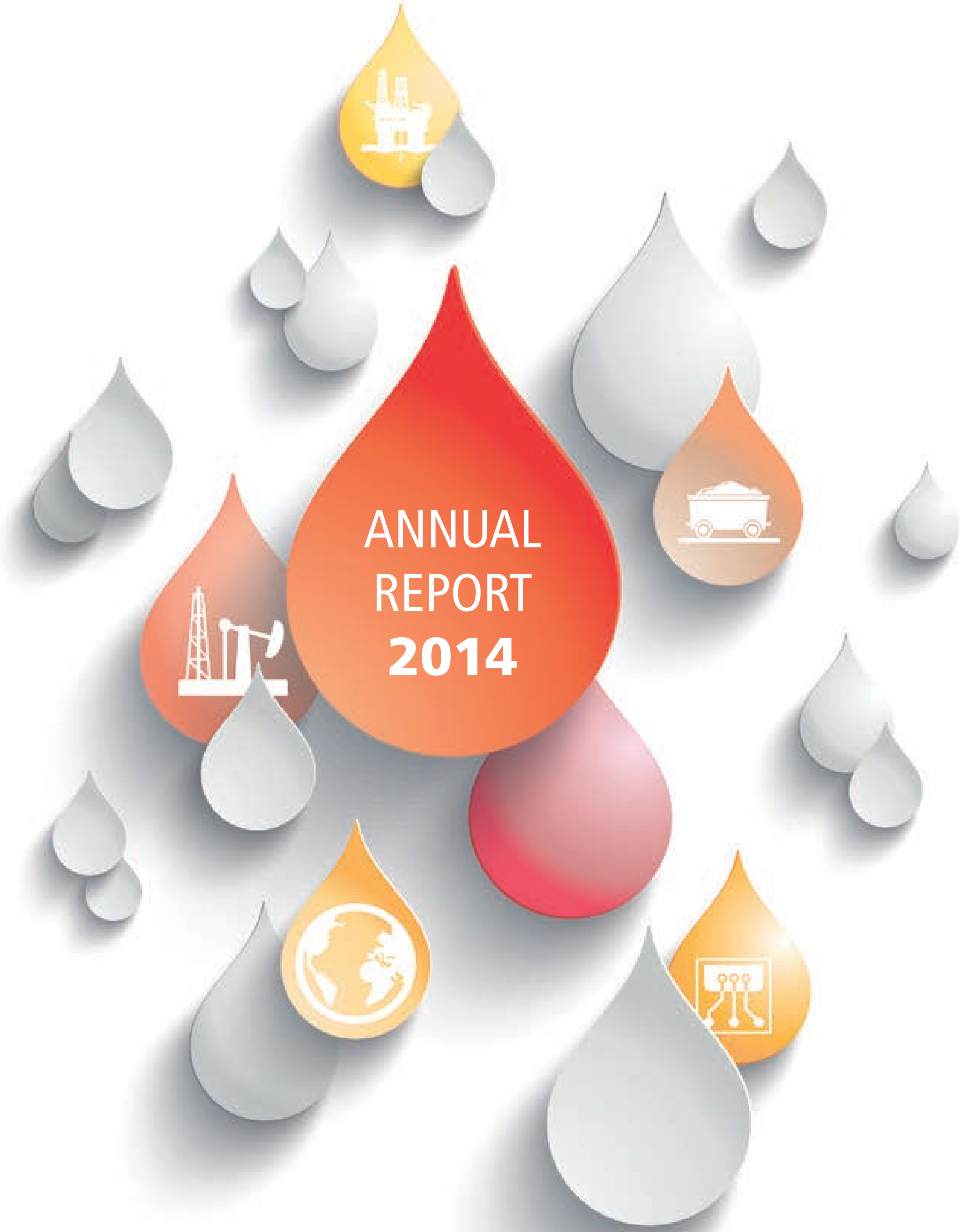
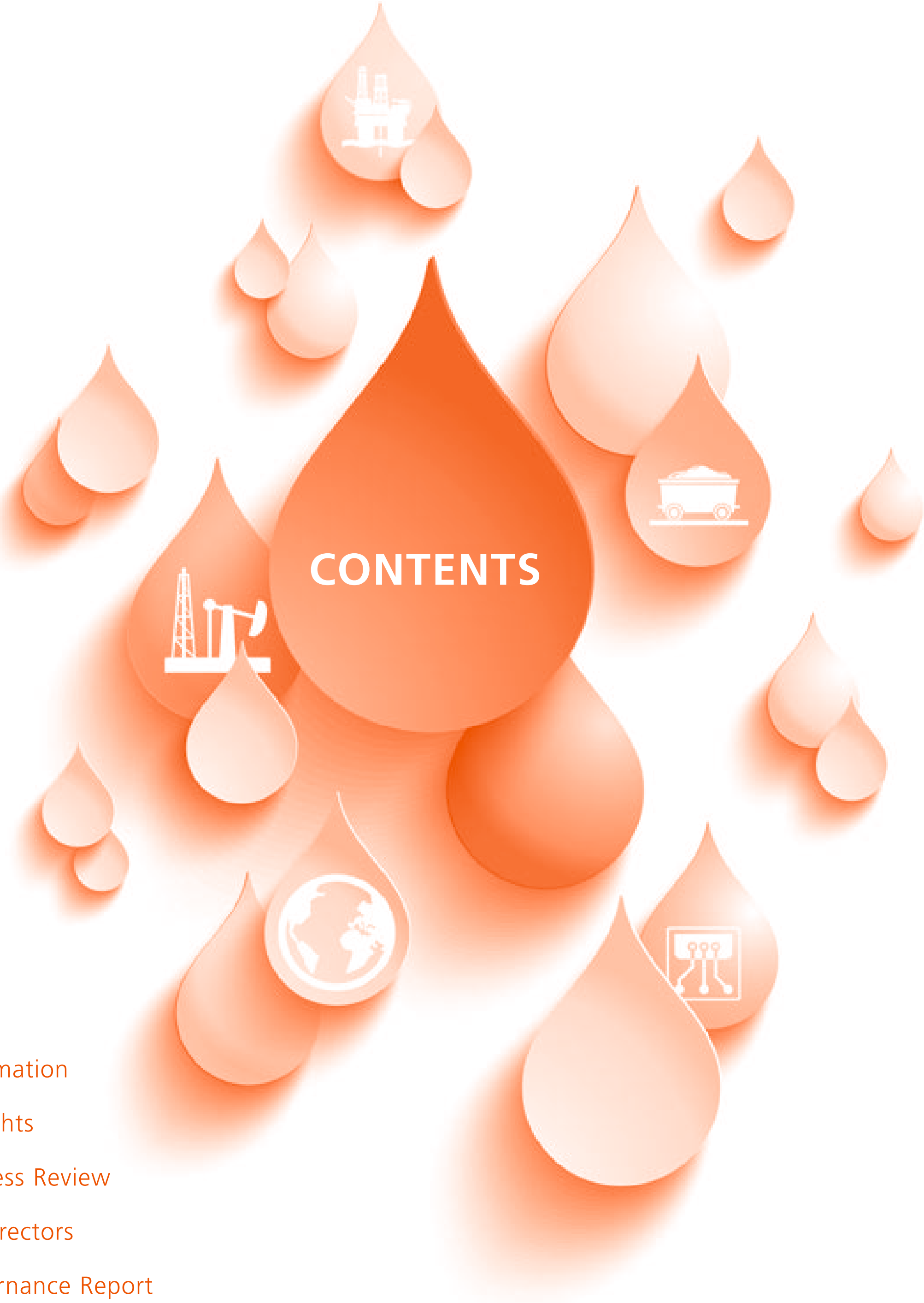
SSP 南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76





CONTENTS

CORPORATE INFORMATION

DIRECTORS

Guan Xinmin, *Executive Director and Chairman (passed away on 17 May, 2014)*
Han Zhi Jun, *Independent Non-Executive Director and Vice-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

Unit 1002, 10/F., Euro Trade Centre
13-14 Connaught Road Central and 21-23 Des Voeux 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

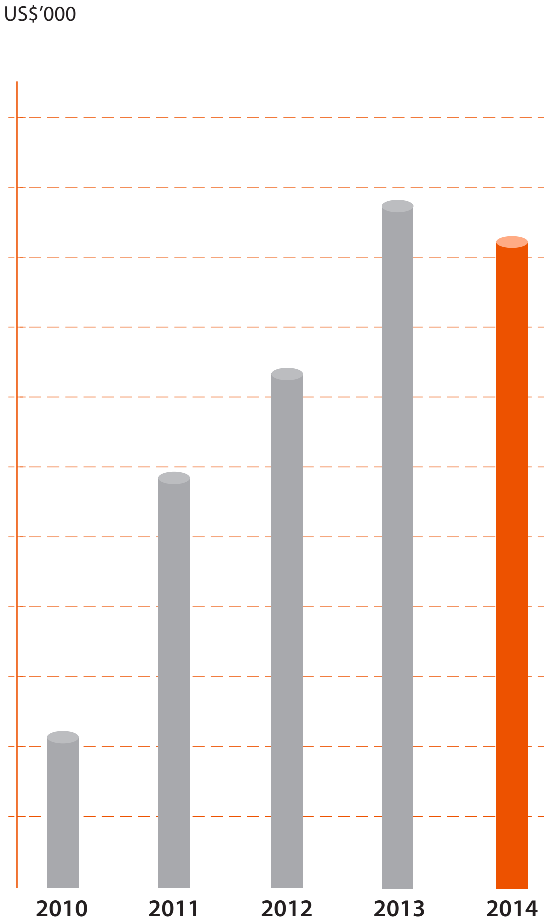
AUDITOR

UC CPA Practising Limited

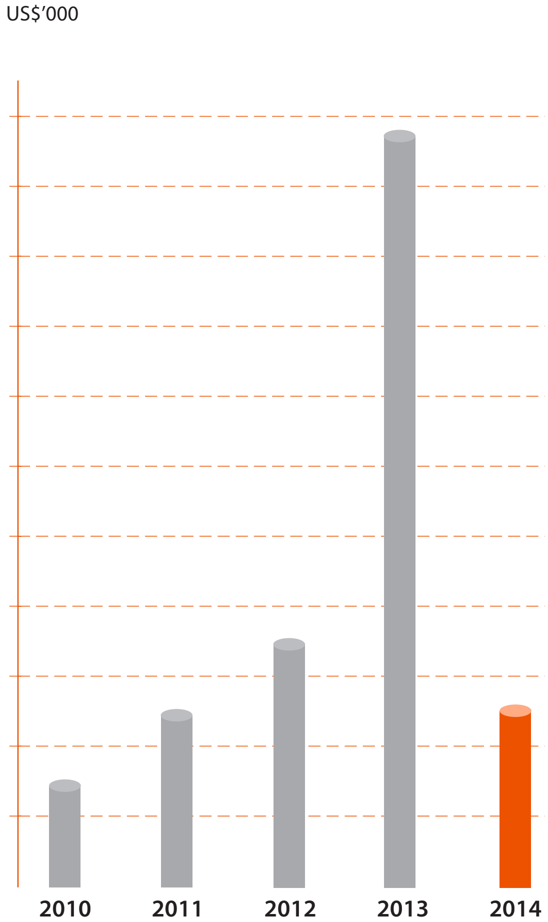
FINANCIAL HIGHLIGHTS

	2014 **US$'000**	2013 US$'000
Turnover	**82,379**	370,507
(Loss) Profit from Operating Activities	**(23,329)**	56,997
Net (Loss) Profit Attributable to Shareholders	**(23,021)**	40,816
Funds Attributable to Equity Holders of the Company	**332,645**	351,069
(Loss) Earnings Per Share (US Cents)		
– Basic	**(2.74)**	5.32

FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



TURNOVER



DIRECTORS' BUSINESS REVIEW

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

For the year ended 31 December 2014, the turnover of the Group was $82.379 million, representing a decrease of $288.128 million, or 77.77%, as compared to $370.507 million for the prior year. The net loss attributable to shareholders was $23.021 million, or 2.74 cents per share, as compared to net profit of $40.816 million, or 5.32 cent per share, for the same period of 2013. On the balance sheet, at 31 December 2014 the total assets of the Group were $387.683 million, as compared to $402.729 million at 31 December 2013, and the net assets of the Group were $335.546 million at 31 December 2014, as compared to $355.326 million at 31 December 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 ("Axiom"), 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 markets

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)

During 2014, the Company took the following new initiatives as below.

Piece of Cake Products

In 2014, the Company, through its wholly owned subsidiary Cityhill Limited, started to develop a line of Piece of Cake (the "POC") products in different forms, such as mobile phones, tablets and set top boxes. The devices have multiple functions, including medical diagnosis, entertainment, television viewing and Internet surfing. The target customers are home-based Internet users. The products will initially be introduced in Asia. If successful, the Company intends to expand its market to Europe, North America and other parts of the world. By the end of 2014, the POC prototypes were completed.

As a promotional tool for marketing of the POC products, Union Arts Limited, the Company's wholly owned subsidiary, is producing an infomercial film by the name of Pegasus to promote the POC products.

Goldpay Joint Venture

On 5 November 2014, Cityhill Limited, a wholly owned subsidiary of the Company, entered into an agreement with Goldpay International Limited to establish a joint venture Goldpay Limited, whose main business is based on barter trade concept, and through its website, to issue and circulate electronic receipt of gold ("Goldpay") within Goldpay website, to provide online payment method for global internet trading of commodities, technology services and services of intellect property. The Company owns 50% of the capital shares of Goldpay Limited.

Share Consolidation

A low trading price of the shares is unfavorable for any financing activities of the Company. Therefore, at the extraordinary general meeting held on 8 October 2014, the majority shareholders of the Company approved a share consolidation proposal, by which every ten (10) existing issued ordinary shares in the capital of the Company would be consolidated into one (1) consolidated ordinary share. The proposed share consolidation was completed on 9 October 2014.

RESULTS OF OPERATIONS

For the year ended 31 December 2014, the Group's total turnover was $82.379 million, a decrease of $288.128 million, or 77.77%, as compared to $370.507 million for the same period of the prior year. Specifically, for the year ended 31 December 2014, the turnover of the Group's crude oil operation was $12.871 million as compared to $19.437 million for the same period of 2013, representing a decrease of 33.78%. The decrease in oil revenue was primarily due to the significant drop in oil price on the world markets during the year. For the year of 2014, the Group's graphite operation generated revenues of $13.844 million, representing a decrease of 95.46%, as compared to $304.725 million for the same period of last year. The decrease in the Group's sale of graphite was primarily due to the circumstance that the revenue generated in 2013 was mainly attributable to the sale of the graphite ore inventory. For the year ended 31 December 2014, the turnover of the Group's electronics manufacturing service operation was $55.664 million, an increase of $9.319 million, or 20.11%, as compared to $46.345 million for the same period of the prior year.

DIRECTORS' BUSINESS REVIEW

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

LIQUIDITY AND CAPITAL RESOURCES

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

At 31 December 2014, the Group's cash and cash equivalents were $28.743 million as compared to $21.766 million as at 31 December 2013. For the year of 2014, the Group's operating activities generated net cash of $5.690 million. By comparison, net cash used in operating activities was $56.119 million for the same period of 2013.

For the year ended 31 December 2014, the Group's investing activities used net cash of $3.613 million, primarily due to purchase of property and equipment and prepaid lease premium. By comparison, net cash used by the Group's investing activities in 2013 was $3.202 million. For the year months ended 31 December 2014, the Group's financing activities generated net cash of $5.811 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $54.382 million for the same period of 2013.

On 14 August 2014, the Company entered into a subscription agreement with an investor for an aggregate of HK$1.66 billion nil interest convertible debenture dues 31 December 2018. After deducting related expenses, 80% of the net proceeds will be used as working capital for the manufacturing and selling of the "Piece of Cake Products", and the rest will be reserved for the Company as working capital.

At 31 December 2014, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations and from financing activities are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

OFF BALANCE SHEET ARRANGEMENTS

At 31 December 2014, the Group had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2014, the Group had approximately 785 employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

The remuneration policy of the Group employees is set by the Remuneration Committee on the basis of the employees' merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee. From time to time, the Group may also use services of independent consultants and contractors to render various professional services. No share option scheme is in operation.

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.

DIRECTORS' BUSINESS REVIEW

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

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 2014, 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 flow.

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.

APPOINTMENT OF AUDITOR

On 16 January 2015, the Board appointed UC CPA (Practising) Limited as auditors of the Company and its subsidiaries with effect from 16 January 2015 to fill the vacancy following the resignation of JP Union & Co. ("JP Union"), and to hold office until the conclusion of the next annual general meeting of the Company. The reason for JP Union's resignation was that the Company could not reach a consensus with JP Union & Co. on the audit fees for the year ending 31 December 2014.

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 2014.

PUBLICATION OF RESULTS

This report will be published in due course on the website of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and on the 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 17 April 2015.

On behalf of the Board

Feng Zhong Yun
Managing Director

Hong Kong, 31 March 2015

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 2014, which were approved by the Board of Directors of the Company on 31 March 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be an investment holding company while the principal activities of its subsidiaries are development and production of crude oil in Indonesia, manufacturing and trading of 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 2014 are set out in the consolidated statement of profit or loss on page 30.

For the year ended 31 December 2014, the Company did not declare or pay any dividend on its ordinary shares (2013: 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 decreased to US$28.838 million at 31 December 2014 from US$29.600 million at the end of 2013.

Details of the movements in the Property, Plant and Equipment of the Group during the year are set out in Note 14 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2014 are set out in Note 17 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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 decided not to declare any dividend for the year ended 31 December 2014 (2013: Nil).

SHARE OPTIONS

As of 31 December 2014, there were no share options outstanding.

SHARE CAPITAL

During the year of 2014, before share consolidation on 9 October 2014, 300,000,000 ordinary shares were issued while 35,335,689 ordinary shares were issued by the Company after that date. Details of movements in the share capital of the Company are set out in Note 29 to the financial statements.

DIRECTORS

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

Executive Directors:

Guan Xinmin, Chairman (deceased on 17 May 2014)
Feng Zhong Yun, Managing Director
Zhang Xue

Independent Non-Executive Directors:

Han Zhi Jun, Vice Chairman of the Board of Directors
Lu Ren Jie
Chai Woon Chew
Ng Lai Po

REPORT OF THE DIRECTORS

DIRECTORS' BIOGRAPHICAL DETAILS

Guan Xinmin, passed away in Beijing in May of 2014 at the age of 51, had 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 had highly valued experience in trading mineral products in China and European countries.

Feng Zhong Yun, age of 47, 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.

Zhang Xue, age of 37, has been the Company's executive Director since 2009. She held a bachelor's degree in Accountancy from Qingdao University. From 2001 to 2007, Ms. Zhang served as Accounting Manager in Beifang Mining Group Limited.

Han Zhi Jun, age of 58, has been the Company's independent non-executive Director since August 2013. He graduated from the PLA College of Science and Technology, majored in Wireless Communications. Mr. Han joined the People's Liberation Army ("PLA") in 1969, promoted from soldier, platoon leader to officer of the General Staff Department of PLA until retired from the military in 1989. Mr. Han was a committee member of the Federation of Industry and Commerce, a member of the Chinese People's Political Consultative Conference in Beijing, an executive director of the World Outstanding Chinese Fund, a committee member of Beijing Industrial and Commercial Association and Beijing Scientific and Industrial Association of National Defense. Mr. Han is currently the Chairman of Beijing Wanjun Chuangda Technology Development Ltd., the principal business of which is to research, develop and produce high-end national defense products.

Ng Lai Po, age of 47, has been the independent non-executive Director of the Company since December 31, 2012. Mr. Ng obtained his Bachelor of Social Sciences from the University of Hong Kong in 1990. Mr. Ng is a fellow member of the 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 80, 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 57, 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.

REPORT OF THE DIRECTORS

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. Chai Woon Chew and Mr. Ng Lai Po will retire by rotation and, being eligible, offer themselves for re-election at the coming annual general meeting.

STATUS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-Executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company still considers all the Independent Non-Executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

No Director being proposed for re-election at the forthcoming 2015 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 TRANSACTIONDS

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 2014, none of the Company's Directors are considered to have interests in the business which compete or are 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 AGM, with reference to directors' duties, responsibilities and performance and the results of the Group.

The emoluments of the Directors of the Company (including Executive Directors and Independent Non-Executive Directors) on a named basis are set out in Note 9 to the financial statements for the year ended 31 December 2014.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and Chief Executive Officer's Interests in Shares" 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 spouses 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.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR DEBENTURES

At 31 December 2014, 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 executive 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.

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

At 31 December 2014, 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 38.40% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 15.69% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 59.52% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 21.12% 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 2014 and 2013.

REPORT OF THE DIRECTORS

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.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of its 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.

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

There are no significant events occurring after the balance sheet date.

INDEPENDENT AUDITORS

UC CPA (Practising) Limited were first appointed as auditors of the Company in 2014 upon the retirement of JP Union & Co. UC CPA (Practising) Limited, retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of UC CPA (Practising) Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On Behalf of the Board

Feng Zhong Yun
Managing Director

Hong Kong, 31 March 2015

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders, customers, staff and other stakeholders.

For the year ended 31 December 2014, the Company has complied with all the code provisions as set forth in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited, except for the following 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 that 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 and Mr. Chai Woon Chew, all being non-executive directors, were not able to attend the annual general meeting of the Company held on 27 May 2014 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

As at the date of this report, the Board of the Company comprises six directors, with two Executive Directors and four Independent Non-Executive Directors. The composition of the Board during the year is set out as follows:

Executive Directors:

Feng Zhong Yun, *Managing Director*
Zhang Xue

Independent Non-Executive Directors:

Han Zhi Jun, *Vice Chairman*
Ng Lai Po
Lu Ren Jie
Chai Woon Chew

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 Independent Non-Executive Directors and the latter Rule requires that at least one of the Independent Non-Executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. All Independent Non-Executive Directors 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 2014:

	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
Directors	**Read Materials**	**Attended Seminars/ Briefings**	**Read Materials**	**Attended Seminars/ Briefings**
Executive Directors				
Guan Xinmin[(1)]	N/A	N/A	N/A	N/A
Feng Zhong Yun	✓		✓	
Zhang Xue	✓		✓	
Independent Non-Executive Director				
Han Zhi Jun	✓	✓	✓	✓
Ng Lai Po	✓		✓	
Lu Ren Jie	✓	✓	✓	✓
Chai Woon Chew	✓	✓	✓	✓

(1) Mr. Guan passed away on 17 May 2014 due to illness.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

The Chairman of the Board of the Directors of the Company was Mr. Guan Xinmin. After his passing away in Beijing on 17 May 2014, the Company's functions of the Chairman and Chief Executive Officer are performed by our Managing Director, 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.

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 2014, 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 at Board meetings 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 2014:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	AGM	EGM
Mr. Guan Xinmin [1]	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Feng Zhong Yun	4/4	N/A	N/A	N/A	1/1	1/1
Ms. Zhang Xue	4/4	N/A	N/A	N/A	0/1	0/1
Mr. Ng Lai Po	2/4	2/2	1/1	1/1	0/1	0/1
Mr. Han Zhi Jun	4/4	N/A	N/A	N/A	0/1	1/1
Mr. Chai Woon Chew	2/4	2/2	1/1	1/1	0/1	0/1
Mr. Lu Ren Jie	4/4	2/2	1/1	1/1	0/1	0/1

(1) Mr. Guan passed away on 17 May 2014 due to illness.

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 decisions 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 2014, the members of the Audit Committee consisted of:

- Mr. Ng Lai Po *(Chairman)*
- Mr. Lu Ren Jie, and
- Mr. Chai Woon Chew

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 overseeing the financial reporting system and internal control procedures and their effectiveness.

The Board has adopted a set of terms of reference of the Audit Committee, which has included changes in line with the Code requirements.

The Audit Committee shall meet at least twice a year in accordance with its terms of reference. Two Committee meetings were held in 2014 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 2014. In 2014 and up to the date of this report, the Audit Committee performed the works as summarized below:

(i) Reviewed and recommended 2014 final results, audit findings and drafted final results announcement for the Board's approval;

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

(iii) Considered the audit fee for the Year 2014;

(iv) Reviewed and recommended 2014 interim results, audit findings, drafted management discussion and analysis section of the interim report for the Board's approval;

CORPORATE GOVERNANCE REPORT

(v) Reviewed and recommended 2014 final results, audit findings and drafted final results announcements for the Board's approval;

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

(vii) 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 be required 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 2014 with the Auditors' Report thereon.

The Committee recommended to the Board that the shareholders be asked to re-appoint UC CPA (Practising) Limited, Certified Public Accountants, as the Company's independent auditor for 2015.

REMUNERATION COMMITTEE

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

- Mr. Chai Woon Chew *(Chairman)*
- Mr. Lu Ren Jie, and
- Mr. Ng Lai Po

The Board adopted a set of the 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.

The Remuneration Committee shall meet at least once a year in accordance with its terms of reference. One Committee meeting was held in 2014 and the attendance of each member is set out in this report.

CORPORATE GOVERNANCE REPORT

In addition to the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2014. In 2014 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; and

(iv) Reviewed and recommended the remuneration package of the newly appointed Independent Non-Executive Director for the Board's approval.

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 Wood Chew
- Mr. Ng Lai Po

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. One Committee meeting was held in 2014 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 2014. In 2014 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 made recommendations on proposed changes to the Board to complement the Company's corporate strategy; and

(ii) Reviewed and made recommendations to the Board on the appointment of a new Independent Non-Executive Director.

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 2014.

At 31 December 2014, none of the Directors and executive officers of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the 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 2014 was as below:

Name of Executive Directors	Compensation Per Annum (US$'000)
Mr. Guan Xinmin [(1)]	26
Mr. Feng Zhong Yun	15
Ms. Zhang Xue	32

(1) Mr. Guan passed away on 17 May 2014 due to illness.

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.

INSURANCE POLICY FOR DIRECTORS AND OFFICERS

Appropriate insurance coverage 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.

CHANGE IN AUDITOR

On 16 January 2015, the Board appointed UC CPA (Practising) Limited as auditors of the Company and its subsidiaries with effect from 16 January 2015 to fill the vacancy following the resignation of JP Union & Co. and to hold office until the conclusion of the next annual general meeting of the Company. The reason for JP Union & Co.'s resignation was that the Company could not reach a consensus with JP Union & Co. on the audit fees for the year ending 31 December 2014.

JP Union & Co. has confirmed that there are no matters in relation to its resignation as the Group's auditor which JP Union & Co. needs to bring to the attention of the shareholders. The Company also confirms that there is no disagreement between JP Union & Co. and the Company, and that there are no other matters in respect of JP Union & Co.'s resignation that need to be brought to the attention of the shareholders.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditor. The external auditor's independence and objectivity, and the effectiveness of the audit process are also reviewed and monitors by the Audit Committee on a regular basis.

The following table sets forth the fees paid to our independent auditors during the financial years ended 31 December 2014 and 2013:

Fee Category	**2014** **US$'000**	2013 US$'000
Audit fees	**203**	192
Other services	**41**	55

The Board's policy is to pre-approve all audit services and all permitted non-audit services as set forth by the Listing Rules of the Hong Kong Stock Exchange to be provided by the Company's independent auditor.

The Audit Committee of the Board intends to re-appoint UC CPA (Practising) Limited as its statutory auditor for the fiscal year 2015. The appointment is subject to approval and authorization by the Board of Directors and by the shareholders at the 2015 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, UC CPA (Practising) Limited, 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 2014, 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 2014. 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 is responsible for internal control of the Company and its subsidiaries and for reviewing its effectiveness.

The Company's internal control system comprises a well-established organizational structure and comprehensive policies and standards. Areas of responsibilities for each business and functional unit are clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

A review of the effectiveness of the Company's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2014 was conducted with reference of the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, which assesses the Company's internal control systems against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. Based upon that review, the Board considers the Company's internal controls and risk management 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 in 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 is committed to ensure that the Group complies with disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by 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 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 welcomes the attendance of shareholders at general meetings to express their views. All the Directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditor is required to be present to assist the Directors in addressing any relevant queries by shareholders.

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

The shareholders of not less than 5% of the paid-up capital of the Company may request to call an Extraordinary General Meeting ("EGM") by writing to the Company at Unit 1002, 10/F, Euro Trade Centre, 13-14 Connaught Road Central and 21-23 Des Voeux Road Central, Hong Kong, the registered office of the Company, for the attention of the Company Secretary.

The requisition must state the purposes of the meeting and must be signed by the requisitionists. The requisition will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to 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 requisitionists will be advised of this outcome and accordingly, an EGM will not be convened as requested.

CORPORATE GOVERNANCE REPORT

If the Board does not within 21 days from the date of the deposit of the requisition 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

Shareholders can submit a written requisition to move a resolution at the General Meeting ("GM"). The number of shareholders shall represent not less than 5% of the total voting rights of all shareholders having, at the date of the requisition, a right to vote at the GM, or who are no less than 100 shareholders.

The written requisition must state the resolution, accompanies by a 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 the GM. It must also be signed by all of the shareholders concerned and be deposited at the Company's registered office in Hong Kong at Unit 1002, 10/F, Euro Trade Centre, 13-14 Connaught Road Central and 21-23 Des Voeux Road Central, Hong Kong, for the attention of the Company Secretary.

The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

Shareholders' Enquiries

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
Unit 1002, 10/F., Euro Trade Centre
13-14 Connaught Road Central and 21-23 Des Voeux Road Central, Hong Kong
Email: info@southseapetro.com.hk

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

CONSTITUTIONAL DOCUMENTS

During the year, there was no change in the Company's Articles of Association.

INDEPENDENT AUDITOR'S REPORT

聯禾執業會計師有限公司
UC CPA (PRACTISING) LIMITED
Certified Public Accountants (Practising)

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 81, which comprise the consolidated and Company statement of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehension 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 of the new Hong Kong Companies Ordinance (Cap. 622), 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 Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 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.

UC CPA (Practising) Limited
Certified Public Accountants (Practising)

Ng Ka Kuen
Practising Certificate Number P04939

Hong Kong, 31 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	**2014 US$'000**	2013 US$'000
TURNOVER	*6*	**82,379**	370,507
COST OF SALES		**(51,035)**	(276,809)
		31,344	93,698
Other income	*6*	**1,645**	2,461
General and administrative expenses		**(33,574)**	(23,276)
Drilling and operating expenses		**(8,824)**	(15,297)
Net (loss) gain in fair value of financial assets held for trading		**(13,515)**	22
Other taxes		**(405)**	(611)
(LOSS) PROFIT FROM OPERATING ACTIVITIES	*7*	**(23,329)**	56,997
Finance costs	*8*	**(147)**	(423)
(LOSS) PROFIT BEFORE TAX		**(23,476)**	56,574
INCOME TAX	*11*	**353**	(15,532)
(LOSS) PROFIT FOR THE YEAR		**(23,123)**	41,042
ATTRIBUTABLE TO:			
Equity shareholders of the Company	*13*	**(23,021)**	40,816
Non-controlling interests		**(102)**	226
		(23,123)	41,042
(LOSS) EARNINGS PER SHARE (US Cents)			
– Basic	*13*	**(2.74)**	5.32

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 **US$'000**	2013 US$'000
(Loss) Profit for the year	**(23,123)**	41,042
Other comprehensive (expense) income		
– Items that may be reclassified to profit or loss		
Exchange differences	**(2,163)**	1,354
Revaluation of land and buildings	**541**	(416)
Total comprehensive (expense) income for the year	**(24,745)**	41,980
ATTRIBUTABLE TO:		
Equity shareholders of the Company	**(24,530)**	41,689
Non-controlling interests	**(215)**	291
	(24,745)	41,980

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	**2014 US$'000**	2013 US$'000
NON-CURRENT ASSETS			
Fixed assets	*14*	**28,838**	29,600
Prepaid lease payments	*15*	**5,359**	5,624
Goodwill	*16*	**537**	537
Available-for-sale investments	*19*	**293**	293
Interest in an associate	*18*	**–**	–
Deferred tax assets	*20*	**1,752**	1,711
Long term portion of trade receivable	*21*	**211,404**	237,830
		248,183	275,595
CURRENT ASSETS			
Cash and bank balances		**28,743**	21,766
Financial assets at fair value held for trading	*22*	**17,027**	30,543
Trade and notes receivables	*21*	**61,294**	44,387
Inventories	*23*	**22,467**	20,019
Prepayments, deposits and other receivables	*24*	**9,969**	10,419
		139,500	127,134
CURRENT LIABILITIES			
Trade payables	*25*	**13,359**	11,064
Other payables and accrued expenses		**17,863**	16,508
Due to non-controlling interests		**1,241**	862
Finance lease-current portion	*26*	**302**	90
Taxation		**15,500**	15,710
		48,265	44,234

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 US$'000	2013 US$'000
NET CURRENT ASSETS		**91,235**	82,900
TOTAL ASSETS LESS CURRENT LIABILITIES		**339,418**	358,495
NON-CURRENT LIABILITIES			
Finance lease	*26*	**767**	64
Provision	*27*	**3,105**	3,105
		3,872	3,169
NET ASSETS		**335,546**	355,326
CAPITAL AND RESERVES			
Share capital		**504,850**	8,139
Share premium		**–**	478,568
Special capital reserve		**–**	12,037
Share capital and other statutory capital reserve	*29*	**504,850**	498,744
Revaluation reserve		**4,068**	3,779
Translation reserve		**7,710**	9,508
Accumulated losses		**(183,983)**	(160,962)
Total equity attributable to equity shareholders of the Company		**332,645**	351,069
Non-controlling interests		**2,901**	4,257
		335,546	355,326

FENG ZHONG YUN
Managing Director

ZHANG XUE
Executive Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	**2014 US$'000**	2013 US$'000
NON-CURRENT ASSETS			
Fixed assets	*14*	**2**	3
Interests in subsidiaries	*17*	**322,216**	347,711
		322,218	347,714
CURRENT ASSETS			
Cash and bank balances		**9,172**	69
Financial assets at fair value held for trading	*22*	**4**	4
Prepayments, deposits and other receivables		**1,403**	3,365
		10,579	3,438
CURRENT LIABILITIES			
Other payables and accrued expenses		**152**	83
NET CURRENT ASSETS		**10,427**	3,355
NET ASSETS		**332,645**	351,069
CAPITAL AND RESERVES			
Share capital	*29*	**504,850**	8,139
Reserves	*31*	**(172,205)**	342,930
		332,645	351,069

FENG ZHONG YUN
Managing Director

ZHANG XUE
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'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 1.1.2014	8,139	478,568	12,037	9,508	3,779	(160,962)	351,069	4,257	355,326
Loss for the year	–	–	–	–	–	(23,021)	(23,021)	(102)	(23,123)
Other comprehensive income (expense)	–	–	–	(1,798)	289	–	(1,509)	(113)	(1,624)
Total comprehensive income for the year	–	–	–	(1,798)	289	(23,021)	(24,530)	(215)	(24,745)
Transfer to no-par value regime on 3 March 2014	490,605	(478,568)	(12,037)	–	–	–	–	–	–
Acquisition of non-controlling interest	–	–	–	–	–	–	–	(1,182)	(1,182)
Disposal of subsidiary	–	–	–	–	–	–	–	41	41
Issue of shares upon conversion of convertible debentures	6,106	–	–	–	–	–	6,106	–	6,106
At 31.12.2014	504,850	–	–	7,710	4,068	(183,983)	332,645	2,901	335,546

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'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 1.1.2013	3,711	428,065	12,037	8,243	4,171	(201,778)	254,449	3,966	258,415
Profit for the year	–	–	–	–	–	40,816	40,816	226	41,042
Other comprehensive income (expense)	–	–	–	1,265	(392)	–	873	65	938
Total comprehensive income for the year	–	–	–	1,265	(392)	40,816	41,689	291	41,980
Issue of shares upon conversion of convertible debentures	4,428	50,503	–	–	–	–	54,931	–	54,931
At 31.12.2013	8,139	478,568	12,037	9,508	3,779	(160,962)	351,069	4,257	355,326

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Note	2014 US$'000	2013 US$'000
NET CASH FROM (USED IN) OPERATING ACTIVITIES	*32(a)*	**5,690**	(56,119)
INVESTING ACTIVITIES			
Additions of fixed assets		**(2,526)**	(2,620)
Dividend paid to non-controlling interest		**–**	(2,450)
Dividend income received		**10**	16
Cash outflow on disposal of subsidiaries	*32 (b)*	**(59)**	–
Payment for increase of shareholding of subsidiaries	*32 (c)*	**(1,078)**	–
Interest received		**35**	32
Proceeds from disposal of property, plant and equipment		**5**	1,820
Net cash used in investing activities		**(3,613)**	(3,202)
FINANCING ACTIVITIES			
Net proceed from issue of convertible debentures		**6,106**	54,867
Capital element of finance lease		**(295)**	(181)
Loan from discounted debtor		**–**	(304)
Net cash from financing activities		**5,811**	54,382
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**7,888**	(4,939)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**21,766**	26,161
EFFECT OF FOREIGN EXCHANGE RATES		**(911)**	544
CASH AND CASH EQUIVALENTS AT END OF YEAR		**28,743**	21,766
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**28,743**	21,766

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability. Its principal place of business is situated at Unit 1002, 10/F, Euro Trade Centre, 13-14 Connaught Road Central and 21-23 Des Voeux Road Centre, 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, trade, 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 wholly-owned subsidiary, Global Select Limited, the Company is engaged in trading of graphite ore.

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 2014

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.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group"). The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied for the first time the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2014.

HKAS 32 (Amendment)	Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Impairment of assets on recoverable amount disclosures
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of derivatives
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (revised 2011)	Consolidation for investment entities
HK(IFRIC)-Int 21	Levies

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or Cash Generating Unit whose recoverable amount is based on fair value less costs of disposal. These amendments do not have an impact on these financial statements.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements.

HK(IFRIC)-Int 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective in the financial year of which the consolidated financial statements were prepared:

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, Defined benefit plans: Employee contributions	1 July 2014
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 15, Revenue from contracts with customers	1 January 2017
HKFRS 9, Financial instruments	1 January 2018

4. SIGNIFICANT ACCOUNTING POLICIES

Business combinations

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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.

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

Associates

An associate is an entity over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates (Continued)

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the consolidated statement of profit or loss, and its shareof post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of profit or loss.

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. 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 2014

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 included in the profit or loss. All development costs are capitalised. Maintenance and repairs are included in the profit or loss 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 included in the profit or loss.

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 statement of profit or loss 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 2014

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 profit or loss 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 statement of profit or loss 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 profit or loss 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 profit or loss. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the profit or loss 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 profit or loss as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of profit or loss 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.

(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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 an expense in the year 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 profit or loss 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 profit or loss as revenue on a systematic basis over the useful life of the asset.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 profit or loss.

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 profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 profit or loss.

(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 expense items 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 expense items are translated at the dates of the transactions); and

(c) All resulting exchange differences are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segmental reporting

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

Employee benefits

Salaries, bonus and leave entitlements

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

Retirement benefits

The Group has arranged in Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. Under the MPF Scheme, each of the Group (the "employer") and its employees makes monthly contributions to the Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Ordinance. The contributions from employer and each of the employees respectively are subject to a cap of HK$1,500 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 profit or loss 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 2014

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	**2014 US$'000**	2013 US$'000
An analysis of the Group's turnover and income is as follows:			
Turnover			
Crude oil sales		**12,871**	19,437
Sales of goods and services		**69,508**	351,070
		82,379	370,507
Other income			
Bank interest income		**35**	32
Other loan interest income		**–**	303
Rental income		**1,171**	904
Government grant		**286**	897
Dividend income		**10**	16
Negative goodwill		**104**	–
Exchange gain		**–**	223
Gain on disposal of fixed assets		**2**	–
Sundry income		**37**	86
		1,645	2,461
		84,024	372,968

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	Oil 2014 US$'000	Sale of minerals 2014 US$'000	Contract Electronic manufacturing 2014 US$'000	Trading securities 2014 US$'000	Trading of gold 2014 US$'000	Other 2014 US$'000	Total 2014 US$'000
Revenue from external customers	12,871	13,844	55,664	–	–	–	82,379
Segment results	(1,310)	(3,058)	2,582	–	–	–	(16,352)
Unallocated income and expenses							(6,977)
Loss from operating activities							(23,329)
Finance costs	–	(112)	(35)	–	–	–	(147)
Taxation	–	200	153	–	–	–	353
Loss for the year							(23,123)
Segment assets	8,518	304,399	42,824	17,173	9	–	372,923
Unallocated assets							14,760
Total assets							387,683
Segment liabilities	(9,182)	(21,487)	(20,545)	–	–	–	(51,214)
Unallocated liabilities							(923)
Total liabilities							(52,137)
Depreciation	144	2,783	1,092	–	–	2	4,021
Significant non-cash expenses	–	–	–	13,515	–	–	13,515
Capital expenditure additions	235	1,859	1,642	–	–	–	3,736

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment (Continued)

	Oil 2013 US$'000	Sale of minerals 2013 US$'000	Contract Electronic manufacturing 2013 US$'000	Trading securities 2013 US$'000	Trading of gold 2013 US$'000	Other 2013 US$'000	Total 2013 US$'000
Revenue from external customers	19,437	304,725	46,345	–	–	–	370,507
Segment results	(2,691)	62,691	1,828	97	–	–	61,925
Unallocated income and expenses							(4,928)
Profit from operating activities							56,997
Finance costs	–	(381)	(20)	–	–	(22)	(423)
Taxation	–	(15,854)	322	–	–	–	(15,532)
Profit for the year							41,042
Segment assets	9,309	321,916	37,098	30,755	9	–	399,087
Unallocated assets							3,642
Total assets							402,729
Segment liabilities	(9,562)	(23,616)	(14,126)	–	–	–	(47,304)
Unallocated liabilities							(99)
Total liabilities							(47,403)
Depreciation	433	2,909	969	–	–	55	4,366
Significant non-cash expenses	500	–	116	–	–	–	616
Capital expenditure additions	325	1,434	859	–	2	–	2,620

Secondary reporting format – geographical segments

	Turnover		**Total assets**		**Capital expenditure**	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000	**2014 US$'000**	2013 US$'000
Indonesia	**12,871**	19,437	**8,491**	9,343	**235**	325
United Kingdom	**55,664**	46,345	**42,749**	37,012	**1,642**	859
China	**11,716**	303,384	**300,055**	316,078	**1,859**	1,434
America	**1,065**	1,063	**30,069**	30,087	**–**	–
Hong Kong	**–**	–	**6,319**	10,207	**–**	2
Australia	**1,039**	–	**–**	–	**–**	–
Others	**24**	278	**–**	–	**–**	–
	82,379	370,507	**387,683**	402,727	**3,736**	2,620

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. (LOSS) PROFIT FROM OPERATING ACTIVITIES

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

	2014 US$'000	2013 US$'000
Depreciation:		
– owned fixed assets	**3,799**	4,303
– leased fixed assets	**222**	63
Operating lease rentals on		
– land and buildings	**641**	656
– plant and machinery	**1,327**	1,862
Costs of inventories sold	**68,021**	291,712
Fixed assets written off	**5**	–
Staff costs (including directors' remuneration – *note 9*)	**17,391**	17,234
Auditors' remuneration		
– audit fee	**203**	192
– other services	**41**	55
Net (gain) loss in fair value of financial assets held for trading		
– unrealised	**13,515**	(22)
Provision for bad debts	**–**	116
Provision for plug and abandonment	**–**	500
Foreign exchange loss (gain), net	**116**	(289)

8. FINANCE COSTS

	2014 US$'000	2013 US$'000
Debenture interest	**–**	22
Bank interest paid	**–**	4
Interest on finance lease	**35**	16
Other interest paid	**112**	381
	147	423

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 383 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$'000	2014 Total US$'000
Executive directors				
Guan Xin Min	–	25	1	26
Zhang Xue	–	31	1	32
Feng Zhong Yun	–	15	–	15
Independent non-executive directors				
Lu Ren Jie	20	–	–	20
Chai Woon Chew	15	–	–	15
Ng Lai Po	15	–	1	16
Han Zhi Jun	15	–	–	15
	65	71	3	139

Name of directors	Fees US$'000	Salaries, Allowances and benefits in kind US$'000	Pension Scheme contributions US$'000	2013 Total US$'000
Executive directors				
Guan Xin Min	–	62	2	64
Zhang Xue	–	31	1	32
Feng Zhong Yun	–	15	–	15
Independent non-executive directors				
Lu Ren Jie	20	–	–	20
Chai Woon Chew	15	–	–	15
Ng Lai Po	15	–	1	16
Han Zhi Jun	6	–	–	6
	56	108	4	168

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2013: Nil), details of whose remuneration are set out in note 9 above. The details of the remuneration of the five non-directors (2013: five), highest paid employees are set out below.

	2014 US$'000	2013 US$'000
Salaries, allowances and benefits in kind	**1,571**	1,570

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

	Number of non-directors	
	2014	2013
US$192,300 to US$256,400	**3**	4
US$256,401 to US$320,500	**1**	–
US$512,801 to US$705,000	**1**	1
	5	5

11. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2014 US$'000	2013 US$'000
Overseas tax charge		
– current year	**–**	15,606
– underprovision in respect of prior year	**–**	248
– overprovision in respect of prior year	**(205)**	–
Deferred tax credited – note 19	**(148)**	(322)
	(353)	15,532

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 2014

11. INCOME TAX (Continued)

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

	2014	2013
	US$'000	US$'000
(Loss) Profit before tax	**(23,476)**	56,574
(Tax credit)/Notional tax on (loss) profit before tax, calculated at the rates applicable to profits in the countries concerned	**(4,457)**	13,846
Overprovision in prior year	**(205)**	–
Tax effect of non-deductible expenses	**2,750**	494
Tax effect of non-taxable income	**(216)**	(99)
Tax effect of change in tax rate	**–**	81
Tax effect of tax losses not recognized	**(497)**	1,390
Tax loss recognized	**2,423**	–
Other timing difference	**(151)**	(180)
Income tax	**(353)**	15,532

12. NET (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$24,530, 000 (2013: profit of US$41,689,000).

13. (LOSS) EARNINGS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to equity shareholders for the year of US$23,021,000 (2013: earnings of US$40,816,000) and weighted average of 840,518,356 (2013: 7,677,163,280) ordinary shares in issue during the year.

There is no fully diluted earnings per share for the year (2013: Nil).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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	Total US$'000
Cost or valuation:							
At 1.1.2014	3,553	19,771	22,845	6,766	2,122	306	55,363
Exchange differences	–	(762)	(904)	(391)	(48)	(5)	(2,110)
Disposal of subsidiaries	–	–	–	(11)	–	–	(11)
Additions	234	1,228	1,471	210	54	539	3,736
Transfer	–	358	–	–	–	(750)	(392)
Disposal/written off	–	–	(29)	–	(194)	–	(223)
Revaluation	–	389	–	–	–	–	389
At 31.12.2014	3,787	20,984	23,383	6,574	1,934	90	56,752
Representing:							
Cost	3,787	13,191	23,383	6,574	1,934	90	48,959
Valuation	–	7,793	–	–	–	–	7,793
	3,787	20,984	23,383	6,574	1,934	90	56,752
Accumulated depreciation:							
At 1.1.2014	3,267	1,726	12,887	6,425	1,318	140	25,763
Exchange difference	–	(55)	(632)	(375)	(32)	(3)	(1,097)
Disposal of subsidiaries	–	–	–	(11)	–	–	(11)
Charge for the year	144	1,008	2,418	81	370	–	4,021
Transfer	–	(255)	–	–	–	(137)	(392)
Written back	–	–	(24)	–	(194)	–	(218)
Revaluation	–	(152)	–	–	–	–	(152)
At 31.12.2014	3,411	2,272	14,649	6,120	1,462	–	27,914
Net book value:							
At 31.12.2014	376	18,712	8,734	454	472	90	28,838

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 1.1.2013	3,228	19,090	28,529	6,351	2,606	65	59,869	1,801	61,670
Exchange differences	–	390	611	119	59	2	1,181	–	1,181
Additions	325	935	622	296	87	355	2,620	–	2,620
Transfer	–	102	14	–	–	(116)	–	–	–
Disposal/written off	–	–	(6,931)	–	(630)	–	(7,561)	(1,801)	(9,362)
Revaluation	–	(746)	–	–	–	–	(746)	–	(746)
At 31.12.2013	3,553	19,771	22,845	6,766	2,122	306	55,363	–	55,363
Representing:									
Cost	3,553	11,899	22,845	6,766	2,122	306	47,491	–	47,491
Valuation	–	7,872	–	–	–	–	7,872	–	7,872
	3,553	19,771	22,845	6,766	2,122	306	55,363	–	55,363
Accumulated depreciation:									
At 1.1.2013	2,834	1,130	17,161	6,232	1,387	–	28,744	–	28,744
Exchange difference	–	44	327	117	35	2	525	–	525
Charge for the year	433	1,002	2,343	76	512	–	4,366	–	4,366
Transfer	–	(120)	(18)	–	–	138	–	–	–
Written back	–	–	(6,926)	–	(616)	–	(7,542)	–	(7,542)
Revaluation	–	(330)	–	–	–	–	(330)	–	(330)
At 31.12.2013	3,267	1,726	12,887	6,425	1,318	140	25,763	–	25,763
Net book value:									
At 31.12.2013	286	18,045	9,958	341	804	166	29,600	–	29,600

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. FIXED ASSETS (Continued)

Company

	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:			
At 1.1.2013	147	183	330
Addition	2	–	2
At 31.12.2013	149	183	332
Addition	1	–	1
At 31.12.2014	**150**	**183**	**333**
Accumulated depreciation:			
At 1.1.2013	142	133	275
Charge for the year	4	50	54
At 31.12.2013	146	183	329
Charge for the year	2	–	2
At 31.12.2014	**148**	**183**	**331**
Net book value:			
At 31.12.2014	**2**	**–**	**2**
At 31.12.2013	3	–	3

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

	Group 2014 US$	2013 US$
Land and buildings		
– freehold outside Hong Kong	**7,793**	7,873
– medium lease outside Hong Kong	**10,919**	10,172
	18,712	18,045

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 2014 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.

The fair value of freehold land and buildings were determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the freehold land and buildings under review. There has been no change to the valuation technique during the year.

The Group's freehold land and buildings were classified under level 2 in the fair value hierarchy. There were no transfer into or out of level 2 during the year.

Had the Group's freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$4,435,000 (2013: US$4,860,000).

The net book value of plant and machinery held under finance leases of the Group was US$1,330,000 (2013: US$225,000).

15. PREPAID LEASE PAYMENTS

	Group	
	2014	2013
	US$'000	US$'000
At 1 January	**5,624**	5,590
Accumulated amortisation	**(128)**	(128)
Exchange difference	**(137)**	162
At 31 December	**5,359**	5,624

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	
	2014	2013
	US$'000	US$'000
Net carrying value		
At 1 January	**537**	537
At 31 December	**537**	537

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

17. INTERESTS IN SUBSIDIARIES

Company

	2014 US$'000	2013 US$'000
Unlisted shares, at cost	**364**	364
Amounts due from subsidiaries	**451,898**	456,111
	452,262	456,475
Provision for impairment in values	**(130,046)**	(108,764)
Carrying value at 31 December	**322,216**	347,711

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
Cityhill Limited	Cayman Islands	Hong Kong	1 ordinary share of US$1 each	–	100	Dormant

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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
Great Admirer Limited	Hong Kong	Hong Kong	200 ordinary shares of HK$1 each	100	–	Investment holding and securities trading
Axiom Manufacturing Services Limited*	United Kingdom	United Kingdom	13,564,002 ordinary shares of £1 each	–	100	Assemble of Electronic components
Axiom MS Limited*	United Kingdom	United Kingdom	1,000 ordinary shares of £1 each	–	100	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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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
Greenway Technologies Inc.	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant
China Resources Development Limited	Hong Kong	Hong Kong	85,000,000 ordinary shares of HK$1 each	–	100	Investment holding and marketing
South Sea Graphite (Luobei) Co., Limited(1)	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(1)	PRC	PRC	RMB70,461,854	–	100	Production and selling of mineral products
Luo Bei Xin Long Yuan Graphite Production Co. Limited(2)	PRC	PRC	RMB50,000,000	–	51	Production and selling of mineral products

* not audited by UC CPA (Practising) Limited
** disposed during the year
(1) wholly foreign owned enterprise established in the PRC
(2) sino-foreign owned enterprise established in the PRC

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. INTEREST IN AN ASSOCIATE

	Group 2014 US$'000	2013 US$'000
Share of net assets	–	–

Details of the associate are as follows:

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Indirectly %	Principal activities
Goldpay limited.	Cayman Islands	Macau	2 ordinary shares of US$1.00 each	50	Online trading

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group 2014 US$'000	2013 US$'000
Unlisted shares, at cost	293	293

20. DEFERRED TAX ASSETS

	Group 2014 US$'000	2013 US$'000
At 1 January	1,711	1,359
Credited to profit or loss	147	322
Exchange difference	(106)	30
At 31 December	1,752	1,711

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

20. DEFERRED TAX ASSETS (Continued)

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$(75,000) (2013: US$11,000) and tax losses available of US$1,827,000 (2013: US$1,700,000).

Deferred tax assets not recognized in the financial statements comprised of unused losses of approximately US$15,373,000 (2013: US$14,493,000).

21. TRADE AND NOTES RECEIVABLES

	Group	
	2014	2013
	US$'000	US$'000
Receivable from SKKMIGAS	**2,416**	2,852
Receivable from sales of graphite ore	**–**	25,143
Receivable from others	**58,878**	16,392
	61,294	44,387

The receivable from SKKMIGAS represents a trade receivable balance arising in the normal course of business and represents the amount of crude oil sale receivable and costs not yet recovered out of Pertamina's share of incremental crude oil production. The balance is unsecured, non-interest bearing and with 30 days credit term.

The long term portion of trade receivable and the current portion receivable from sales of graphite ore (the "Purchaser") totalling approximately USD252,870,000 (2013: USD262,973,000) represent a trade receivable balance arising in the normal course of business. The balance is secured over the unsold graphite ore acquired by the Purchaser, non-interest bearing and repayable within 9 years. The Purchaser has to repay at least USD26,425,500 each year until fully settled. Should the Purchaser sold the goods of cost more than this minimum payment in a year, they have to settle the excess balance with credit term of 30 days.

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

	Group	
	2014	2013
	US$'000	US$'000
0 – 30 days	**9,419**	35,217
31 – 60 days	**5,461**	4,241
61 – 90 days	**2,245**	4,211
Over 90 days	**44,169**	718
	61,294	44,387

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

21. TRADE AND NOTES RECEIVABLES (Continued)

Included in trade receivables an amount of US$403,000 (2013: US$643,000) which was due from non-controlling interest.

Other than the crude oil sales and sales of graphite ore, 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.

22. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING

	Group		Company	
	2014	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares	**527**	543	**4**	4
Shares traded on the OTC Bulletin Board in the United States	**16,500**	30,000	**–**	–
	17,027	30,543	**4**	4

23. INVENTORIES

	Group	
	2014	2013
	US$'000	US$'000
Production supplies and raw materials	**9,404**	8,757
Work in progress	**3,736**	2,311
Finished goods	**9,327**	8,951
	22,467	20,019

24. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2014	2013
	US$'000	US$'000
Finder's fee prepaid to convertible debenture holders	**1,309**	3,218
Other deposits and prepayments	**7,093**	3,953
Other receivables	**1,567**	3,248
	9,969	10,419

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

25. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2014	2013
	US$'000	US$'000
0 – 30 days	**2,596**	4,997
31 – 60 days	**4,468**	3,102
61 – 90 days	**3,030**	1,494
Over 90 days	**3,265**	1,471
	13,359	11,064

26. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2014, the Group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**341**	99	**302**	90
After one year but within two years	**862**	69	**767**	64
	1,203	168	**1,069**	154
Less: Future finance charges	**134**	14		
Present value of finance lease	**1,069**	154		
Less: Amount shown under current liabilities			**302**	90
			767	64

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. PROVISION

	Plug and Abandonment US$'000
At 1.1.2014	3,105
At 31.12.2014	**3,105**

The Group estimate the expenditure incurred in the abandonment of exploratory wells and the restoration of their drill sites.

28. CONVERTIBLE DEBENTURES

Convertible debentures issued to Unique Hero Development Limited

On 14 August 2014, the Company entered into a subscription agreement with Unique Hero Development Limited for an aggregate of US$1,660 million 0% interest convertible debentures due 31 December 2018. Unique Hero Development 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 at a) Original Conversion Price: HK$0.83 per Consolidated Share (after the 10:1 share consolidation), or b) Adjusted Conversion Price: Equal to the average closing price of the Company's Shares as quoted on the Stock Exchange over the five consecutive trading days from the date on which the Share Consolidation becomes effective, if the difference between the Adjusted Conversion Price is 10% higher or lower than HK$0.83 (10% inclusive), the Adjusted Conversion Price prevails. Otherwise HK$0.83 will be used as the conversion price. However, according to the Amendment to Subscription Agreement dated 4 September 2014, the Adjusted Conversion Price shall under no circumstances be lower than HK$0.50.

During the year ended 2014, the Company issued the Debenture for approximately US$2,564,000. Finder's fee of US$128,000 was payable to Unique Hero Development Limited. Conversion right was exercised to convert US$2,564,000 of the Convertible Debentures for 35,335,689 shares.

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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

28. CONVERTIBLE DEBENTURES (Continued)

Convertible debentures issued to RTM Financial Corp. (Continued)

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 2014, the Company issued the Debenture for approximately US$3,846,000 (year ended 2013: US$54,186,000). Finder's fee of US$192,000 (2013: US$2,709,000) was payable to RTM Financial Corp. Conversion right was exercised to convert US$3,846,000 (2013: US$54,241,000) of the Convertible Debentures for 300, 000,000 (2013: 4,230,800,000) shares of US$0.001 each.

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 Gain Time Management Limited

On 9 July 2013, the Company entered into a subscription agreement with Gain Time Management Limited for an aggregate amount of HK$10,000,000 of nil interest unlisted convertible debentures due July 2014. 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$0.001 each at the conversion price of HK$0.069, within the conversion period from the time of Debenture issued to the Maturity Date (8 July 2014).

During the year ended 2013, the Company issued the Debenture December 2015 for HK$10,000,000. Finder's fee of HK$500,000 was to Kelton Capital Group Limited. Conversion right was exercised to convert HK$10,000,000 of the Convertible Debentures for 144,927,536 shares of US$0.001 each.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. SHARE CAPITAL

	Group and Company	
	2014	2013
	US$'000	US$'000
Authorised:		
500,000,000,000 ordinary shares of US$0.001 each	**N/A**	500,000
Issued and fully paid:		
879,241,817 ordinary shares with no par value		
(31.12.2013: 8,139,061,280 ordinary shares of US$0.001 each)	**504,850**	8,139

Under the new Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the capital redemption reserve on 3 March 2014 have become part of the company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). There is no impact on the number of shares in issue or the relative entitlement of any of the members.

As at 9 October 2014, the company effected a share consolidation on the basis that every ten (10) issued shares in the capital of the company be consolidated into one (1) consolidated share which was passed as an ordinary resolution on 8 October, 2014.

During the year before 9 October 2014, 300,000,000 ordinary shares were issued by exercising the convertible debentures for an aggregate consideration of HK$30,000,000.

From 9 October 2014 to 31 December 2014, 35,335,689 ordinary shares issued by exercising the convertible debentures for an aggregate consideration of HK$20,000,000.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 2014

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$'000	Translation reserve US$'000	Accumulated losses US$'000	Total US$'000
At 1.1.2013	428,065	–	12,037	128	(189,492)	250,738
Profit for the year	–	–	–	–	41,689	41,689
Issue of shares upon conversion of convertible debentures	50,503	–	–	–	–	50,503
At 31.12.2013	478,568	–	12,037	128	(147,803)	342,930
Transfer to no-par value regime on 3 March 2014	(478,568)	–	(12,037)	–	–	(490,605)
Loss for the year	–	–	–		(24,530)	(24,530)
At 31.12.2014	**–**	**–**	**–**	**128**	**(172,333)**	**(172,205)**

At 31.12.2014, 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.

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 2014

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2014 US$'000	2013 US$'000
(Loss) Profit before tax	(23,476)	56,574
Negative goodwill	(104)	–
Dividend income	(10)	(16)
Interest income	(35)	(32)
Interest expenses	147	423
Gain (loss) in fair value of financial assets held for trading	13,516	(22)
Depreciation of fixed assets	4,021	4,366
Amortisation of prepaid lease payments	128	128
Provision for bad debts	–	116
Provision for plug and abandonment	–	500
Operating (loss) profit before working capital	(5,813)	62,037
Decrease (Increase) in trade receivables	9,519	(263,552)
Increase in inventories	(2,448)	(614)
Decrease in prepayments, deposits and other receivables	427	149,162
Increase (Decrease) in trade payables	2,295	(1,370)
Increase (Decrease) in other payables and accrued expenses	1,478	(689)
Increase (Decrease) in amount due to a non-controlling interest	379	(343)
Cash from (used in) operating activities	5,837	(55,369)
Interest paid	(147)	(423)
Overseas tax paid	–	(327)
Net cash from (used in) operating activities	5,690	(56,119)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

	2014 US$'000	2013 US$'000
Prepayments, deposits and other receivables	8	–
Cash and bank balances	59	–
Other payables	(61)	–
Due from related company	15	–
Due to related company	(62)	–
Non-controlling interest	41	–
Net assets acquired	–	–
Total consideration	–	–
Satisfied by:		
Cash	–	–
	–	–
Net cash outflow on acquisition:		
Cash and bank balances disposed	59	–
Net cash outflow	59	–

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

On 24 December 2014, the Company acquired additional 5.19% equity interest in Axiom MS Limited and Axiom Manufacturing Services Limited for a purchase consideration of approximately USD1,078,000.

(d) Major non-cash transactions

(i) The convertible debenture holders converted USD6,410,000 (2013: USD56,192,000) convertible debentures into the Company's shares during the year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

33. COMMITMENTS

Commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	Group		Company	
	2014	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000
(a) Capital commitments contracted but not provided for in respect of:				
Acquisition for fixed assets	**91**	999	**–**	–
(b) Total future minimum lease payments receivable under non-cancellable operating leases				
(i) on land and buildings and oil properties expiring:				
Within one year	**360**	506	**–**	–
In the second to fifth years inclusive	**–**	360	**–**	–
	360	866	**–**	–
(c) Total future minimum lease payments payable under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**126**	53	**93**	53
In the second to fifth years inclusive	**–**	–	**–**	–
	126	53	**93**	53
(ii) on other fixed assets expiring:				
Within one year	**95**	70	**–**	–
In the second to fifth years inclusive	**35**	105	**–**	–
	130	175	**–**	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

34. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2014	2013
	US$'000	US$'000
Salaries, allowances and benefits in kind	**1,755**	2,023

35. MATERIAL RELATED PARTY TRANSACTIONS

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

	2014	2013
	US$'000	US$'000
Sales to non-controlling interests	**3,169**	10,621
Rental income from non-controlling interest	**566**	–

36. FINANCIAL INSTRUMENTS

	Group	
	2014	2013
	US$'000	US$'000
Financial assets		
Available-for-sales investments	**293**	293
Financial assets at fair value held for trading	**17,027**	30,543
Loans and receivables (include cash and cash equivalent)	**311,410**	314,402
Financial Liabilities		
Amortised cost	**51,068**	44,144
Obligation under finance lease	**1,069**	154

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. FINANCIAL RISK MANAGEMENT

37A Financial risk factors

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

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

(a) Foreign exchange risk

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

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

(b) Interest rate risk

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

(c) Price risk

Kalrez Petroleum (Seram) Limited, a wholly owned subsidiary of the Company, sells crude oil it produces in Indonesia to SKKMIGAS (formerly 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 2014, 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$1,703,000, US$5,108,000 and US$8,514,000 respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. FINANCIAL RISK MANAGEMENT (Continued)

37A Financial risk factors (Continued)

(e) *Credit risk*

The credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company and its operating subsidiaries have established the credit policy to limit the credit risk exposure. Except for the sales of graphite ore, all receivables are due for settlement no more than 60 days after issue and collectability is reviewed on an ongoing basis. Specific credit terms has been offered to debtor of graphite ore.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, 92.73% (2013: 93.18%) of the total trade and note receivables was due from the group's largest customer within the sale of minerals segment.

(f) *Liquidity risk*

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

The contractual maturity of the 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	
	2014	2013
	US$'000	US$'000
Trade and other payables	**31,222**	27,572
Due to non-controlling interest	**1,241**	862
Taxation	**15,500**	15,710
	47,963	44,144

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. FINANCIAL RISK MANAGEMENT (Continued)

37B Fair value of financial instruments

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

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

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

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

37C Fair value measurement recognized in the consolidated financial statements

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

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

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

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

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	**2014 Total** **US$'000**
Financial assets at fair value held for trading	17,027	–	–	**17,027**

38. CAPITAL RISK MANAGEMENT

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

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

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 31 March 2015.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

For the years ended 31 December

	2014	2013	2012	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**82,379**	370,507	111,943	92,162	61,677
(Loss) profit before tax	**(23,476)**	56,574	(12,259)	52,323	(18,192)
Income tax	**353**	(15,532)	34	(3,479)	(218)
(Loss) profit for the year	**(23,123)**	41,042	(12,810)	48,844	(18,410)
Non-controlling interests	**(102)**	(226)	(109)	(2,243)	(273)
Net (loss) profit attributable to shareholders	**(23,021)**	40,816	(12,919)	46,601	(18,683)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

As at 31 December

	2014	2013	2012	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
Goodwill	**537**	537	537	–	–
Fixed assets	**28,838**	29,600	32,926	27,388	22,375
Prepaid lease payments	**5,359**	5,624	5,590	3,033	–
Available-for-sale investment	**293**	293	321	–	771
Interest in an associate	**–**	–	–	–	–
Deferred tax assets	**1,752**	1,711	1,359	1,114	368
Long term portion of trade receivable	**211,404**	237,830	–	–	–
Current assets	**139,500**	127,134	254,449	213,487	115,137
Total assets	**387,683**	402,729	295,182	245,022	138,651
Total liabilities	**(52,137)**	(47,403)	(36,767)	(24,242)	(17,315)
Non-controlling interests	**(2,901)**	(4,257)	(3,966)	(5,574)	(3,154)
	332,645	351,069	254,449	215,206	118,182