Ling's interests which are disclosed in the "Corporate Governance Report," had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept record by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchases from the five largest suppliers accounted for approximately 25.87% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 8.42% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 69.28% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 18.33% 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 2010 and 2009.

RELATED PARTY TRANSACTIONS

Details of related party transactions during the year are set out in note 35 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.

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

Zhou Ling
Chairman

Hong Kong, 30 March 2011

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 2010, the Company was in compliance with the Code of Corporate Governance Practices, save for a deviation from code provision A.4.1 of the Code in respect of the service term of independent non-executive directors.

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

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

BOARD OF DIRECTORS

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

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

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

Executive Directors:

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

Independent Non-executive Directors:

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

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

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

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

The details of all Directors, including Chairman, Executive Directors and Independent Non-Executive Directors are given on page 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 2010, the Board at all times fulfilled the requirements of the Listing Rules relating to the appointment of at least three independent Non-Executive Directors.

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

ATTENDANCE RECORD AT BOARD MEETINGS AND COMMITTEE MEETING

During the year ended 31 December 2010, 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 meeting held in 2010:

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

For the year ended 31 December 2010, the members of the Audit Committee consisted of:

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

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

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

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

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

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

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

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

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

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

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

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

The Audit Committee held two meetings in 2010. 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 2010 and the interim results for the six months ended 30 June 2010;

- 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 2010 interim and annual financial statements;

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

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

- Reviewed the internal control procedures of the Group.

Based on these review and discussions, and the report of the external auditors, the Audit Committee recommended to the bard of directors approval of the consolidated financial statements for the year ended 31 December 2010 with the Auditors' Report thereon.

The Committee recommended to the board that the shareholders be asked to re-appoint JP Union & Co., Certified Public Accountants, as the Company's independent auditors for 2011.

REMUNERATION COMMITTEE

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

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

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

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

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

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

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

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

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

During the year, the remuneration policy and compensation arrangements of the Company remained unchanged. The members of the Remuneration Committee agreed to hold meeting in 2011.

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") contained in Appendix 10 of the Listing Rules. All directors have confirmed that, following specific enquiry by the Company, they complied with the required standard as set out in the Model Code throughout the year of 2010.

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 2010, the directors of the Company held following long position in the ordinary share of the Company:

	Number of Ordinary Shares held		
Name	**Personal Interests**	**Corporate Interests**	**Approximate % of shareholding**
Zhou Ling	–	640,000	0.24%

Save as disclosed above, as at 31 December 2010, 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 2010 they complied with the required standard set out in the Model Code.

REMUNERATION OF DIRECTORS

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

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

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

NON-EXECUTIVE DIRECTORS' REMUNERATION

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

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

EXECUTIVE DIRECTORS' REMUNERATION

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

The remuneration paid to the Executive Directors of the Company in 2010 was as below:

Name of Executive Directors	**Compensation Per Annum** (US$'000)
Mr. Zhou Ling	68
Ms. Lee Sin Pyung	48
Ms. Zhang Xue	22

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

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 2010 and 2009:

Fee Category	**2010**	2009
	US$'000	US$'000
Audit fees	**165**	183
Other services	**29**	42

The Audit Committee of the Group intends to re-appoint JP Union & Co as its statutory auditor for the fiscal year 2011. The resolution has been approved by the board of directors and is subject to final approval and authorization by the shareholders at the 2011 annual general meeting.

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. For the year ended 31 December 2010, 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. The Board shall conduct such review every year.

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 2010, 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 2010. They are set out in the Significant Accounting Policies 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 Chairmen of the Board and the respective Board Committees usually attend annual general meetings to answer shareholders' questions.

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 69, which comprise the consolidated and Company balance sheets as at 31 December 2010, 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 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

JP Union & Co.
Certified Public Accountants
Hong Kong, 30 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	**2010** **US$'000**	2009 US$'000
TURNOVER	*6*	**61,677**	38,446
COST OF SALES		**(42,027)**	(29,237)
		19,650	9,209
Other income	*6*	**3,016**	2,586
General and administrative expenses		**(20,957)**	(16,570)
Drilling and operating expenses		**(9,388)**	(6,371)
Net (loss) gain in fair value of financial assets held for trading		**(4,631)**	8,318
Other taxes		**(346)**	(290)
Impairment loss on project advance		**–**	(9,739)
Impairment loss on oil properties		**(3,600)**	(43,559)
Impairment loss on goodwill		**(1,262)**	(1,619)
Impairment loss on other receivables		**–**	(11,210)
LOSS FROM OPERATING ACTIVITIES	*7*	**(17,518)**	(69,245)
Finance costs	*8*	**(674)**	(295)
LOSS BEFORE TAX		**(18,192)**	(69,540)
INCOME TAX	*11*	**(218)**	(276)
LOSS FOR THE YEAR		**(18,410)**	(69,816)
ATTRIBUTABLE TO:			
Equity shareholders of the Company	*12*	**(18,683)**	(69,304)
Non-controlling interests		**273**	(512)
		(18,410)	(69,816)
LOSS PER SHARE – BASIC (US Cents)	*13*	**(7.52)**	(31.58)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010 US$'000**	2009 US$'000
Loss for the year		**(18,410)**	(69,816)
Other comprehensive income			
Exchange differences		**47**	1,713
Revaluation of land and buildings		**–**	896
Total comprehensive income for the year		**(18,363)**	(67,207)
ATTRIBUTABLE TO:			
Equity shareholders of the Company		**(18,694)**	(66,807)
Non-controlling interests		**331**	(400)
		(18,363)	(67,207)

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Notes	2010 US$'000	2009 US$'000
NON-CURRENT ASSETS			
Fixed assets	*14*		
– Other property, plant and equipment		**19,936**	19,904
– Investment properties		**2,439**	2,439
		22,375	22,343
Goodwill	*15*	**–**	1,262
Available-for-sale investments	*17*	**771**	771
Deferred tax assets	*18*	**368**	168
		23,514	24,544
CURRENT ASSETS			
Cash and bank balances		**22,682**	21,401
Financial assets at fair value held for trading	*19*	**16,798**	22,888
Trade and notes receivables	*20*	**8,550**	12,063
Other loans receivable	*21*	**–**	3,149
Inventories	*22*	**10,747**	6,788
Prepayments, deposits and other receivables	*23*	**56,360**	49,343
		115,137	115,632
CURRENT LIABILITIES			
Trade payables	*24*	**5,035**	3,312
Other payables and accrued expenses		**4,502**	2,170
Bank loan on discounted debtors		**104**	1,980
Bank overdraft		**1,091**	1,587
Finance lease-current portion	*25*	**272**	320
Taxation		**472**	–
		11,476	9,369

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Notes	2010 US$'000	2009 US$'000
NET CURRENT ASSETS		**103,661**	106,263
TOTAL ASSETS LESS CURRENT LIABILITIES		**127,175**	130,807
NON-CURRENT LIABILITIES			
Finance lease	*25*	**280**	525
Provision	*26*	**1,909**	1,429
Convertible debentures	*27*	**3,650**	9,087
		5,839	11,041
NET ASSETS		**121,336**	119,766
CAPITAL AND RESERVES			
Share capital	*28*	**131,667**	109,722
Revaluation reserve		**3,710**	3,843
Special capital reserve		**12,037**	12,037
Share premium		**198,851**	199,947
Convertible debenture equity reserve	*27*	**1,478**	2,253
Translation reserve		**5,899**	5,918
Accumulated losses		**(235,460)**	(216,777)
Total equity attributable to equity shareholders of the Company		**118,182**	116,943
Non-controlling interests		**3,154**	2,823
		121,336	119,766

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

BALANCE SHEET

As at 31 December 2010

	Notes	2010 US$'000	2009 US$'000
NON-CURRENT ASSETS			
Fixed assets	*14*	**79**	4
Interests in subsidiaries	*16*	**111,426**	110,147
		111,505	110,151
CURRENT ASSETS			
Cash and bank balances		**5,761**	2,141
Financial assets at fair value held for trading	*19*	**3**	2
Prepayments, deposits and other receivables		**4,708**	13,920
		10,472	16,063
CURRENT LIABILITIES			
Other payables and accrued expenses		**145**	186
NET CURRENT ASSETS		**10,327**	15,877
TOTAL ASSETS LESS CURRENT LIABILITIES		**121,832**	126,028
NON-CURRENT LIABILITIES			
Convertible debentures	*27*	**3,650**	9,087
NET ASSETS		**118,182**	116,941
CAPITAL AND RESERVES			
Share capital	*28*	**131,667**	109,722
Reserves	*30*	**(13,485)**	7,219
		118,182	116,941

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	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

	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 1.1.2009	109,722	199,947	–	12,037	4,558	2,706	(147,473)	181,497	4,357	185,854
Loss for the year	–	–	–	–	–	–	(69,304)	(69,304)	(512)	(69,816)
Other comprehensive income	–	–	–	–	1,360	1,137	–	2,497	112	2,609
Total comprehensive income for the year	–	–	–	–	1,360	1,137	(69,304)	(66,807)	(400)	(67,207)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(1,134)	(1,134)
Convertible debenture – equity component	–	–	2,253	–	–	–	–	2,253	–	2,253
At 31.12.2009	109,722	199,947	2,253	12,037	5,918	3,843	(216,777)	116,943	2,823	119,766

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
NET CASH USED IN OPERATING ACTIVITIES	*31(a)*	**(4,340)**	(23,630)
INVESTING ACTIVITIES			
Additions of fixed assets		**(6,842)**	(1,520)
Cash receipts from available-for-sale investments		**–**	3,315
Dividend income received		**221**	429
Cash outflow on increase in shareholding of subsidiaries		**–**	(1,492)
Interest received		**9**	198
Net cash (used in) generated by investing activities		**(6,612)**	930
FINANCING ACTIVITIES			
Issue of convertible debentures		**14,615**	11,340
Redemption of convertible debentures		**(119)**	–
Deposit to financial advisor		**–**	(8,194)
Payment for financial projects		**–**	(5,500)
Capital element of finance lease		**(293)**	(213)
Net proceeds from loan from debtors discounted		**(1,876)**	(449)
Net cash from (used in) financing activities		**12,327**	(3,016)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,375**	(25,716)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**19,814**	44,703
EFFECT OF FOREIGN EXCHANGE RATES		**402**	827
CASH AND CASH EQUIVALENTS AT END OF YEAR		**21,591**	19,814
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**22,682**	21,401
Bank overdraft		**(1,091)**	(1,587)
		21,591	19,814

1. CORPORATE INFORMATION

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

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

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

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

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

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

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

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

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 2010.

HKAS 3 (Revised)	Business combinations
HKAS 27 (Revised)	Consolidated and separate financial statements
HK(IFIC) int 17	Distribution of noncash assets to owners
HKAS 17 (Amendments)	Leases

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.

4. SIGNIFICANT ACCOUNTING POLICIES

Business combinations

Business combinations that took place on or after 1st January, 2010

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 Noncurrent 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place prior to 1st January, 2010

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.

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 balance sheet date.

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

Investment properties

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

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

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

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

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

Construction in progress

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

(ii) The Group as lessee

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

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

Impairment of tangible assets other than goodwill

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

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

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

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

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

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

Borrowing costs

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

Government grants

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

Deferred income tax

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible debentures

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

Trade and other receivables

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

Trade payable

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

Foreign currency transactions

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions (Continued)

(iii) *Group companies*

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

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

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

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

Provisions

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash equivalents

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment of receivables

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

(b) Impairment of goodwill

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

(c) Impairment of oil properties

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

6. TURNOVER, INCOME AND SEGMENT INFORMATION

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

	2010	2009
	US$'000	US$'000
An analysis of the Group's turnover and income is as follows:		
Turnover		
Crude oil sales	**11,006**	9,238
Sales of goods and services	**50,671**	29,208
	61,677	38,446
Other income		
Bank interest income	**9**	14
Other interest income	**–**	185
Rental income	**1,069**	1,241
Government grant	**47**	54
Dividend income	**1,710**	429
Gain on revaluation of investment properties	**–**	513
Sundry income	**181**	150
	3,016	2,586
	64,693	41,032

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

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	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 operation						(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

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment (Continued)

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

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2010	2009	**2010**	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Indonesia	**11,006**	9,238	**6,112**	18,773	**323**	978
United Kingdom	**27,561**	22,272	**24,119**	23,762	**352**	231
China	**23,044**	6,915	**67,726**	41,873	**6,087**	307
America	**–**	–	**113**	123	**–**	–
Hong Kong	**66**	21	**40,581**	55,642	**80**	2
	61,677	38,446	**138,651**	140,173	**6,842**	1,518

7. LOSS FROM OPERATING ACTIVITIES

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

	2010	2009
	US$'000	US$'000
Depreciation:		
– owned fixed assets	**2,130**	1,718
– leased fixed assets	**300**	258
Operating lease rentals on		
– land and buildings	**1,212**	994
– plant and machinery	**988**	885
Costs of inventories sold	**48,326**	33,047
Fixed assets written off	**498**	–
Impairment loss on inventories	**–**	447
Staff costs (including directors' remuneration – *note 9*)	**12,822**	10,410
Auditors' remuneration		
– audit fee	**165**	183
– other services	**29**	42
Net loss (gain) in fair value of financial assets held for trading		
– realized	**1,583**	8,678
– unrealised	**3,048**	(16,996)
Provision for plug and abandonment	**480**	480
Foreign exchange losses, net	**20**	126

8. FINANCE COSTS

	2010 US$'000	2009 US$'000
Debenture interest	386	42
Bank discounting charges	67	60
Bank interest paid	41	52
Interest on finance lease	18	20
Bank charges	162	121
	674	295

9. DIRECTORS' REMUNERATION

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

Name of directors	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Pension scheme contributions US$'000	2010 Total US$'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

9. DIRECTORS' REMUNERATION (Continued)

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2009: Nil), details of whose remuneration are set out in note 9 above. The details of the remuneration of the five non-directors (2009: five), highest paid employees are set out below.

	2010	2009
	US$'000	US$'000
Salaries, allowances and benefits in kind	**1,245**	1,213

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

	Number of non-directors	
	2010	2009
US$Nil to US$129,000	**3**	3
US$384,600 to US$448,700	**1**	–
US$448,701 to US$512,800	**1**	2
	5	5

11. INCOME TAX

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

	2010 US$'000	2009 US$'000
Overseas tax charge		
– current year	**463**	–
– overprovision in respect of prior years	**(36)**	–
Deferred tax (credited) charge – *note 19*	**(209)**	276
Tax charge for the year	**218**	276

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 (2009: reversed) in an England subsidiary.

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

	2010 US$'000	2009 US$'000
Loss before tax	**(18,192)**	(69,540)
Notional tax on loss before tax, calculated at the rates applicable to profits in the countries concerned	**(5,737)**	(33,301)
Tax effect of non-deductible expenses	**726**	727
Tax effect of non-taxable income	**(283)**	(183)
Tax effect of tax losses not recognized	**5,983**	33,834
Tax loss recognized	**(292)**	(1,110)
Other timing difference	**(143)**	309
Overprovision in prior years	**(36)**	–
Tax expenses	**218**	276

12. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$18,692,000 (2009: US$103,973,000).

13. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of US$18,683,000 (2009: US$69,304,000) and weighted average of 248,612,465 (2009: 219,444,787) ordinary shares in issue during the year.

The number of ordinary shares in 2009 for the purposes of calculating the basic loss per share has been retrospectively adjusted for the fifty-to-one share consolidation which took place on 2 June 2010.

There is no fully diluted earnings per share for the year (2009: Nil).

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 1.1.2010	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

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

14. FIXED ASSETS (Continued)

Company

	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:			
At 1.1.2009	140	105	245
Addition	2	–	2
At 31.12.2009	142	105	247
Addition	2	78	80
At 31.12.2010	**144**	**183**	**327**
Accumulated depreciation:			
At 1.1.2009	134	105	239
Charge for the year	4	–	4
At 31.12.2009	138	105	243
Charge for the year	3	2	5
At 31.12.2010	**141**	**107**	**248**
Net book value:			
At 31.12.2010	**3**	**76**	**79**
At 31.12.2009	4	–	4

14. FIXED ASSETS (Continued)

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

	Group	
	2010	2009
	US$	US$
Land and buildings		
– freehold outside Hong Kong	**8,195**	8,489
– medium lease outside Hong Kong	**1,231**	870
	9,426	9,359

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 (2009: US$43,559,000 together with the project advance for oil field exploration of US$9,739,000).

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

The Freehold land and buildings were revalued on 4 March 2011 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors. In the opinion of the directors, the carrying amount of the freehold land and buildings as at 31.12.2010 is not different materially from this valuation.

Had the Group's Freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$5,007,000 (2009: US$5,333,000).

The investment properties were revalued on 21 February 2011 on the basis of their open market value by Youlanda, an independent firm of chartered surveyors. The value is not different materially from the carrying amount at 31.12.2010 and no adjustment is made.

The net book value of plant and machinery held under finance leases of the Group was US$916,000 (2009: US$1,168,000).

15. GOODWILL

Group

	2010	2009
	US$'000	US$'000
Net carrying value		
At 1 January	**1,262**	2,523
Arising on increase additional interests in subsidiaries	**–**	358
Impairment	**(1,262)**	(1,619)
At 31 December	**–**	1,262

16. INTERESTS IN SUBSIDIARIES

Company

	2010	2009
	US$'000	US$'000
Unlisted shares, at cost	**364**	364
Amounts due from subsidiaries	**311,589**	298,356
	311,953	298,720
Provision for impairment in values	**(200,527)**	(188,573)
Carrying value at 31 December	**111,426**	110,147

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

16. 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 %	Indirectly %	Principal activities
Global Select Limited	British Virgin Islands	Indonesia	3 ordinary shares of US$1 each	100	–	Investment holding, securities trading and exploration of oil and gas
Seaunion Energy (Limau) Limited#	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	Dormant
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

16. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Directly %	Percentage of issued share capital held by the Company Indirectly %	Principal activities
Comp 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.+ (formerly Heilongjiang Sinorth Graphite Co., Limited)	PRC	PRC	RMB90,023,000	–	82.92	Exploration, production and selling of mineral products

* not audited by JP Union & Co.

\+ established in PRC as a sino-foreign joint ventures with limited liability

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.

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2010	2009
	US$'000	US$'000
Unlisted shares, at cost	**771**	771
Less: Impairment	**–**	–
	771	771

18. DEFERRED TAX ASSETS

	Group	
	2010	2009
	US$'000	US$'000
At 1 January	**168**	414
Credited (charge) for the year	**209**	(276)
Exchange difference	**(9)**	30
At 31 December	**368**	168

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 Nil (2009: excess depreciation US$20,000) and tax losses available of US$368,000 (2009: US$188,000).

Deferred tax assets not recognized in the financial statements comprised of excess depreciation over capital allowances of US$Nil (2009: US$ Nil) and unused losses of US$14,597,000 (2009: US$9,689,000).

19. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING

	Group		Company	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares	**16,798**	22,888	**3**	2

20. TRADE AND NOTES RECEIVABLES

	Group 2010 US$'000	2009 US$'000
Trade receivables	**7,135**	9,589
Notes receivables	**1,415**	2,474
	8,550	12,063

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

	Group 2010 US$'000	2009 US$'000
0 – 30 days	**4,424**	3,415
31 – 60 days	**1,997**	5,459
61 – 90 days	**1,518**	957
Over 90 days	**611**	2,232
	8,550	12,063

In 2009, included in trade receivables an amount of US$1,631,000 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 provide impairment on those receivables which are past due since they have a good track record with the Group.

At 31.12.2010, trade receivable of approximately US$4,991,000 (2009: US$4,308,000) were pledged to bank to secure a loan on these discounted debtors.

21. OTHER LOANS RECEIVABLE

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

22. INVENTORIES

	Group 2010 US$'000	2009 US$'000
Production supplies and raw materials	**6,541**	4,547
Work in progress	**1,572**	1,363
Goods in transit	**711**	532
Finished goods	**1,923**	346
	10,747	6,788

23. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	Group 2010 US$'000	2009 US$'000
Advances to supplier	**47,707**	19,928
Deposit to financial advisor	**4,318**	8,192
Deposit for purchase of fixed assets	**–**	4,657
Other deposits and prepayments	**3,188**	9,093
Other receivables	**1,147**	7,051
Deferred expenses	**–**	422
	56,360	49,343

The Group paid deposit of US$4,318,000 (2009: US$8,192,000) and prepayment of US$4,314,000 (2009:US$5,500,000) to financial advisor, Kelton Capital Group Limited, for mainly providing financial consultancy services. The amount of deposit paid is unsecured and interest free. On 9 December 2010, 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. US$5,398,000 of these convertible debentures were issued during the year.

24. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2010	2009
	US$'000	US$'000
0 – 30 days	**1,714**	2,087
31 – 60 days	**2,156**	872
61 – 90 days	**969**	84
Over 90 days	**196**	269
	5,035	3,312

25. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2010, the group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**289**	370	**272**	320
After one year but within two years	**205**	468	**200**	454
After two year but within five years	**83**	71	**80**	71
	577	909	**552**	845
Less: Future finance charges	**25**	64		
Present value of finance lease	**552**	845		
Less: Amount shown under current liabilities			**272**	320
			280	525

26. PROVISION

	Plug and abandonment US$'000
At 1.1.2010	**1,429**
Provision for the year	**480**
At 31.12.2010	**1,909**

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.

27. CONVERTIBLE DEBENTURES

	Group and Company	
	2010 US$'000	2009 US$'000
Principal amounts	**5,398**	11,937
Transaction costs	**(270)**	(597)
Net proceeds	**5,128**	11,340
Equity component	**(1,478)**	(2,253)
Liability component at date of issue	**3,650**	9,087

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.

27. CONVERTIBLE DEBENTURES (Continued)

On 9 December 2010, the Company entered into a subscription agreement with Kelton Capital Group Limited for an aggregate amount of US$100,000,000 of 6% interest unlisted convertible debentures due December 2015. (Debenture December 2015). Kelton Capital Group Limited will be entitled to 5% of the principal amounts of the debentures issued as finder's fee.

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the principal amounts of the Debentures in whole or in part in multiples of HK$10,000 into the Company's shares of US$0.05 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 2010, the Company issued the Debenture December 2015 for approximately US$5,398,000. Finder's fee of US$270,000 has been paid to Kelton Capital Group Limited.

28. SHARE CAPITAL

	Group and Company	
	2010	2009
	US$'000	US$'000
Authorised:		
1,000,000,000 ordinary shares of US$0.50 each (31.12.2009: 14,000,000,000 ordinary shares of US$0.01 each)	**500,000**	140,000
Issued and fully paid:		
263,333,744 ordinary shares of US$0.50 each (31.12.2009: 10,972,239,359 ordinary shares of US$0.01 each)	**131,667**	109,722

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

During the year, 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.

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.

29. 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.

30. 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 1.1.2009	199,947	–	12,037	535	(140,746)	71,773
Loss for the year	–	–	–	–	(66,807)	(66,807)
Convertible debenture – equity component	–	2,253	–	–	–	2,253
At 31.12.2009	199,947	2,253	12,037	535	(207,553)	7,219
Loss for the year	–	–	–	–	(18,692)	(18,692)
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)**

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

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

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

The convertible debenture equity reserve represents the equity component (conversion right) of the US$5,398,000 6% convertible debentures issued during the year.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2010 US$'000	2009 US$'000
Loss before tax	(18,192)	(69,540)
Dividend income	(1,710)	(429)
Interest income	(9)	(198)
Interest expenses	674	295
Government grant released	–	(8)
Loss (gain) in fair value of financial assets held for trading	3,048	(16,996)
Impairment loss on project advance	–	9,739
Impairment loss on goodwill	1,262	1,619
Impairment loss on other receivables	–	11,210
Impairment loss on oil properties	3,600	43,559
Impairment loss on inventories	–	447
Fixed assets written off	498	–
(Gain) loss on revaluation of investment properties	–	(513)
Depreciation of fixed assets	2,430	1,976
Operating loss before working capital	(8,399)	(18,839)
Increase in financial assets held for trading	4,531	5,484
Decrease (increase) in trade receivables	3,513	(5,222)
(Increase) decrease in inventories	(3,959)	180
Increase in other loans receivable	3,149	(602)
Increase in prepayments, deposits and other receivables	(7,036)	(5,772)
Decrease in amount due from an investee company	–	3,094
Increase in trade payables	1,723	302
Increase (decrease) in other payables and accrued expenses	2,267	(2,367)
Increase in provision	480	407
Cash used in operating activities	(3,731)	(23,335)
Interest paid	(609)	(295)
Net cash used in operating activities	(4,340)	(23,630)

(b) Major non-cash transactions

The convertible debenture holder converted US$21,804,000 convertible debenture into the Company's shares during the year.

32. COMMITMENTS

Commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	Group		Company	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
(a) Total future minimum lease payments receivable under non-cancellable operating leases				
(i) on land and buildings and oil properties expiring:				
Within one year	**576**	951	**–**	–
In the second to fifth years inclusive	**480**	475	**–**	–
Over five years	**–**	1	**–**	–
	1,056	1,427	**–**	–
(b) Total future minimum lease payments payable under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**431**	617	**324**	515
In the second to fifth years inclusive	**35**	221	**–**	85
	466	838	**324**	600
(ii) on other fixed assets expiring:				
Within one year	**37**	39	**–**	–
In the second to fifth years inclusive	**40**	67	**–**	–
	77	106	**–**	–

33. PLEDGE OF ASSETS

Fixed and floating charges have been created over all of the assets of the subsidiaries in United Kingdom to secure general banking and discounting facilities granted. At 31 December 2010, fixed assets and current assets of these subsidiaries pledged were US$2,252,000 (2009: US$2,917,000) and US$10,960,000 (2009: US$11,388,000) respectively.

34. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2010 **US$'000**	2009 US$'000
Salaries, allowances and benefits in kind	**1,432**	1,461

35. MATERIAL RELATED PARTY TRANSACTIONS

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

	2010 **US$'000**	2009 US$'000
Sales to non-controlling interest	**12,814**	3,951
Purchases from non-controlling interest	**1,755**	–

At 31.12.2010, included in other payables and accrued expenses an amount of US$302,000 which was due to non-controlling interest.

36. FINANCIAL INSTRUMENTS

	Group	
	2010 **US$'000**	2009 US$'000
Financial assets		
Available-for-sales investments	**771**	771
Financial assets at fair value held for trading	**16,798**	22,888
Loans and receivables (include cash and cash equivalent)	**39,869**	54,787
Financial Liabilities		
Amortised cost	**13,113**	10,478
Obligation under finance lease	**552**	845

37. FINANCIAL RISK MANAGEMENT

37A Financial risk factors

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

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

(a) *Foreign exchange risk*

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

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

(b) *Interest rate risk*

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

(c) *Price risk*

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

(d) *Other price risk*

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

At 31 December 2010, it is estimated that an increase/decrease of 10% in market value of the trading securities, with all other variable held constant, loss for the year and the equity would decrease/increase by US$1,680,000 (2009: US$2,289,000).

37. FINANCIAL RISK MANAGEMENT (Continued)

37A 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$5,398,000 was due within 2 to 5 years after the balance sheet date.

The contractual maturity of the obligation under finance lease is shown on notes 25 of the financial statements. The following non-derivative financial liabilities of the Group are repayable within one year or on demand.

	Group	
	2010	2009
	US$'000	US$'000
Trade and other payables	**9,537**	5,482
Bank overdraft	**1,091**	1,587
Bank loan on discounted debtors	**104**	1,980
Taxation	**472**	–
	11,204	9,049

37B 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.

37. FINANCIAL RISK MANAGEMENT (Continued)

37C 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$'000	**2010 Total US$'000**
Available-for-sale investments – equity securities	–	–	771	**771**
Financial assets at fair value held for trading	16,798	–	–	**16,798**
	16,798	–	771	**17,569**

38. 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.

39. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 30 March 2011.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

For the years ended 31 December

	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000
Turnover	**61,677**	38,446	53,767	41,840	41,940
Loss before tax	**(18,192)**	(69,540)	(100,551)	(29,167)	(7,150)
Income tax	**(218)**	(276)	426	(492)	126
Discontinued operation	**–**	–	1,723	–	–
Loss for the year	**(18,410)**	(69,816)	(98,402)	(29,659)	(7,024)
Non-controlling interests	**(273)**	512	105	30	53
Net loss attributable to shareholders	**(18,683)**	(69,304)	(98,297)	(29,629)	(6,971)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

As at 31 December

	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000
Goodwill	**–**	1,262	2,523	2,523	2,523
Fixed assets	**22,375**	22,343	63,917	136,939	33,749
Available-for-sale investment	**771**	771	11,792	–	–
Project advance for oil field exploration and mining	**–**	–	9,739	27,813	10,139
Deferred tax assets	**368**	168	414	284	617
Current assets	**115,137**	115,632	109,533	141,846	29,764
Total assets	**138,651**	140,176	197,918	309,405	76,792
Total liabilities	**(17,315)**	(20,410)	(12,064)	(15,538)	(15,156)
Non-controlling interests	**(3,154)**	(2,823)	(4,357)	(8,399)	(812)
	118,182	116,943	181,497	258,468	60,824