South Sea Petroleum Holdings Limited

STOCK CODE : 76

Annual Report 2012

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CORPORATE INFORMATION

DIRECTORS

Guan Xinmin, *Executive Director and Chairman*
Feng Zhong Yun, *Executive Director and Managing Director*
Zhang Xue, *Executive Director*
Lu Ren Jie, *Independent Non-Executive Director*
Chai Woon Chew, *Independent Non-Executive Director*
Ng Lai Po, *Independent Non-Executive Director*

COMPANY SECRETARY

Lam Lee Yu

REGISTERED OFFICE

Room 504, 5/F, Chinachem Tower
34-37 Connaught Road Central
Hong Kong

SHARE REGISTRAR

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

PRINCIPAL BANKER

Standard Chartered Bank

AUDITOR

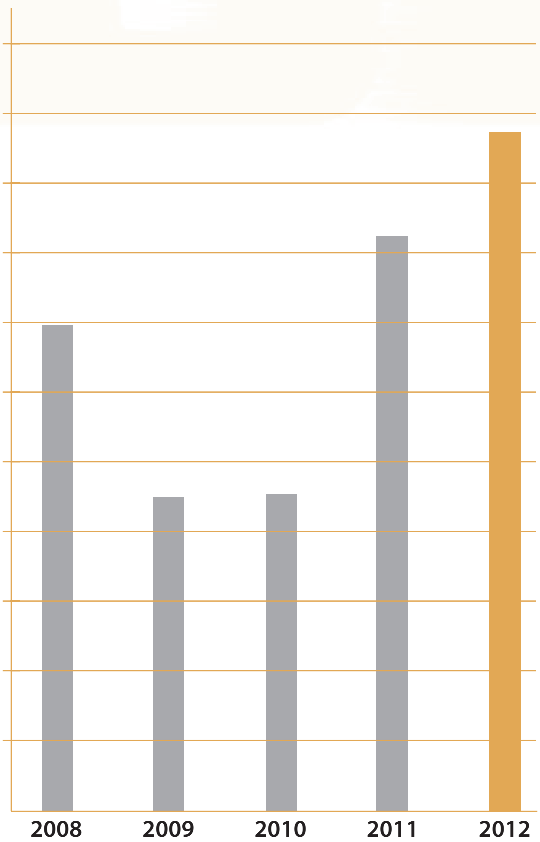
JP Union & Co.

FINANCIAL HIGHLIGHTS

	2012 US$'000	2011 US$'000
Turnover	**111,943**	92,162
(Loss) Profit from Operating Activities	**(12,259)**	53,072
Net (Loss) Profit Attributable to Shareholders	**(12,919)**	46,601
Funds Attributable to Equity Holders of the Company	**254,449**	215,206
(Loss) Earnings Per Share (US Cents)		
– Basic	**(0.57)**	14.19
– Diluted	**–**	14.18

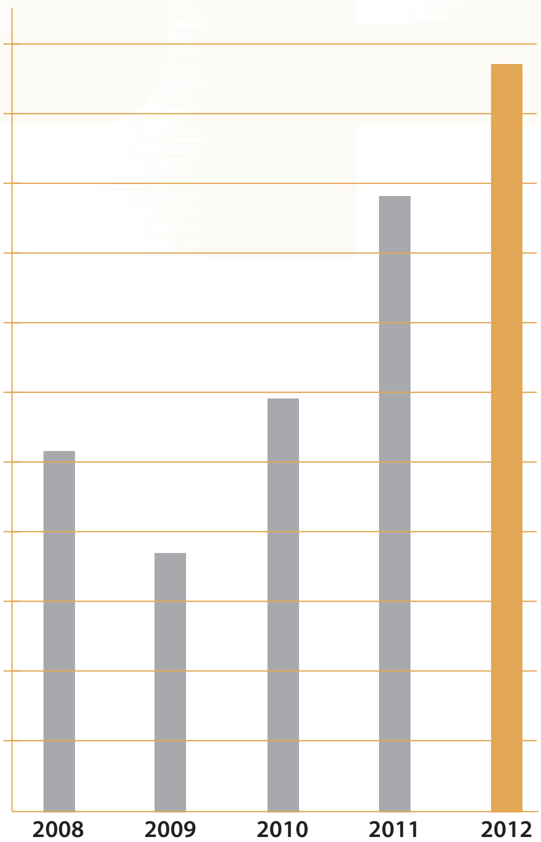
FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

US$'000



TURNOVER

US$'000



DIRECTORS' BUSINESS REVIEW

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

For the year ended 31 December 2012, the turnover of the Group was $111.943 million, representing an increase of $19.781 million, or 21.46%, as compared to $92.162 million for the prior year. The net loss attributable to shareholders was $12.919 million, or 0.57 cents per share, as compared to net profit of $46.601 million, or 14.19 cent per share, for the same period of 2011. On the balance sheet, at 31 December 2012 the total assets of the Group were $295.182 million, as compared $245.022 million at 31 December 2011, and the net assets of the Group were $258.415 million at 31 December 2012, as compared $220.780 million at 31 December 2011.

BUSINESS REVIEW

The Group is primarily engaged in the business of developing and producing crude oil in Indonesia, minerals in China, and provision of electronic manufacturing services in the United Kingdom.

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

Through its wholly owned subsidiaries, South Sea Graphite (Luobei) Co., Ltd., Liaoning Sinorth Resources Co., Ltd., and majority owned subsidiary, Luo Bei Xin Long Yuen Graphite Productions Co., Ltd, the Company is engaged in the business of production and sale of graphite products worldwide, mostly in China.

Through its majority owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom, the Company provides electronics manufacturing services to companies in the following industrial market sectors:

- Medical
- Defense
- Transport
- Aerospace
- Security
- Marine
- Oil and Gas, and
- Other industrial market

Generally, Axiom builds products that carry the brand names of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis.Most of Axiom's customers are located within the United Kingdom and North America.

DIRECTORS' BUSINESS REVIEW

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

RESULTS OF OPERATIONS

For the year ended 31 December 2012, the Group's turnover was $111.943 million, an increase of $19.781 million, or 21.46%, as compared to $92.162 million for the prior year. Specifically, for the year ended 31 December 2012, the turnover of the Group's crude oil operation was $12.384 million as compared to $15.901 million for the year of 2011, representing a decrease of 28.40%. The decrease in oil revenue was primarily due to decreased production. For the same period, the Group's graphite operation generated revenues of $41.093 million, or a decrease of 10.51%, as compared to $45.413 million for the year ended 31 December 2011. The revenue decrease of the Group's graphite operation was due primarily to the decrease in customer orders, and decrease in mineral selling price. For the year ended 31 December 2012, the turnover of the Group's electronics manufacturing service operation was $47.495 million, representing an increase of $16.754 million, or 35.28%, as compared to $30.741 million for the prior year. The turnover increase in the Group's electronics manufacturing service operation was largely due to an increase in sales orders and new customers.

LIQUIDITY AND CAPITAL RESOURCES

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

At 31 December 2012, the Group's cash and cash equivalents were $26.161 million as compared to $33.122 million as at 31 December 2011. For the year ended 31 December 2012, the Group's operating activities used net cash of $49.452 million. By comparison, net cash used in operating activities was $33.972 million for the year of 2011. During the same period, the Group's investing activities used net cash of $6.799 million, primarily due to purchase of property and equipment. By comparison, net cash used by the Group's investing activities in 2011 was $2.895 million. For the year ended 31 December 2012, the Group's financing activities generated net cash of $48.479 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $47.415 million for the year of 2011.

At 31 December 2012, 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.

PROSPECTS

Long-term supply of graphite ore at a reasonable price is critical to the development of the Company's graphite business. In 2012, the Company, through its subsidiary, entered into a ten-year long-term graphite ore supply agreement with a graphite ore supplier. The Company wishes it is able to not only build an adequate graphite ore reserve for its own subsidiaries, but also sell graphite ore to other companies for a profit.

In order to service all customers worldwide, the Company plans to build an electronic trading platform. The Company believes that the platform will facilitate the online trading of the Group's products, including graphite products, and will strengthen the Group's earnings. The website is currently under testing at a trial stage for further improvement. It is expected to be finished by the end of 2013.

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 2012, the Group had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2012, the Group had approximately 895 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. Salaries of employees are maintained at competitive levels while bonuses may be granted on a discretionary basis with reference to the performance of the Group as well as the individual's performance. Other employee benefits include mandatory provident fund, insurance, and medical coverage.

MATERIAL UNCERTAINTIES

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

FOREIGN EXCHANGE EXPOSURE

The Group's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. For the year ended 31 December 2012, the Group has not engaged in any hedging activities. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flows.

LEGAL PROCEEDINGS

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

DIRECTORS' BUSINESS REVIEW

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

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the audited financial statements for the year ended 31 December 2012.

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), and be dispatched to shareholders who elected to receive the printed version of the corporate communication of the Company on or before 12 April 2013.

On behalf of the Board

Guan Xinmin
Chairman

Hong Kong, 28 March 2013

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012, which were approved by the Board of Directors of the Company on 28 March 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be investment holding company while the principal activities of its subsidiaries are development and production of crude oil in Indonesia, minerals in China, and provision of electronic manufacturing services in the United Kingdom. There have been no changes in the nature of the Group's principal activities during the year.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 30.

For the year ended 31 December 2012, the Company has not declared or paid any dividend on its ordinary shares (2011: Nil). The Company currently intends to retain all available funds for use in the operations and expansion of its business.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group's property, plant and equipment increased to US$32.926 million at 31 December 2012 from US$27.388 million at the end of 2011.

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

RESERVES

Details of 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 35 and note 31 to the financial statements respectively.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2012 (2011: Nil).

REPORT OF THE DIRECTORS

SHARE OPTIONS

As of 31 December 2012, there were no share options outstanding.

SHARE CAPITAL

During the year of 2012, 3,711,176,530 ordinary shares were issued by the Company. Details of movements in the share capital of the Company are set out in note 29 to the financial statements.

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

DIRECTORS

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

Executive Directors:

Guan Xinmin, *Chairman*
Feng Zhong Yun, *Managing Director (appointed on 15 November 2012, and re-designated on 31 December 2012)*
Lee Sin Pyung *(Managing Director, resigned on 31 December 2012)*
Zhang Xue

Independent Non-Executive Directors:

Ng Lai Po *(appointed on 31 December 2012)*
Lu Ren Jie
Chai Woon Chew
Ho Choi Chiu *(resigned on 15 November 2012)*

REPORT OF THE DIRECTORS

DIRECTORS' BIOGRAPHICAL DETAILS

Guan Xinmin, age of 50, has been the Company's executive Director and Chairman of the Board of Directors since 8 July 2011. Prior to this appointment, he was the Company's General Purchasing Manager. Mr. Guan has highly valued experience in trading mineral products in China and European countries.

Feng Zhong Yun, age of 45, has been the Company's executive director and Managing Director since 31 December 2012. Prior to that, he was the Company's Independent Non-executive Director from 15 November 2012 to 31 December 2012. Mr. Feng graduated from China Central Academy of Fine Arts and obtained his Bachelor of Arts degree in 1991. Mr. Feng is a freelance artist and is currently a member of the Chinese People's Political Consultative Conference in Beijing.

Zhang Xue, age of 35, has been the Company's executive Director since 2009. She held a bachelor degree in Accountancy from Qingdao University. From 2001 to 2007, Ms. Zhang served as Accounting Manager in Beifang Mining Group Limited. Ms. Zhang is the wife of Mr. Song Xiu Qiang, the Vice President of Marketing of the Company.

Ng Lai Po, age of 45, has been the independent non-executive Director of the Company since 31 December, 2012. Mr. Ng obtained his Bachelor of Social Sciences from the University of Hong Kong in 1990. Mr. Ng is a fellow member of Association of Chartered Certified Accountants since 1999. Mr. Ng has over 20 years of experience in finance, accounting and management. Mr. Ng was the Head of Finance – China of Hong Kong G2000 Group; the Head of Group Financial Control of Chow Sang Sang Holdings International Limited (HK listed stock code: 116); the Chief Financial Officer of A&H Manufacturing Group – Asia Region; the Financial Controller of Shenzhen Wanji Pharmaceutical Co. Ltd./Hong Kong Wanji Group Holding Ltd.; the Financial Controller of Brightway Petroleum Group (Holdings) Ltd. Mr. Ng is currently the Financial and Business Consultant of M&L Engineering Ltd.

Lu Ren Jie, age of 78, 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 55, has been the Company's independent non-executive Director since 2002. From 1994 to present, Mr. Chai has been a partner at Michael Chai & Co., a law firm in Kuala Lumpur, Malaysia. From 1991 to 1994, he was a legal associate with Shook Lin & Bok, a law firm in Kuala Lumpur, Malaysia. Mr. Chai holds a Bachelor of Laws (Hons) degree from the University of Buckingham and a Bachelor of Science (Hons) degree in Chemistry from University of Surrey, UK. Mr. Chai is qualified as Barrister at Law from Lincoln's Inn, England.

On 15 November, 2012, Mr. Ho Choi Chiu decided to retire from work and resigned as the Company's Independent Non-executive Director and the Chairman of the Audit Committee of the Company. On 31 December 2012, Ms. Lee Sin Pyung, due to her personal reason, resigned as an Executive Director and Managing Director of the Company.

Under the existing Articles of Association of the Company, all of the Directors are subject to retirement by rotation and re-election at the annual general meeting. In accordance with Articles of Association of the Company, Mr. Feng Zhong Yun, Mr. Ng Lai Po and Mr. Chai Woon Chew shall retire by rotation and, being eligible, offer themselves for re-election at the coming annual general meeting.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

No Director being proposed for re-election at the forthcoming 2013 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.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2012, none of the Executive Directors are considered to have interests in the business which compete or is likely to compete with the business of the Group pursuant to the Listing Rules.

DIRECTORS' REMUNERATION

The emoluments of the Directors are determined by the Board, as authorised by the shareholders at the annual general meeting, with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and Chief Executives' Interests in Shares or Debentures" below, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR DEBENTURES

As at 31 December 2012, none of the Directors and chief executives of the Company had interest in the shares, underlying shares and debentures of the Company and its associated companies, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors or the chief executives were deemed or taken to have under such provisions of the SFO, which are required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers ("Model Code") contained in the Listing Rules.

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.

REPORT OF THE DIRECTORS

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 2012, no person had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept record by the Company pursuant to Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchases from the five largest suppliers accounted for approximately 32.03% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 15.89% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 49.15% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 14.20% 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 2012 and 2011.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

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.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report save for the deviation as disclosed in the Corporate Governance Report from pages 14 to 27.

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.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the balance sheet date are set out in note 40 to the financial statements.

INDEPENDENT AUDITORS

The financial statements for the year were audited by JP Union & Co. who will retire and being eligible, offer themselves for re-appointment as the auditor of the Company at the forthcoming annual general meeting. The Board proposes to re-appoint JP Union & Co. as auditor of the Company at the forthcoming annual general meeting.

On Behalf of the Board

Guan Xinmin
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Code on Corporate Governance Practices (the "Former CG Code") as set out in Appendix 14 of the Listing Rules was amended and replaced by the Corporate Governance Code (the "New CG Code") effective from 1 April 2012 and has been applicable to financial reports covering the period after 1 April 2012. For corporate governance purposes, the Company has adopted the Former CG Code up to 31 March 2012 and the New CG Code since 1 April 2012.

The Company has applied the principles and has complied with the code provisions of the Former CG Code during the period from 1 January 2011 to 31 March 2012 and has applied the principles and has complied with the code provisions of the New CG Code during the period from 1 April 2012 to 31 December 2012, except for two deviations as below:

Code Provision A.4.1: Non-executive directors should be appointed for a specific term

Under the 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, the Company's Articles of Association stipulate that all independent non-executive directors shall retire and be re-elected at least once every three years, which is an adequate measure to ensure the Company's corporate governance complies with the same level to that required under the Code on Governance Practices and Corporate Governance Code.

Code Provision A.6.7: Independent non-executive directors and non-executive directors should attend general meeting

Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu, all being non-executive directors, were not able to attend the annual general meeting of the Company held on 23 May 2012 due to other business engagements.

THE BOARD OF DIRECTORS

The Board is responsible for overseeing the Company's strategic planning and development, and for determining the objectives, strategic and policies of the Company while delegating day-to-day operations of the Company to the management. Besides, each Board member is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

CORPORATE GOVERNANCE REPORT

The Board currently comprises six directors (the "Directors") in total, with three Executive Directors and three Independent Non-Executive Directors ("INED"). The composition of the Board during the year is set out as follows:

Executive Directors:

Guan Xinmin, *Chairman*
Feng Zhong Yun, *Managing Director (appointed on 15 November 2012; re-designated on 31 December 2012)*
Lee Sin Pyung *(Managing Director, resigned on 31 December 2012)*
Zhang Xue

Independent Non-Executive Directors:

Ng Lai Po *(appointed on 31 December 2012)*
Lu Ren Jie
Chai Woon Chew
Ho Choi Chiu *(resigned on 15 November 2012)*

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Company. Its composition represents a mixture of management, accounting and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interests of the Company.

Throughout the year and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules. The former Rule requires that every board of directors of a listed issuer must include at least three INEDs and the latter Rule requires that at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise. All INEDs also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules. Further, up to the date of this report, the Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

The Company has received from each Independent Non-Executive Director an annual confirmation or confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent. The Independent Non-Executive Directors are explicitly identified in all corporate communications.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

To the best knowledge of the Company, there is no material relationship, whether financial, operational, family, etc, among members of the Board.

CORPORATE GOVERNANCE REPORT

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment to the Board, each newly appointed Director receives a comprehensive induction brief covering business operations, policy and procedures of the Company as well as the general statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company also encourages the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, Company Ordinance/Act and corporate governance practices so that they can continuously update and further improve their relevant knowledge and skills.

Pursuant to Code A.6.5 of the "Corporate Governance Code", listed company directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the Revised Code on continuous professional development during the year ended 31 December 2012:

Directors	**Read materials**	**Attended seminar(s)/ forum(s)**	**Giving talk(s) to external seminars/ forums**	**Attended corporate event(s)/ visit(s)**
Executive Directors				
Guan Xinmin	✓			✓
Feng Zhong Yun	✓			✓
Zhang Xue	✓			✓
Independent Non-Executive Directors				
Ng Lai Po	N/A	N/A	N/A	N/A
Lu Ren Jie	✓			✓
Chai Woon Chew	✓	✓	✓	✓

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

The Chairman of the Board of the Directors of the Company is Mr. Guan Xinmin, and the functions of Chief Executive Officer are performed by our Managing Director, Ms. Lee Sin Pyung, up to 31 December 2012 and thereafter by Mr. Feng Zhong Yun.

Under Code Provision and Revised Code Provision A.2.1, the roles of the Chairman and the Chief Executive Officer are segregated and assumed by two different Individuals who have no relationship with each other to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. It is the Board's intention to appoint a new Chairman as soon as the suitable person is selected.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors provide a wide range of expertise and experience as well as checks and balances to safeguard the interests of the Company and its shareholders. Their participation in the board and committee meetings brings independent judgement on issues relating to the Company's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been dully considered.

The independent non-executive Directors of the Company were not appointed for a specific term, as they were subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company in accordance with the Company's Articles of Association.

More than one-third of the Board members of the Company consist of independent non-executive Directors and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise.

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

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORD AT BOARD MEETINGS AND COMMITTEE MEETING

The Board meets regularly to discuss the overall strategy as well as the operation and financial affairs of the Company, and to review and approve the Company's annual and interim results. During the year ended 31 December 2012, 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"), extraordinary general meeting ("EGM"), board and board committee meetings held in 2012:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	AGM	EGM
Mr. Guan Xinmin (1)	4/4	N/A	N/A	1/1	2/2
Ms. Lee Sin Pyung (2)	4/4	N/A	N/A	0/1	0/2
Mr. Feng Zhong Yun (3)	N/A	N/A	0/2	N/A	N/A
Ms. Zhang Xue	3/4	N/A	N/A	0/1	0/2
Mr. Ng Lai Po (4)	N/A	N/A	N/A	N/A	N/A
Mr. Lu Ren Jie	4/4	2/2	2/2	0/1	0/2
Mr. Chai Woon Chew	1/4	2/2	2/2	0/1	0/2
Mr. Ho Choi Chiu (5)	2/4	2/2	2/2	0/1	0/2

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

(2) Ms. Lee Sin Pyung resigned as Managing Director and Executive Director on 31 December 2012.

(3) Mr. Feng Zhong Yun was appointed on 15 November 2012 as Independent Non-Executive Director and re-designated as Managing Director and Executive Director on 31 December 2012.

(4) Mr. Ng Lai Po was appointed Independent Non-Executive Director on 31 December 2012.

(5) Mr. Ho Choi Chiu was resigned as Independent Non-Executive Director on 15 November 2012.

BOARD COMMITTEES

The board has established various committees, including Audit Committee, Remuneration Committee, and Nomination Committee. Each committee has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned in the section headed "The Board of Directors" of this report, have been adopted for the committee meetings so far as practicable.

CORPORATE GOVERNANCE REPORT

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 2012, the members of the Audit Committee consisted of:

- Mr. Ng Lai Po *(Chairman, appointed on 31 December 2012)*
- Mr. Lu Ren Jie
- Mr. Chai Woon Chew
- Mr. Ho Choi Chiu *(Chairman, resigned on 15 November 2012)*

The Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive director) is an independent non-executive director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The main responsibilities of the Audit Committee are to review the financial statements and the auditors' reports and monitor the integrity of the financial statements. Other responsibilities include the appointment of auditor, approval of the auditor's remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also charged with the overseeing the financial reporting system and internal control procedures and their effectiveness.

The Board has adopted a set of the revised terms of reference of the Audit Committee, which has included changes in line with the Revised Code requirements effective from 1 April 2012.

The Audit Committee shall meet at least twice a year in accordance with its terms of reference. Two Committee meetings were held in 2012 and the attendance of each member is set out in the section headed "Board Committees" of this report.

In addition to the Committee meeting, the Audit Committee also dealt with matters by way of circulation during 2012. In 2012 and up to the date of this report, the Audit Committee performed the works as summarized below:

(i) Reviewed and recommended 2011 final results, audit findings and draft final results announcement for the Board's approval;

(ii) Reviewed and considered various accounting issues and new accounting standards and their financial impacts;

(iii) Considered the audit fee for the Year 2012;

(iv) Reviewed and recommended 2012 interim results, audit findings, draft management discussion and analysis section of the interim report for the Board's approval;

CORPORATE GOVERNANCE REPORT

(v) Reviewed and recommended 2012 final results, audit findings and draft final results announcements for the Board's approval;

(vi) Reviewed and recommended the revised terms of reference of the Audit Committee for the Board's approval;

(vii) Reviewed and recommended Shareholders' Communication Policy for the Board's approval;

(viii) Reviewed the area of risk management and internal controls of the Group; and

(ix) Recommended to the Board, for the approval by shareholders, of the reappointment of the auditors.

All issues raised by the Committee have been addressed by Management. The work and findings of the Committee have been reported to the Board. During the year, no issue brought to the attention of Management and the Board was of sufficient importance to require in this report.

Based on these review and discussions, and the report of the external auditors, the Audit Committee recommended to the Board of Directors approval of the consolidated financial statements for the year ended 31 December 2012 with the Auditors' Report thereon.

The Committee recommended to the Board that the shareholders be asked to re-appoint JP Union & Co., Certified Public Accountants, as the Company's independent auditor for 2013.

REMUNERATION COMMITTEE

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

- Mr. Chai Woon Chew *(Chairman)*
- Mr. Lu Ren Jie
- Mr. Ng Lai Po *(appointed on 31 December 2012)*
- Mr. Ho Choi Chiu *(resigned on 15 November 2012)*

The Board adopted a set of the revised terms of reference of the Remuneration Committee, which has included changes in line with the Revised Code requirements effective from 1 April 2012. The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual Executive Directors and senior management only.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the executive directors and senior management. It takes into consideration of factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee shall meet at least once a year in accordance with its terms of reference. Two Committee meetings were held in 2012 and the attendance of each member is set out in this report.

In addition to the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2012. In 2012 and up to the date of this report, the Remuneration Committee performed the works as summarized below:

(i) Reviewed the existing policy and structure for the remuneration of Directors;

(ii) Reviewed the existing remuneration packages of the Executive Directors;

(iii) Reviewed the existing remuneration of the Independent Non-Executive Directors;

(iv) Reviewed and recommended the revised terms of reference of Remuneration Committee for the Board's approval; and

(v) Reviewed and recommended the remuneration package of two newly appointed Executive Directors for the Board's approval.

The remuneration payable to Directors will depend on their respective contractual terms under their employment contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company formulated written terms of reference for the Nomination Committee in accordance with the requirements of the Stock Exchange. The Nomination Committee consists of three independent non-executive Directors. As of the date of this Annual Report, the members of the Nomination Committee were:

- Mr. Lu Ren Jie *(Chairman)*
- Mr. Chai Woon Chew
- Mr. Ng Lai Po *(appointed on 31 December 2012)*
- Mr. Ho Choi Chew *(resigned on 15 November 2012)*

The Nomination Committee is responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors and Board succession, with a view to appoint to the Board, individuals with the relevant experience and capabilities to maintain and improve competitiveness of the Company. The Nomination Committee shall formulate the policy, review the size, structure and composition of the Board, and assess the independence of its Independent Non-Executive Directors in accordance with the criteria prescribed under the Listing Rules and the Code.

The Nomination Committee shall meet at least once a year in accordance with its terms of reference. Two Committee meetings were held in 2012 and the attendance of each member is set out in this report.

CORPORATE GOVERNANCE REPORT

In addition to the Committee meeting, the Nomination Committee also dealt with matters by way of circulation during 2012. In 2012 and up to the date of this report, the Nomination Committee performed the works as summarized below:

(i) Reviewed the structure, size and composition (including the skills, knowledge, experience and length of service) of the Board and make recommendations on proposed changes to the Board to complement the Company's corporate strategy; and

(ii) Reviewed and make recommendations to the Board on the change of the Managing Director and appointment of two newly appointed Directors.

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

(a) To develop and review the Company's policies and practices on corporate governance;

(b) To review and monitor the training and continuous professional development of directors and senior management;

(c) To review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

COMPLIANCE OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. All Directors have confirmed that, following specific enquiry by the Company, they fully complied with the Model Code throughout the year of 2012.

At 31 December 2012, 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 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.

CORPORATE GOVERNANCE REPORT

EXECUTIVE DIRECTORS' REMUNERATION

The remuneration paid to the executive Directors of the Company in 2012 was as below:

Name of Executive Directors	**Compensation Per Annum** (US$'000)
Mr. Guan Xinmin	112
Mr. Feng Zhong Yun [(1)]	6
Ms. Lee Sin Pyung [(2)]	17
Ms. Zhang Xue	81

(1) Mr. Feng Zhong Yun was appointed as Managing Director and Executive Director on 31 December 2012. He is entitled to a Director's fee of HK$520,000 per annum.

(2) Ms. Lee Sin Pyung was resigned as Managing Director and Executive Director on 31 December 2012.

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

REMUNERATION OF NON-EXECUTIVE DIRECTORS

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

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

DIRECTORS AND OFFICERS POLICY

Appropriate insurance covers on directors and officers liabilities have been in force to protect the directors and officers of the Company from risk exposure arising from the business of the Company.

CORPORATE GOVERNANCE REPORT

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 2012 and 2011:

Fee Category	**2012** **US$'000**	2011 US$'000
Audit fees	**186**	191
Other services	**48**	44

The Audit Committee of the Board intends to re-appoint JP Union & Co as its statutory auditor for the fiscal year 2013. The appointment is subject to approval and authorization by the Board of the Directors and by the shareholders at the 2013 annual general meeting.

FINANCIAL REPORTING

The Board acknowledges its responsibilities of the preparation of the financial statements of the Group and ensures that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements of the Group.

The statement of external auditor of the Company, JP Union & Co., about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report.

The Company publishes its financial results on a semi-annual basis. The Board consider that in preparing the financial statements, the Company has applied the appropriate accounting policies that are consistently adopted and made judgments/estimates that are reasonable and prudent in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The Board, having made appropriate enquiries, is of the view that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate for the Company to adopt the going concern basis in the preparation of the financial statements.

During the year of 2012, 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 2012. They are set out in the Application of New and Revised HKFRSs of the notes to the Accounts on note 1 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has the responsibility to review annually the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders' investments and the Group's assets at all times. In 2012, the Board, through the Audit Committee, had reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board acknowledges its responsibility for the integrity of the Company's financial information and the effectiveness of the company's system of internal controls and risk management processes. In this context, the Board has established a clear organizational structure with appropriate delegation of responsibility to satisfy changing business needs while managing risks that are critical to the achievement of business objectives.

In line with the requirements of the Appendix 14 of the Listing Rules, and based on a guidance, which is Internal Control and Risk Management – A Basic Framework issued by the Hong Kong Institute of Certified Public Accountants, at the end of the period covered by this report, the Board has conducted an annual review of the Company's internal controls. Based upon that review, the Board was satisfied that the Company's internal controls and risk management were effective and adequate for their purposes.

COMPANY SECRETARY

All Directors have access to the advice and services of our Company Secretary, Ms. Lam Lee Yu, Vivian. The Company Secretary reports to the Chairman and Managing Director on board governance matters, and is responsible for ensuring that board procedures are followed and for facilitating communications among Directors as well as with Shareholders and management. The Company Secretary also responsible for the Company's compliance with the continuing obligations of the Listing Rules, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

During the year, our Company Secretary was fully compliance with Rule 3.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS

The Company recognizes the importance of maintaining an on-going and timely communication with shareholders to enable them to form their own judgment and to provide constructive feedback. The Company intends to provide the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(i) Corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website at www.hkex.com.hk and the Company's website at www.southseapetro.com.hk;

(ii) Periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) Corporate information and the Memorandum and Articles of Association of the Company are made available on the Company's website;

(iv) Annual General Meeting ("AGMs") and extraordinary general meetings ("EGMs") provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

(v) The Company's share registrars' serves the Shareholders in respect of share registration, dividend payment, change of Shareholders' particulars and related matters.

The Company has complied with the requirements of the Listing Rules and the Articles of Association in respect of voting by poll and other related matters.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company can deposit a written request to convene an Extraordinary General Meeting ("EGM") at Room 504, 5/F, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong, the registered office of the Company, for the attention of the Company Secretary.

The written request must state the objects of the meeting, signed by the Shareholders concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.

The written request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the board of directors ("Directors") of the Company to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. If the request has been verified as not in order, the Shareholders concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

CORPORATE GOVERNANCE REPORT

If the Directors do not within 21 days from the date of the deposit of the written request to proceed to convene the EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the requesting Shareholders or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any meeting so convened shall be held within 3 months from the said date.

Procedures for Shareholders to Put Forward Proposals at a General Meeting

Pursuant to the Companies Act, either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("Requisitionists"), or not less than 100 of such registered Shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition signed by all the Requisitionists may consist of several documents in like form, each signed by one or more of the Requisitionists; and it must be deposited at the Registered Office with a sum reasonably sufficient to meet the Company's relevant expenses, not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if an AGM is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

South Sea Petroleum Holdings Limited
Attn: Company Secretary
Room 504, 5/F, Chinachem Tower
34-37 Connaught Road Central, Hong Kong
Email: info@southseapetro.com.hk

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS

There were no significant changes in the Memorandum of Association of the Company during the year.

INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the consolidated financial statements of South Sea Petroleum Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 30 to 79, which comprise the consolidated and Company statement of financial position as at 31 December 2012, 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 2012 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, 28 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
TURNOVER	6	**111,943**	92,162
COST OF SALES		**(81,334)**	(47,783)
		30,609	44,379
Other income	6	**3,691**	3,884
General and administrative expenses		**(24,714)**	(25,017)
Drilling and operating expenses		**(8,216)**	(12,025)
Net gain (loss) in fair value of financial assets held for trading		**(13,421)**	42,351
Other taxes		**(208)**	(500)
(LOSS) PROFIT FROM OPERATING ACTIVITIES	7	**(12,259)**	53,072
Finance costs	8	**(585)**	(749)
(LOSS) PROFIT BEFORE TAX		**(12,844)**	52,323
INCOME TAX	11	**34**	(3,479)
(LOSS) PROFIT FOR THE YEAR		**(12,810)**	48,844
ATTRIBUTABLE TO:			
Equity shareholders of the Company	13	**(12,919)**	46,601
Non-controlling interests		**109**	2,243
		(12,810)	48,844
(LOSS) EARNINGS PER SHARE (US Cents)			
– Basic	13	**(0.57)**	14.19
– Diluted	13	**–**	14.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 US$'000	2011 US$'000
(Loss) profit for the year	**(12,810)**	48,844
Other comprehensive income		
Exchange differences	**1,750**	964
Revaluation of land and buildings	**–**	319
Total comprehensive income for the year	**(11,060)**	50,127
ATTRIBUTABLE TO:		
Equity shareholders of the Company	**(11,220)**	47,707
Non-controlling interests	**160**	2,420
	(11,060)	50,127

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
NON-CURRENT ASSETS			
Fixed assets	14		
– Other property, plant and equipment		31,125	25,114
– Investment properties		1,801	2,274
		32,926	27,388
Prepaid lease payments	15	5,590	3,033
Goodwill	16	537	–
Available-for-sale investments	18	321	–
Deferred tax assets	19	1,359	1,114
		40,733	31,535
CURRENT ASSETS			
Cash and bank balances		26,161	33,122
Financial assets at fair value held for trading	20	30,521	58,525
Trade and notes receivables	21	18,781	26,771
Other loan receivable	22	–	2,700
Inventories	23	19,405	14,857
Prepayments, deposits and other receivables	24	159,581	77,512
		254,449	213,487
CURRENT LIABILITIES			
Trade payables	25	12,434	5,343
Other payables and accrued expenses		15,632	9,332
Bank loan on discounted debtors		304	1,314
Due to non-controlling interest	26	1,205	–
Dividend payable		2,450	–
Finance lease-current portion	26	184	225
Taxation		1,738	4,291
		33,947	20,505

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
NET CURRENT ASSETS		**220,502**	192,982
TOTAL ASSETS LESS CURRENT LIABILITIES		**261,235**	224,517
NON-CURRENT LIABILITIES			
Finance lease	*26*	**151**	109
Provision	*27*	**2,605**	2,605
Convertible debentures	*28*	**64**	1,023
		2,820	3,737
NET ASSETS		**258,415**	220,780
CAPITAL AND RESERVES			
Share capital	*29*	**3,711**	602
Revaluation reserve		**4,171**	3,908
Special capital reserve		**12,037**	12,037
Share premium		**428,065**	380,711
Translation reserve		**8,243**	6,807
Accumulated losses		**(201,778)**	(188,859)
Total equity attributable to equity shareholders of the Company		**254,449**	215,206
Non-controlling interests		**3,966**	5,574
		258,415	220,780

FENG ZHONG YUN
Managing Director

GUAN XINMIN
Chairman

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
NON-CURRENT ASSETS			
Fixed assets	14	**55**	53
Interests in subsidiaries	17	**248,480**	203,957
		248,535	204,010
CURRENT ASSETS			
Cash and bank balances		**2,123**	12,982
Financial assets at fair value held for trading	20	**4**	3
Prepayments, deposits and other receivables		**4,108**	255
		6,235	13,240
CURRENT LIABILITIES			
Other payables and accrued expenses		**257**	1,021
NET CURRENT ASSETS		**5,978**	12,219
TOTAL ASSETS LESS CURRENT LIABILITIES		**254,513**	216,229
NON-CURRENT LIABILITIES			
Convertible debentures	28	**64**	1,023
NET ASSETS		**254,449**	215,206
CAPITAL AND RESERVES			
Share capital	29	**3,711**	602
Reserves	31	**250,738**	214,604
		254,449	215,206

FENG ZHONG YUN
Managing Director

GUAN XINMIN
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	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 1.1.2012	602	380,711	–	12,037	6,807	3,908	(188,859)	215,206	5,574	220,780
Profit for the year	–	–	–	–	–	–	(12,919)	(12,919)	109	(12,810)
Other comprehensive income	–	–	–	–	1,436	263	–	1,699	51	1,750
Total comprehensive income for the year	–	–	–	–	1,436	263	(12,919)	(11,220)	160	(11,060)
Capital reduction	–	–	–	–	–	–	–	–	–	–
Issue of shares upon conversion of convertible debentures	3,109	47,354	–	–	–	–	–	50,463	–	50,463
Acquisition of subsidiary	–	–	–	–	–	–	–	–	3,150	3,150
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	(2,535)	(2,535)
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	(2,383)	(2,383)
At 31.12.2012	3,711	428,065	–	12,037	8,243	4,171	(201,778)	254,449	3,966	258,415

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

	Note	2012 US$'000	2011 US$'000
NET CASH USED IN OPERATING ACTIVITIES	*32(a)*	**(49,195)**	(33,972)
INVESTING ACTIVITIES			
Additions of fixed assets		**(5,303)**	(4,722)
Dividend income received		**417**	386
Payment for available-for-sale investment		**(321)**	–
Cash inflow on acquisition of subsidiaries	*32(b)*	**(1,005)**	1,434
Payment for increase of shareholding of subsidiaries	*32(c)*	**(2,050)**	–
Interest received		**27**	7
Proceeds from disposal of property, plant and equipment		**1,436**	–
Net cash used in investing activities		**(6,799)**	(2,895)
FINANCING ACTIVITIES			
Net proceed from issue of convertible debentures		**49,504**	46,423
Capital element of finance lease		**(15)**	(218)
Net proceeds of loan from discounted debtors		**–**	1,210
Loan from discounted debtor		**(1,010)**	–
Net cash from financing activities		**48,479**	47,415
INCREASE IN CASH AND CASH EQUIVALENTS		**(7,515)**	10,548
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**33,122**	21,591
EFFECT OF FOREIGN EXCHANGE RATES		**554**	983
CASH AND CASH EQUIVALENTS AT END OF YEAR		**26,161**	33,122
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**26,161**	33,122
Bank overdraft		**–**	–
		26,161	33,122

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability. Its principal place of business is situated at Room 504, 5/F, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong. The Company's Securities are listed on the Stock Exchange of Hong Kong Limited for trading (Stock Code: 76).

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

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

Through its wholly owned subsidiaries, South Sea Graphite (Luobei) Co., Ltd, Liaoning Sinorth Resources Co., Limited, and majority owned Luo Bei Xin Long Yuan Graphite Production Co. Limited, the Company is engaged in the business of exploration, production and sale of graphite products in Luobei, Heilongjiang Province of China, and Liaoning Province respectively.

Through its majority owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom, the Company provides electronics manufacturing services to companies in the following industrial market sectors:

- Medical
- Defense
- Transport
- Aerospace
- Security
- Marine
- Oil and Gas, and
- Other industrial market

Generally, Axiom builds products that carry the brand names of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis.Most of Axiom's customers are located within the United Kingdom and North America.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 2012.

HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 – Disclosure for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

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, 2012

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place prior to 1st January, 2012

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

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

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

Goodwill

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil properties

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

Depreciation, depletion and amortisation of oil properties

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

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

Land and buildings

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

Fixed assets and depreciation

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

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

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

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

Construction in progress

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

Investments and other financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Leasing

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

(i) *The Group as lessor*

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

(ii) The Group as lessee

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

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

Impairment of tangible assets other than goodwill

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

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

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

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

Inventories

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

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

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

Borrowing costs

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

Government grants

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

Deferred income tax

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible debentures

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

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

Trade and other receivables

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

Trade payable

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

Offsetting of financial instruments

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

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

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

Provisions

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

Segmental reporting

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Salaries, bonus and leave entitlements

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

Retirement benefits

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

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

Cash equivalents

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Impairment of receivables

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. TURNOVER, INCOME AND SEGMENT INFORMATION

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

	Note	2012 US$'000	2011 US$'000
An analysis of the Group's turnover and income is as follows:			
Turnover			
Crude oil sales		12,384	15,901
Sales of goods and services		99,559	76,261
		111,943	92,162
Other income			
Bank interest income		28	7
Other loan interest income		318	–
Rental income		928	1,057
Government grant		453	–
Dividend income		418	472
Gain on revaluation of investment properties		490	–
Gain on bargain purchase	*32(b)*	–	2,299
Gain on disposal of fixed assets		961	–
Sundry income		95	49
		3,691	3,884
		115,634	96,046

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	Oil 2012 US$'000	Sale of minerals 2012 US$'000	Contract Electronic manufacturing 2012 US$'000	Trading securities 2012 US$'000	Trading of gold 2012 US$'000	Other 2012 US$'000	Total 2012 US$'000
Revenue from external customers	12,384	41,093	47,495	–	10,968	3	111,943
Segment results	(3,020)	2,247	3,033	(13,890)	554	–	(11,076)
Unallocated income and expenses							(1,486)
Profit from operating activities							(12,562)
Finance costs	–	–	(282)	–	–	–	(282)
Taxation	–	(150)	184	–	–	–	34
Profit for the year							(12,810)
Segment assets	9,583	206,068	38,481	31,206	9	–	285,347
Unallocated assets							9,835
Total assets							295,182
Segment liabilities	(7,916)	(11,132)	(17,383)	–	–	–	(36,431)
Unallocated liabilities							(336)
Total liabilities							(36,767)
Depreciation	507	2,656	878	–	–	–	4,041
Significant non-cash income	–	–	–	–	–	490	490
Significant non-cash expenses	–	–	–	8,649	–	–	8,649
Capital expenditure additions	64	8,315	1,138	–	–	2	9,519

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment (Continued)

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

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000
Indonesia	**12,384**	15,901	**85,102**	7,976	**64**	314
United Kingdom	**47,495**	30,741	**38,383**	27,469	**1,138**	–
China	**41,094**	45,413	**125,014**	125,013	**8,315**	4,406
America	**–**	–	**45,097**	45,106	**–**	1
Hong Kong	**10,970**	107	**1,586**	39,458	**2**	1
	111,943	92,162	**295,182**	245,022	**9,519**	4,722

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. PROFIT (LOSS) FROM OPERATING ACTIVITIES

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

	2012	2011
	US$'000	US$'000
Depreciation:		
– owned fixed assets	**3,870**	2,619
– leased fixed assets	**171**	194
Operating lease rentals on		
– land and buildings	**2,601**	1,401
– plant and machinery	**207**	1,763
Costs of inventories sold	**70,642**	60,170
Fixed assets written off	**150**	365
Staff costs (including directors' remuneration – *note 9*)	**17,725**	13,502
Auditors' remuneration		
– audit fee	**186**	191
– other services	**48**	44
Net (gain) loss in fair value of financial assets held for trading		
– realized	**4,772**	760
– unrealised	**8,649**	(43,111)
Provision for plug and abandonment	**–**	696
Foreign exchange (gain) loss, net	**(25)**	(1)

8. FINANCE COSTS

	2012	2011
	US$'000	US$'000
Debenture interest	**–**	472
Bank discounting charges	**8**	45
Bank interest paid	**20**	44
Interest on finance lease	**19**	18
Other interest paid	**303**	–
Bank charges	**234**	170
	584	749

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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$'000	2012 Total US$'000
Executive directors				
Guan Xin Min	–	110	2	112
Zhou Ling	–	–	–	–
Lee Sin Pyung	–	17	–	17
Zhang Xue	–	80	1	81
Feng Zhong Yun	–	6	–	6
Independent non-executive directors				
Lu Ren Jie	20	–	–	20
Chai Woon Chew	14	–	–	14
Ho Choi Chiu	13	–	–	13
	47	213	3	263

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2011: Nil), details of whose remuneration are set out in note 9 above. The details of the remuneration of the five non-directors (2011: five), highest paid employees are set out below.

	2012	2011
	US$'000	US$'000
Salaries, allowances and benefits in kind	**1,965**	1,548

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

	Number of non-directors	
	2012	2011
US$Nil to US$129,000	**–**	–
US$129,001 to US$192,300	**–**	2
US$192,300 to US$256,400	**3**	–
US$320,500 to US$384,600	**–**	1
US$384,601 to US$448,700	**–**	1
US$448,701 to US$512,800	**–**	1
US$577,000 to US$705,000	**2**	–
	5	5

11. INCOME TAX

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

	2012	2011
	US$'000	US$'000
Overseas tax charge		
– current year	**159**	4101
– overprovision in respect of prior years	**–**	–
Deferred tax credited – *note 19*	**(193)**	(622)
Tax charge for the year	**(34)**	3,479

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. INCOME TAX (Continued)

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

	2012 US$'000	2011 US$'000
(Loss) profit before tax	(12,844)	52,323
(Notional tax) tax on (loss) profit before tax, calculated at the rates applicable to profits in the countries concerned	(2,745)	9,101
Tax effect of non-deductible expenses	2,932	1,041
Tax effect of non-taxable income	(848)	(7,677)
Tax effect of tax losses not recognized	1,755	1,661
Tax loss recognized	(909)	(90)
Other timing difference	(219)	(557)
Tax expenses	(34)	3,479

12. NET (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$11,220,000 (2011: profit of US$47,974,000).

13. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the net loss attributable to equity shareholders for the year of US$12,919,000 (2011: profit of US$46,601,000) and weighted average of 2,275,578,889 (2011: 328,425,171) ordinary shares in issue during the year.

There is no fully diluted earnings per share for the year.

In 2011, the diluted earnings per share for the year is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the convertible debentures at the date of issuing the potential ordinary shares to 328,763,108; and the adjusted profit attributable to equity shareholders of the Company of US$46,603,000, being the profit attributable to the shareholders of the Company of US$46,601,000 adjusted to eliminate the interest expense of US$2,000.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 1.1.2012	3,164	14,215	23,816	6,066	1,845	25	49,131	2,274	51,405
Exchange differences	–	560	782	278	20	–	1,640	–	1,640
Acquisition of subsidiaries	–	2,607	1,208	–	387	15	4,217	–	4,217
Additions	64	580	2,082	7	251	2,319	5,303	–	5,303
Transfer	–	1,128	883	–	103	(2,294)	(180)	–	(180)
Disposal/written off	–	–	(242)	–	–	–	(242)	(963)	(1,205)
Revaluation	–	–	–	–	–	–	–	490	490
At 31.12.2012	3,228	19,090	28,529	6,351	2,606	65	59,869	1,801	61,670
Representing:									
Cost	3,228	10,553	28,529	6,351	2,606	65	51,332	–	51,332
Valuation	–	8,537	–	–	–	–	8,537	1,801	10,338
	3,228	19,090	28,529	6,351	2,606	65	59,869	1,801	61,670
Accumulated depreciation:									
At 1.1.2012	2,327	342	14,749	5,897	702	–	24,017	–	24,017
Exchange difference	–	10	636	272	7	–	925	–	925
Acquisition of subsidiaries	–	9	3	–	21	–	33	–	33
Charge for the year	507	769	2,045	63	657	–	4,041	–	4,041
Transfer	–	–	(180)	–	–	–	(180)	–	(180)
Written back	–	–	(92)	–	–	–	(92)	–	(92)
At 31.12.2012	2,834	1,130	17,161	6,232	1,387	–	28,744	–	28,744
Net book value:									
At 31.12.2012	394	17,960	11,368	119	1,219	65	31,125	1,801	32,926

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. FIXED ASSETS (Continued)

Company

	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:			
At 1.1.2011	144	183	327
Addition	1	–	1
At 31.12.2011	145	183	328
Addition	2	–	2
At 31.12.2012	**147**	**183**	**330**
Accumulated depreciation:			
At 1.1.2011	141	107	248
Charge for the year	1	26	27
At 31.12.2011	142	133	275
Charge for the year	–	–	–
At 31.12.2012	**142**	**133**	**275**
Net book value:			
At 31.12.2012	**5**	**50**	**55**
At 31.12.2011	3	50	53

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

	Group 2012 US$	Group 2011 US$
Land and buildings		
– freehold outside Hong Kong	**8,537**	8,072
– medium lease outside Hong Kong	**9,423**	5,801
	17,960	13,873

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. FIXED ASSETS (Continued)

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

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

The Freehold land and buildings were revalued on 31 December 2012 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors. The valuation was approximate to the carrying value at the end of the reporting date.

Had the Group's Freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$4,921,000 (2011: US$4,839,000).

The investment properties were revalued on 31 December 2012 on the basis of their open market value by Youlanda, an independent firm of chartered surveyors.

The net book value of plant and machinery held under finance leases of the Group was US$523,000 (2011: US$613,000).

15. PREPAID LEASE PAYMENTS

	Group	
	2012	2011
	US$'000	US$'000
At 1 January	**3,033**	–
Acquisition of subsidiary	**2,614**	3,048
Accumulated amortisation	**(57)**	(15)
At 31 December	**5,590**	3,033

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

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

16. GOODWILL

Group

	2012	2011
	US$'000	US$'000
Net carrying value		
At 1 January	**–**	1,262
Acquisition of subsidiary	**537**	–
Impairment	**–**	(1,262)
At 31 December	**537**	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INTERESTS IN SUBSIDIARIES

Company

	2012 US$'000	2011 US$'000
Unlisted shares, at cost	**364**	364
Amounts due from subsidiaries	**402,444**	349,037
	402,808	349,401
Provision for impairment in values	**(154,328)**	(145,444)
Carrying value at 31 December	**248,480**	203,957

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

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, trading of minerals and subletting of oil properties
Seaunion Energy (Limau) Limited#	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	Dormant
Kalrez Petroleum (Seram) Limited*	Mauritius	Indonesia	2 ordinary shares of US$1 each	–	100	Development and production of crude oil
Kalrez Petroleum Limited	British Virgin Islands	Indonesia	1 ordinary share of US$1 each	–	100	Investment holding
Great Admirer Limited	Hong Kong	Hong Kong	200 ordinary shares of HK$1 each	100	–	Investment holding and securities trading

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INTERESTS IN SUBSIDIARIES (Continued)

Company (Continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
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
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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INTERESTS IN SUBSIDIARIES (Continued)

Company (Continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
South Sea Graphite (Luobei) Co., Limited.#	PRC	PRC	RMB90,023,000	–	100	Exploration, production and selling of mineral products
Unicorn Arts Limited	Hong Kong	Hong Kong	1 ordinary shares of HK$1 each	–	100	Dormant
Moderation Limited	Hong Kong	Hong Kong	6 ordinary shares of HK$1 each	–	100	Investment holding
Liaoning Sinorth Resources Co. Limited	PRC	PRC	RMB70,461,854	–	100	Production and selling of mineral products
Luo Bei Xin Long Yuan Graphite Production Co. Limited ++#	PRC	PRC	RMB50,000,000	–	51	Production and selling of mineral products

* not audited by JP Union & Co.

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

++ acquired during the year

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

18. AVAILABLE-FOR-SALE INVESTMENTS

	Group 2012 US$'000	2011 US$'000
Unlisted shares, at cost	321	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. DEFERRED TAX ASSETS

	Group 2012 US$'000	Group 2011 US$'000
At 1 January	**1,114**	368
Acquisition of subsidiary	**–**	126
Charge for the year	**193**	622
Exchange difference	**52**	(2)
At 31 December	**1,359**	1,114

The balance of the deferred tax assets consists of the tax effect of timing differences in respect of excess of taxation allowances over depreciation on fixed assets of US$36,000 (2011: US$8,000) and tax losses available of US$1,323,000 (2011: US$1,106,000).

Deferred tax assets not recognized in the financial statements comprised of unused losses of approximately US$14,006,000 (2011: US$16,333,000).

20. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING

	Group 2012 US$'000	Group 2011 US$'000	Company 2012 US$'000	Company 2011 US$'000
Hong Kong listed shares	**521**	13,525	**4**	3
Shares traded on the OTC Bulletin Board in the United States	**30,000**	45,000	**–**	–
	30,521	58,525	**4**	3

21. TRADE AND NOTES RECEIVABLES

	Group 2012 US$'000	Group 2011 US$'000
Trade receivables	**13,808**	6,556
Notes receivables	**4,973**	20,215
	18,781	26,771

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. TRADE AND NOTES RECEIVABLES (Continued)

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

	Group	
	2012	2011
	US$'000	US$'000
0 – 30 days	**7,423**	8,921
31 – 60 days	**3,180**	11,827
61 – 90 days	**3,331**	3,244
Over 90 days	**4,847**	2,779
	18,781	26,771

Included in trade receivables an amount of US$Nil (2011: US$1,148,000) 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 provided impairment on those receivables which are past due since they have a good track record with the Group.

At 31.12.2012, trade receivable of approximately US$10,920,000 (2011: US$7,146,000) were pledged to bank to secure a loan on these discounted debtors.

22. OTHER LOAN RECEIVABLE

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

23. INVENTORIES

	Group	
	2012	2011
	US$'000	US$'000
Production supplies and raw materials	**9,419**	9,992
Work in progress	**4,100**	929
Finished goods	**5,886**	3,936
	19,405	14,857

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2012	2011
	US$'000	US$'000
Advances to supplier	**146,123**	73,842
Finder's fee prepaid to convertible debenture holders	**4,034**	–
Other deposits and prepayments	**5,001**	1,428
Other receivables	**1,826**	2,242
Deferred expenses	**2,597**	–
	159,581	77,512

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

25. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2012	2011
	US$'000	US$'000
0 – 30 days	**2,942**	1,595
31 – 60 days	**4,839**	2,442
61 – 90 days	**2,509**	805
Over 90 days	**2,144**	501
	12,434	5,343

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2012, the Group had obligations under finance lease repayable as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**199**	237	**184**	225
After one year but within two years	**165**	108	**151**	100
After two year but within five years	**–**	11	**–**	9
	364	356	**336**	334
Less: Future finance charges	**29**	22		
Present value of finance lease	**335**	334		
Less: Amount shown under current liabilities			**184**	225
			151	109

27. PROVISION

	Plug and abandonment
	US$'000
At 1.1.2012	**2,605**
Provision for the year	**–**
At 31.12.2012	**2,605**

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. CONVERTIBLE DEBENTURES

	Group and Company	
	2012	2011
	US$'000	US$'000
Principal amounts	**64**	1,077
Transaction costs	**–**	(54)
Net proceeds	**64**	1,023
Derivative component	**–**	(8)
Liability component at date of issue	**64**	1,015

Convertible debentures issued to RTM Financial Corp.

On 4 April 2011, the Company entered into a subscription agreement with RTM Financial Corp. for an aggregate of US$250 million 3% interest convertible debentures due 4 April 2021. RTM Financial Corp. will be entitled to 5% of the principal amounts of the debentures issued as finder's fee.

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the higher of (i) 90% of the average closing price of the Shares of any five (5) consecutive trading days (as selected by the Debenture Holder) within the sixty trading days immediately prior to the Conversion Date and (ii) the current par value of the Shares at US$0.50 (equivalent to HK$3.90), or the then effective par value of the Shares at the time of conversion.

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

During the year ended 2012, the Company issued the Debenture April 2021 for approximately US$4,808,000 (year ended 2011: US$12,804,000). Finder's fee of US$240,000 (2011: US$640,000) was payable to RTM Financial Corp. Conversion right was exercised to convert US$6,248,000 (2011: US$11,309,000) of the Convertible Debentures for 209,723,135 (2011: 255,100,986) shares of US$0.001 each.

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

	Group	
	2012	2011
Share price	**HK$0.113**	HK$0.237
Conversion price	**HK$0.1**	HK$3.900
Risk-free rate	**0.3514%**	1.414%
Expected life	**5.14 years**	9.26 years
Expected Volatility	**75.826%**	112.204%

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. CONVERTIBLE DEBENTURES (Continued)

Convertible debentures issued to RTM Financial Corp. (Continued)

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

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

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

One amendment was made on 24 October 2012 to increase the interest rate from 3% to 5% per annum.

Convertible debentures issued to Kelton Capital Group Limited

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

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the principal amounts of the Debentures in whole or in part in multiples of HK$10,000 into the Company's shares of US$0.05 each at the conversion price of US$0.05, within the conversion period from the time of Debenture issued to the Maturity Date (9 December 2015).

During the year ended 2012, the Company issued the Debenture December 2015 for approximately US$46,410,000 (year ended 2011: US$36,062,000). Finder's fee of US$2,321,000 (year ended 31.12.2011: US$1,803,000) has been paid to Kelton Capital Group Limited. Conversion right was exercised to convert US$46,577,000 (2011: US$41,284,000) of the Convertible Debentures for 2,899,918,665 shares of US$0.001 each (2011: US$0.50 each).

In 2011, the liability components of these Convertible Debentures are determined by independent professional valuer, BMI Appraisals Limited, at the average issue dates using discount rates varied from 9.215% to 18.776%.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. CONVERTIBLE DEBENTURES (Continued)

Convertible debentures issued to Kelton Capital Group Limited (Continued)

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

29. SHARE CAPITAL

	Group and Company	
	2012	2011
	US$'000	US$'000
Authorised: 500,000,000,000 ordinary shares of US$0.001 each (31.12.2011: 1,000,000,000 ordinary shares of US$0.50 each)	**500,000**	500,000
Issued and fully paid: 3,711,176,530 ordinary shares of US$0.001 each (31.12.2011: 601,534,730 ordinary shares of US$0.50 each)	**3,711**	602

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

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

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

In 2012, 3,109,641,800 ordinary shares of US$0.01 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$52,825,000.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. SHARE OPTION SCHEME

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

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

1. **The Purpose**
   The purpose of the Scheme is to provide incentive to the participants.

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

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

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

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

6. **Payment on acceptance of option**
   Options granted should be taken up at the amount of HK$1 per option.

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

8. **The remaining life of the Scheme**
   The Scheme will remain in force for a period of 10 years commencing on 1 January 1999.

No share option was granted during the year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statements of changes in equity on page 35 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 1.1.2011	198,851	1,478	12,037	394	(226,245)	(13,485)
Profit for the year	–	–	–	–	47,973	47,973
Capital reduction	172,870	–	–	–	–	172,870
Issue of shares upon conversion of convertible debentures	8,990	(8,876)	–	(266)	–	(152)
Convertible debenture – equity component	–	7,398	–	–	–	7,398
At 31.12.2011	380,711	–	12,037	128	(178,272)	214,604
Loss for the year	–	–	–	–	(11,220)	(11,220)
Issue of shares upon conversion of convertible debentures	47,354	–	–	–	–	47,354
At 31.12.2012	**428,065**	**–**	**12,037**	**128**	**(189,492)**	**(250,738)**

At 31.12.2012, the Company had no reserves, as calculated under the provisions of Section 79B of the Companies Ordinance, available for distribution to shareholders.

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

Special capital reserve represents surplus of US$12,037,000 transferred upon capital reduction after eliminating the retained losses of US$54,510,000 by the share capital reduction of US$66,547,000 during the year ended 31 December 2010.

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2012	2011
	US$'000	US$'000
Profit (loss) before tax	**(12,844)**	52,323
Dividend income	**(417)**	(472)
Interest income	**(27)**	(7)
Interest expenses	**585**	749
Loss (gain) in fair value of financial assets held for trading	**8,649**	(43,111)
(Gain) loss on revaluation of investment properties	**(490)**	165
Gain on sales of investment properties	**(473)**	–
Acquisition of additional interests in subsidiaries	**81**	–
Negative goodwill	**–**	(2,299)
Fixed assets written off	**150**	365
Depreciation of fixed assets	**4,041**	2,813
Amortisation of prepaid lease payments	**57**	15
Operating (loss) profit before working capital	**(688)**	10,541
Decrease in financial assets held for trading	**19,355**	1,470
Decrease (increase) in trade receivables	**7,990**	(15,177)
Increase in inventories	**(4,516)**	(449)
Decrease (increase) in other loan receivable	**2,700**	(2,700)
Increase in prepayments, deposits and other receivables	**(77,316)**	(19,998)
Increase (decrease) in trade payables	**7,044**	(1,708)
Increase (decrease) in other payables and accrued expenses	**6,048**	(5,568)
Decrease in amount due from a minority shareholder	**78**	–
Decrease in amount due to a immediate holding company	**(1,724)**	–
Decrease in amount due to a non-controlling interest	**(4,817)**	–
Increase in provision	**–**	686
Cash used in operating activities	**(45,846)**	(32,893)
Interest paid	**(585)**	(799)
Overseas tax paid	**(2,764)**	(280)
Net cash used in operating activities	**(49,195)**	(33,972)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

	2012 US$'000	2011 US$'000
Fair value of net assets acquired:		
Fixed assets	6,722	3,067
Prepaid lease payments	2,614	2,998
Inventories	32	3,661
Prepayments, deposits and other receivables	4,753	1,154
Accounts receivable	–	3,044
Due from non-controlling interest	78	–
Deferred tax assets	–	126
Cash and bank balances	501	1,434
Trade payables	(47)	(2,016)
Other payables	(252)	(10,398)
Due to immediate holding company	(1,724)	–
Due to non-controlling interest	(6,022)	–
Non-controlling interest	(3,150)	–
Net assets acquired	3,505	3,070
Gain on bargain purchase	–	2,299
Goodwill	537	–
Total consideration	4,042	771
Satisfied by:		
Available-for-sale investment	–	771
Cash	1,506	–
Fixed assets contribution	2,536	–
	4,042	771
Net cash (outflow) inflow on acquisition:		
Cash and bank balances acquired	501	1,434
Cash consideration paid	(1,506)	–
Net cash (outflow) inflow	(1,005)	1,434

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

On 31 January 2012, the Company subscribed 51% of shares in Luo Bei Xin Long Yuan Graphite Production Co. Limited at a consideration of USD4,042,000 by contributing USD1,506,000 in cash and USD2,536,000 in fixed assets through its subsidiary, South Sea Graphite (Luobei) Co., Limited.

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

Included in the revenue and the loss for the year are approximately USD2,616,000 (2011: USD6,140,000) and USD348,000 (2011: profit of USD241,000) attributable to the additional business generated by these newly acquired subsidiary.

If the acquisition had occurred on 1 January 2012, management estimates that the consolidated turnover and other income would have been USD115,634,000 and the consolidated loss for the year would have been USD12,868,000.

(c) Analysis of the outflow of cash and cash equivalent on acquisition of additional interest in subsidiaries

On 1 July 2012, the Company acquired additional 17.08% equity interest in South Sea Graphite (Luobei) Co., Limited and 8.71% equity interest in Luo Bei Xin Long Yuan Graphite Production Co. Limited for a purchase consideration of approximately USD2,050,000.

(d) Major non-cash transactions

(i) The convertible debenture holders converted USD52,825,000 (2011: USD52,593,000) convertible debentures into the Company's shares during the year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. COMMITMENTS

Commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
(a) Capital commitments contracted but not provided for in respect of:				
Acquisition for fixed assets	**–**	40	**–**	–
(b) Total future minimum lease payments receivable under non-cancellable operating leases				
(i) on land and buildings and oil properties expiring:				
Within one year	**1,109**	1,064	**–**	–
In the second to fifth years inclusive	**855**	1,897	**–**	–
	1,964	2,961	**–**	–
(c) Total future minimum lease payments payable under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**176**	409	**172**	400
In the second to fifth years inclusive	**59**	401	**53**	401
	235	810	**225**	801
(ii) on other fixed assets expiring:				
Within one year	**120**	47	**–**	–
In the second to fifth years inclusive	**127**	40	**–**	–
	247	87	**–**	–

34. PLEDGE OF ASSETS

At 31 December 2012, floating charges have been created over the booked debts of the subsidiaries in United Kingdom amounting to US$10,920,000 (2011: US$7,146,000) to secure general banking and discounting facilities granted.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2012	2011
	US$'000	US$'000
Salaries, allowances and benefits in kind	**2,127**	1,562

36. MATERIAL RELATED PARTY TRANSACTIONS

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

	2012	2011
	US$'000	US$'000
Sales to non-controlling interest	**2,599**	8,374
Purchases from non-controlling interest	**257**	800

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

37. FINANCIAL INSTRUMENTS

	Group	
	2012	2011
	US$'000	US$'000
Financial assets		
Available-for-sales investments	**321**	–
Financial assets at fair value held for trading	**30,521**	58,525
Loans and receivables (include cash and cash equivalent)	**55,803**	66,264
Financial Liabilities		
Amortised cost	**36,432**	23,908
Obligation under finance lease	**335**	334
Financial liabilities at fair value through profit or loss	**64**	8

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. FINANCIAL RISK MANAGEMENT

38A Financial risk factors

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

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

(a) Foreign exchange risk

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

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

(b) Interest rate risk

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

(c) Price risk

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

(d) Other price risk

The Group is exposed to equity price risk through its investment in listed equity securities in Hong Kong and OTC Bulletin Board in the United States. The management manage this exposure by maintaining a portfolio of investments with different risk and return profiles.

At 31 December 2012, it is estimated that an increase/decrease of 10%, 30% and 50% in market value of the trading securities, with all other variable held constant, profit for the year and the equity would increase/decrease by US$3,052,000, US$9,156,000 and US$15,261,000 respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. FINANCIAL RISK MANAGEMENT (Continued)

38A Financial risk factors (Continued)

(e) *Credit risk*

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

(f) *Liquidity risk*

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

At 31 December 2011, the contractual maturity of the convertible debentures of US$168,000 was due within 2 to 5 years and US$855,000 was due after 5 years after the balance sheet date.

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

	Group	
	2012	2011
	US$'000	US$'000
Trade and other payables	**28,066**	14,675
Due to non-controlling interest	**1,205**	–
Bank loan on discounted debtors	**304**	1,314
Dividend payable	**2,450**	–
Taxation	**1,738**	4,291
	33,763	20,280

38B Fair value of financial instruments

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. FINANCIAL RISK MANAGEMENT (Continued)

38C Fair value measurement recognized in the consolidated financial statements

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

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

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

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

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	**2012 Total** **US$'000**
Financial assets at fair value held for trading	30,521	–	–	**30,521**

39. CAPITAL RISK MANAGEMENT

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

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

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 28 March 2013.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

For the years ended 31 December

	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**111,943**	92,162	61,677	38,446	53,767
Profit (loss) before tax	**(12,259)**	52,323	(18,192)	(69,540)	(100,551)
Income tax	**34**	(3,479)	(218)	(276)	426
Discontinued operation	**–**	–	–	–	1,723
Profit (loss) for the year	**(12,810)**	48,844	(18,410)	(69,816)	(98,402)
Non-controlling interests	**(109)**	(2,243)	(273)	512	105
Net profit (loss) attributable to shareholders	**(12,919)**	46,601	(18,683)	(69,304)	(98,297)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

As at 31 December

	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Goodwill	**537**	–	–	1,262	2,523
Fixed assets	**32,926**	27,388	22,375	22,343	63,917
Prepaid lease payments	**5,590**	3,033	–	–	–
Available-for-sale investment	**321**	–	771	771	11,792
Project advance for oil field exploration and mining	**–**	–	–	–	9,739
Deferred tax assets	**1,359**	1,114	368	168	414
Current assets	**254,449**	213,487	115,137	115,632	109,533
Total assets	**295,182**	245,022	138,651	140,176	197,918
Total liabilities	**(36,767)**	(24,242)	(17,315)	(20,410)	(12,064)
Non-controlling interests	**(3,966)**	(5,574)	(3,154)	(2,823)	(4,357)
	254,449	215,206	118,182	116,943	181,497