Annual Report 2004

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SSP 南海石油

SOUTH SEA PETROLEUM HOLDINGS LIMITED

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DIRECTORS

Zhou Ling, *Chairman*

Lee Sin Pyung, *Managing Director*

Sit Mei, *Executive Director*

Lu Ren Jie, *Independent Non-Executive Director*

Chai Woon Chew, *Independent Non-Executive Director*

Ho Choi Chiu, *Independent Non-Executive Director*

COMPANY SECRETARY

Lam Lee Yu

REGISTERED OFFICE

Suite 2602, Cheung Kong Centre
2 Queen's Road Central
Hong Kong

SHARE REGISTRAR

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

PRINCIPAL BANKERS

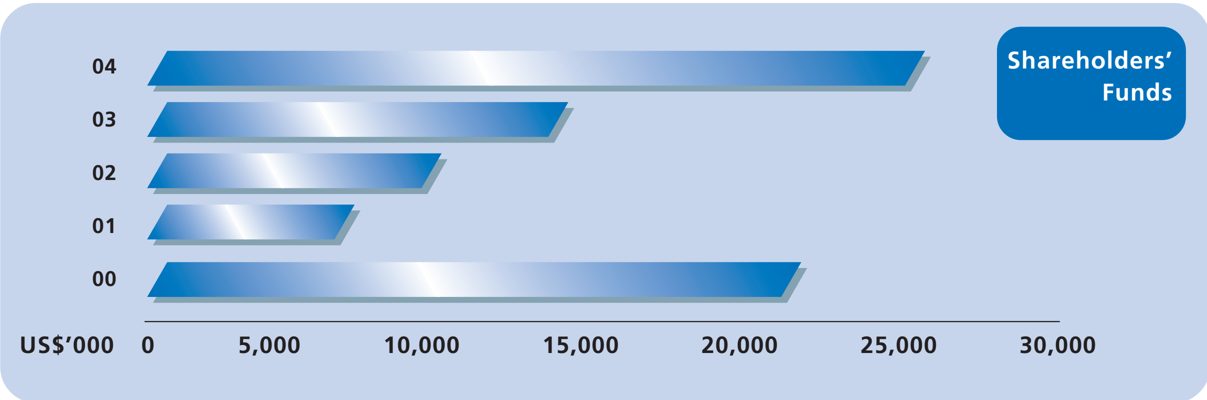
Standard Chartered Bank

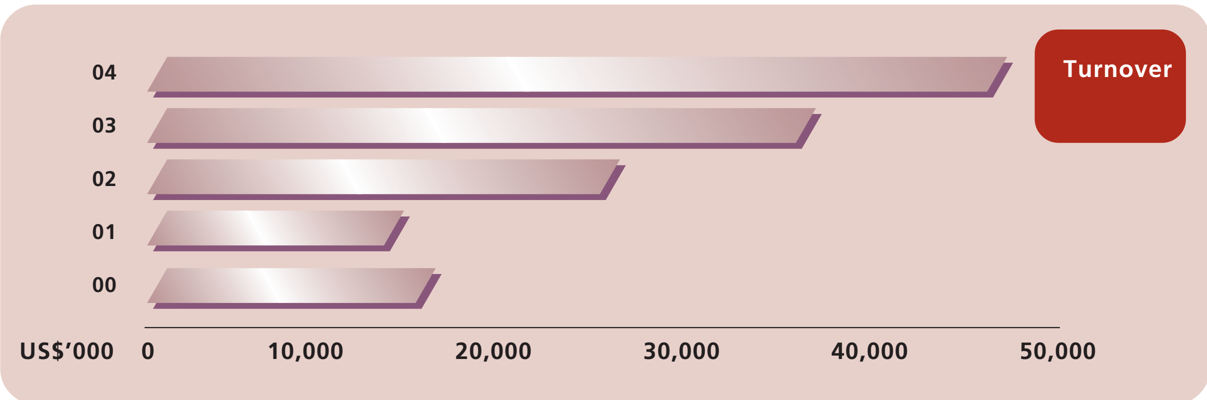
AUDITORS

Johnny Chan & Co. Limited

FINANCIAL HIGHLIGHTS

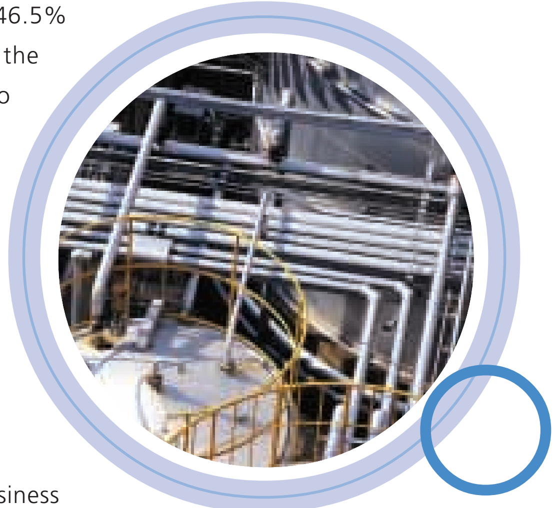
	2004 US$'000	2003 US$'000
Turnover	**46,379**	35,970
Profit/(Loss) From Operating Activities	**2,045**	(5,611)
Net Profit/(Loss) Attributable to Shareholders	**1,144**	(5,938)
Shareholders' Funds	**25,373**	13,636
Basic Earnings/(Loss) Per Share *(US Cents)*	**0.25**	(1.71)





OVERVIEW

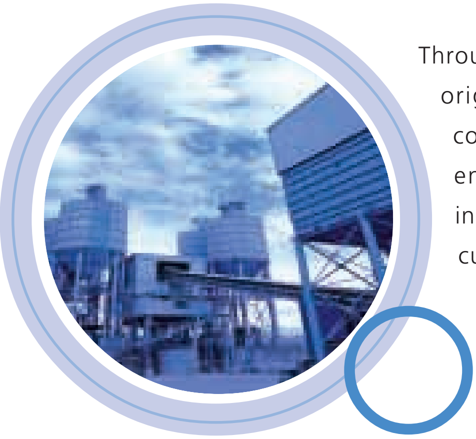
For the year ended 31 December 2004, the Company's total revenues increased 28.9%, or US$10.42 million, to US$46.39 million from US$35.97 million of the previous year. The net profit attributable to shareholders was US$1.144 million, or US$0.25 cents per share, as compared to net loss of US$5.94 million of the prior year. On the balance sheet, the total assets of the Company increased 46.5% to US$49.83 million at 31 December 2004 from US$34.01 million at the end of 2003, and the net assets of the Company increased 86.0% to US$25.37 million in 2004 from US$13.64 million in 2003.



The Company has two principal lines of business. The first is, through its wholly owned subsidiary Seaunion Energy (Limau) Ltd. ("Seaunion"), to develop, explore and produce crude oil in South Sumatra, Indonesia, and the second one is, through its subsidiary Axiom Manufacturing Services Ltd. ("Axiom"), to provide electronic manufacturing services in the United Kingdom.

During the year ended 31 December 2004, the Company's crude oil business was operated by Seaunion under a 15-year Enhanced Oil Recovery Contract (the "EOR Contract") with PERTAMINA, the Indonesia state-owned petroleum giant. The EOR Contract was expired on 31 December 2004. The Company has been negotiating with PERTAMINA for extension of the Contract or entering into a new agreement for years. No assurance can be given that the extension or a new contract will be granted and when it will be granted in the near future. In April 2005, the Company's wholly owned subsidiary, Global Select Limited, entered into a Share Purchase Agreement to acquire 65% of equity interest of PT. Cahaya Batu Raja Blok, a corporation organized in Indonesia ("PTCBRB"), for an aggregate consideration of US$5.8 million in cash. PTCBRB owns a Production Contract signed with the Petroleum Department (BPMIGAS) of the Indonesian Government. Pursuant to the Production Contract, PTCBRB will explore and develop crude oil and natural gas in Air Komering Block, an area with approximately 4,110 square kilometers located in Southern Sumatra, Indonesia for 30 years ending in 2034. The contract area under the Contract is estimated to have energy reserves of 250 million barrels of crude oil and 100,000 million cubic feet of natural gas.

In December 2004, the Company entered into a Service Contact, through the Department of Energy, with the Government of the Republic of Philippines. Under the Contract, the Company is granted a permission to exploit crude oil and natural gas in an area with 748,000 hectares, approximately 7,478 square kilometers, at Agusan – Davao Basin in Davao province, south of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. Pursuant to the Contract, the Company may sell the crude oil and natural gas it produces at market price on free market. The Company intends to incorporate a subsidiary in the Philippines to conduct the exploitation and production operations and to provide all necessary services, including technology and financing. The Company may also seek one or more qualified corporations to form a joint venture to conduct the exploitation and production operations.



Through Axiom, the Company provides electronic manufacturing services to original equipment manufacturers of telecommunication equipment, computers and related products for business enterprises, video/audio/ entertainment products, industrial control equipment, testing and instrumentation products and medical devices. The Company provides its customers with a total solution that includes a full range of services that allow the Company's to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Company builds and services products that carry the brand names of its customers.

Substantially all of the Company's manufacturing services are provided on a turnkey basis, whereby the Company purchases components specified by customers from suppliers, assembles the components on printed circuit boards, perform post-production testing and provides its customers with production process and testing documentation. The Company offers its customers flexible, "just-in-time" delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Company also provides manufacturing services on a consignment basis, whereby the Company utilizes components supplied by the customer to provide assembly and post-production testing services.

RESULTS OF OPERATIONS

The following table presents, for the periods indicated, the percentage relationship that certain items of the Company's statements of consolidated profit and loss account bear to turnover and the percentage increase or (decrease) in the dollar amount of such items:

	Percentage Year ended 2004 %	2003 %
Turnover	**100.0**	100.0
Cost of sales	**56.3**	60.1
Other revenue	**15.3**	6.0
Operating expenses	**54.5**	61.5
Finance costs	**(1)**	(1)
Profit/(loss) from operating activities	**4.4**	(15.6)
Income tax	**(1)**	–
Net income (loss)	**2.4**	(16.5)

For the year ended 31 December 2004, the Company's total turnover was US$46.39 million, of which US$18.33 million, or 39.5%, was derived from the Company's production of crude oil business, and US$28.05 million, or 60.5%, came from the Company's electronics manufacturing services.

During 2004, the Company's turnover from crude oil production increased by approximately 24.5% to US$18.33 million from US$14.78 million of the previous year. The increase was primarily due to increased oil price in the world market. For the year of 2004, the Company's turnover from its electronics manufacturing services increased 20.6% to US$28.04 million, as compared to US$23.30 million for the same period of the last year. The turnover increase in the Company's electronics manufacturing services was largely due to an increase in both of the number of the Company's customers and the size of orders taken from each of its customers.

For the year ended 31 December 2004, the Company's other revenue increased 226.3% to US$7.095 million from US$2.174 million for the same period of the last year. The increase in other revenue were primarily due to the following items: (i) the Company's UK subsidiary leased out a portion of its unused office spaces to third parties; (ii) the value of the Company's properties was increased; (iii) government grant; and (iv) other revenues.

Looking forward, market conditions are expected to be better in the year of 2005. As we mentioned earlier, the Company has entered into two contracts to exploit and develop crude oil and natural gas, one in Southern Sumatra, Indonesia and one in Davas, Philippines. The Company's electronics manufacturing services subsidiary in the UK will continue to bid for high value, low volume work winning as much new business from existing customers as possible while adding new customers to the portfolio, and will continue to focus on differentiating itself by providing a low cost, high quality efficient production facility to companies wishing to outsource their manufacturing.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2004, the Company's general and administrative expenses increased 14.3% to US$25.303 million from the last year's US$22.136 million. However, the Company's increase in general and administrative expenses were 14.3% as compared to 28.9% of the Company's increase in turnover. This means that during fiscal 2004, the Company's efficiency improved, which was largely due to the Company's better utilization and efficiency of labor, and its better product scheduling using its manufacturing resources planning system.

NET PROFIT

For the year ended 31 December 2004, the Company reported a net profit of US$1.144 million, or US$0.25 cents per share, as compared to net loss of US$5.94 million, or US$1.71 cents per share, for the same period of the previous year.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended 31 December 2004, the Company funded its business operations primarily by cash generated from its operations, and to a lesser extent, by issuance of convertible debentures. In 2004, the Company issued convertible debenture of US$9.216 million and received convertible debenture in advance of US$1.871 million. For the year 2004, the Company's financing activities provided net cash of US$11.723 million. The operating activities and investing activities of the Company used cash of US$11.913 million and US$601,000, respectively, for the year ended 31 December 2004. At 31 December 2004, the Company had cash balance of US$2.243 million, as compared to US$1.249 million at the end of 2003.

At 31 December 2004, the Company had no contingent liabilities. The Company believes that its cash generated from its operations are adequate to meet its operating needs. However, future cash flows are subject to a number of variables, including the Company's level of oil production and oil prices, demand for our electronics manufacturing services, and general global economic conditions. Many of the Company's competitors have significantly greater capital resources than that which is available to us. The Company may need to raise additional capital, in debt or equity, in order to successfully grow and compete.

EMPLOYEES

At 31 December 2004, the Company and its majority-owned subsidiaries had a total number of approximately 378 full-time employees in Indonesia, the United Kingdom and Hong Kong. The Company believes that its relationship with its employees is satisfactory. From time to time, the Company may also use the services of independent consultants and contractors to perform various professional services.

NAME CHANGE OF THE COMPANY

In order to better reflect the business nature of the Company, pursuant to a special resolution passed on 28 May 2004, the name of the Company was changed from Sen Hong Resources Holdings Limited (辛康海聯控股有限公司) to South Sea Petroleum Holdings Limited (南海石油控股有限公司) effective on 9 June 2004.

LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings.

FOREIGN EXCHANGE EXPOSURES

The Company's two principal operating subsidiaries earn revenues and incur costs in US dollars and British pounds, respectively. The Company will continue to monitor the risk of foreign exchange fluctuation on the Company's results of operations, financial condition and cash flows.

Lee Sin Pyung
Managing Director

Hong Kong, 25 April 2005

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of the Group are development, exploration and production of crude oil in South Sumatra, Indonesia, and provision of electronics manufacturing services in the United Kingdom.

The principal activities of the subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 17.

For the year ended 31 December 2004, the Company has not declared or paid any dividend on its ordinary shares (2003: Nil). The Company currently intends to retain all available funds for use in the operations and expansion of its business.

FIXED ASSETS

During the year the Group's fixed assets increased to US$13.45 million from US$11.58 million at the end of 2004.

Details of the movements during the year in the fixed assets of the Group and the Company are set out in note 13 to the financial statements.

SHARE CAPITAL

During the year, 73,840,000 ordinary shares were issued, of which all shares were issued by exercising the convertible debenture for an aggregate consideration of approximately US$9,288,000.

Save as disclosed above, during the year neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's ordinary shares.

DIRECTORS' PROFILES

The following table set forth the Company's directors and executive officers as of the date of this Report of the Directors.

Name	Age	Positions held	Since
Zhou Ling	56	Chairman of the Board	2003
Lee Sin Pyung	39	Managing Director	2002
Sit Mei	33	Executive Director	2002
Lu Ren Jie	70	Independent Non-executive Director	1999
Chai Wood Chew	46	Independent Non-executive Director	2002
Ho Choi Chiu	73	Independent Non-executive Director	2004
Lam Lee Yu	36	Company Secretary	2001
Hung Wai Leung	34	Accountant	2003

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

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

Ms. Sit Mei has been the Company's executive director since 2002. Ms. Sit graduated from Holmes College in Melbourne, Australia. She joined the Company in January 2001. From February 2003 to present, Ms. Sit also serves as a Director and the President of Oxford Technologies Corp., a majority owned subsidiary of the Company in 2003.

Mr. Lu Ren Jie has been an independent non-executive director of the Company since in 1999 and he is a member of the audit committee. Mr. Lu has over 38 years of 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. Mr. Lu is currently a part-time professor at Shanghai Communication University and Petroleum University.

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

Mr. Ho Choi Chiu was elected as independent non-executive director of the Company in September 2004. Mr. Ho is a practicing Certified Public Accountant and a partner of C.C. Ho & Co., a public accountant firm in Hong Kong. Mr. Ho is a member of the Audit Committee of the Board of Directors of the Company.

Ms. Lam Lee Yu has been the Company Secretary since 2001. She received her B.A. degree from the University of Hong Kong. Ms. Lam had involved in senior management in different industries. She is a member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Ms. Lam also serves as Director of Great Admirer Limited, a wholly owned subsidiary of the Company.

Mr. Hung Wai Leung joined the Group in September 2003 as Accountant. Mr. Hung obtained his B.B.A. degree from Hofstra University, New York, and a MBA degree from the Hong Kong University of Science & Technology. Mr. Hung is an associate member of the Hong Kong Society of Accountants.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 22 April 2005, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be recorded in the register by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in the Company's ordinary shares

	Number of Ordinary Shares held		
Name	Personal interests	Corporate interests	Approximate % of shareholding
Zhou Ling	–	79,914,000	14.68
Lee Sin Pyung	–	3,300,000	0.61

Save as disclosed above, as at 25 April 2005, there were no other directors and chief executive of the Company and their respective associates who 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES OR DEBENTURES

During the year under review, the Company, or any of its subsidiaries, has not purchased, sold, or redeemed any of the Company's securities. At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and neither the directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS

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

During the year, none of the Company's directors or shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had any beneficial interests in any of the Company's customers and suppliers.

DIRECTORS' REMUNERATION

For the year ended 31 December 2004, the Company paid a total of US$346,000 of directors' remuneration, including salaries and other benefits in kind to its directors, as the same as the previous year. Please see note 6 to the audited financial statements for more detailed information.

RELATED PARTIES TRANSACTIONS

For the year ended 31 December 2004, there were no transactions which are required to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE

The Company is governed through its Board of Directors. At 31 December 2004, the Board of Directors of the Company was comprised of six directors, of which three were non-executive directors. Full board meeting is held at least twice a year to approve interim and year-end financial results and to propose interim and final dividends. It is also held as and when necessary to discuss significant transactions, including issuance of securities, material acquisitions and disposals, and connected transactions, if any.

The Board is responsible for the Company's overall strategy, acquisition and divestment policy, approving major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of individual operating subsidiaries, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programs. The Board also considers employee issues and key appointments. Where subsidiaries have separate boards of directors, the minutes of their meetings are circulated to and reviewed by the Board of Directors.

Board Committees

As of 31 December 2004, the Board of Directors of the Company has only one committee, i.e., Audit Committee. The Audit Committee consists of three directors. All of them were independent non-executive directors. During the year the Audit Committee met twice with all members being in attendance. None of the members of the Committee has any personal financial interests, conflicts of interest in the business of the Company and its subsidiaries. The Audit Committee oversees the financial reporting process and the adequacy and effectiveness of the Company's system of internal control. During the year, the Committee carried out their own independent review of the interim and annual financial statements and financial reports and statements included in circulars of the Company published during the year. And with the assistance of the Company's accounting staff, the Committee completed its review of the adequacy and effectiveness of the Company's system of internal control and reported its findings and recommendations to the Board.

INVESTOR RELATIONS

The Company encourages two-way communications with its investors. Extensive information about the Company's activities is provided in the annual report and the interim report that are sent to shareholders. All notifiable transactions as defined in the Listing Rules of the Hong Kong Stock Exchange have been, and will continue to be announced and disclosed by the Company from time to time.

All shareholders have 14 days' notice of the annual general meeting at which all directors and committee chairman is available for questions. All shareholders are encouraged to attend the annual general meeting.

SUBSTANTIAL SHAREHOLDERS

At 25 April 2005, no person, other than Mr. Zhou Ling's interests which are disclosed in the section "Directors' interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept by the Company pursuant to Section 336 of the SFO.

There were 544, 285,811 shares of the Company's ordinary shares issued and outstanding at 25 April 2005, and there were no stock options or stock warrants outstanding.

CODE OF BEST PRACTICE

For the year ended 31 December 2004, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the independent non-executive directors of the Company are not appointed for specific terms.

SUBSIDIARIES

As of 31 December 2004, the Company had two major subsidiaries that are actively operating: Seaunion Energy (Limau) Limited, which develops, explores and produces crude oil in Indonesia, and Axiom Manufacturing Services Limited, which provides electronics manufacturing services in the United Kingdom. Please see note 1 to the consolidated financial statements for more detailed information.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 39.53% and 78.26% respectively of the Group's total turnover for the year.

The aggregate purchased attributable to the Group's five largest suppliers accounted for 29.4% of the Group's total purchases of which approximately 13.26% attributable to the largest supplier.

For the year under review, none of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers.

INTERNAL CONTROL AND FINANCIAL REPORTING

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 for the year ended 31 December 2004.

INDEPENDENT AUDITORS

A resolution for Johnny Chan & Co. Ltd.'s re-appointment of as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On Behalf of the Board

Zhou Ling
Chairman

Hong Kong, 25 April 2005

JOHNNY CHAN & CO. LIMITED
陳建恒會計師事務所有限公司

TO THE SHAREHOLDERS OF SOUTH SEA PETROLEUM HOLDINGS LIMITED
(formerly Sen Hong Resources Holdings Limited)
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 17 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence regarding the former subsidiaries, Weston Technologies Corp., Best Partner Worldwide Limited, SBT (Holdings) Company Limited, and Shenyang SBT Technology Development Company Limited was limited. The results of these former subsidiaries for the period from 1 January 2004 to 30 September 2004 were consolidated in the financial statements based on the unaudited management accounts. As explained in note 14 to the financial statements, no audited financial statements of these subsidiaries at 30 September 2004, the date of dilution of interests, were available to us for examination. Accordingly, we were unable to obtain sufficient information and explanations to satisfy ourselves regarding the gain on dilution of interests totalling US$681,000, loss of these former subsidiaries for the period from 1 January 2004 to 30 September 2004 totalling US$351,000 and minority's share of loss totalling US$125,000 of these former subsidiaries.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out above. Any adjustments to the above figures would affect the net assets of the Group and the Company as at 31 December 2004 and the profit and cash flows of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the dilution of interests in the above former subsidiaries, in our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the results and the gain on dilution of interests of the abovementioned former subsidiaries:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept.

Johnny Chan & Co. Limited
Certified Public Accountants

25 April 2005

Chan Kin Hang Johnny
Practising Certificate number P00932

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Notes	2004 US$'000	2003 US$'000
TURNOVER	3	**46,379**	35,970
Cost of sales		**(26,137)**	(21,619)
		20,242	14,351
Other revenues	3	**7,106**	2,174
General and administrative expenses		**(25,303)**	(22,136)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	**2,045**	(5,611)
Finance costs	5	**(487)**	(242)
PROFIT/(LOSS) BEFORE TAX		**1,558**	(5,853)
Tax	8	**(542)**	(228)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**1,016**	(6,081)
Minority interests		**128**	143
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	9	**1,144**	(5,938)
EARNINGS/(LOSS) PER SHARE – BASIC (US cents)	10	**0.25**	(1.71)

CONSOLIDATED BALANCE SHEET

31 December 2004

	Notes	2004 US$'000	2003 US$'000
NON-CURRENT ASSETS			
Oil properties	*11*	**–**	1,417
Goodwill	*12*	**(6,549)**	(6,920)
Fixed assets	*13*	**13,449**	11,578
Unlisted investment	*15*	**1,287**	987
Trade mark		**–**	6
		8,187	7,068
CURRENT ASSETS			
Cash and bank balances		**2,243**	1,249
Due from minorities		**2**	3
Due from a related company		**16**	2,140
Due from a shareholder	*16*	**3,239**	–
Short term investments	*17*	**1**	1,892
Trade receivables	*18*	**17,176**	14,067
Inventories	*19*	**6,186**	5,553
Prepayments, deposits and other receivables		**12,570**	1,976
Tax recoverable		**214**	66
		41,647	26,946
CURRENT LIABILITIES			
Trade payables and notes payable	*20*	**14,109**	8,115
Other payables and accrued expenses		**505**	3,806
Loan from discounted debtors		**2,771**	1,717
Receipt in advance for debenture		**1,871**	–
Due to a director		**–**	38
Bank overdraft		**187**	82
Government grant received in advance – current portion		**713**	664
Finance lease – current portion	*22*	**144**	80
Bank loan – current portion	*23*	**69**	65
Due to shareholders		**–**	113
		20,369	14,680

	Notes	2004 US$'000	2003 US$'000
NET CURRENT ASSETS		**21,278**	12,266
TOTAL ASSETS LESS CURRENT LIABILITIES		**29,465**	19,334
NON-CURRENT LIABILITIES			
Deferred revenue	*21*	**–**	1,177
Finance lease	*22*	**142**	203
Bank loan	*23*	**86**	145
Government grant received in advance		**2,816**	2,625
Deferred tax	*24*	**460**	445
Debentures	*33*	**–**	71
		3,504	4,666
MINORITY INTERESTS		**588**	1,032
		25,373	13,636
CAPITAL AND RESERVES			
Share capital	*25*	**4,783**	4,044
Revaluation reserve		**3,441**	1,883
Special capital reserve		**12,037**	12,037
Share premium		**13,236**	6,581
Translation reserve		**6,314**	4,673
Profit and loss account		**(14,438)**	(15,582)
		25,373	13,636

Lee Sin Pyung
Managing Director

Zhou Ling
Director

BALANCE SHEET

31 December 2004

	Notes	2004 US$'000	2003 US$'000
NON-CURRENT ASSETS			
Fixed assets	*13*	**34**	49
Unlisted investment		**300**	–
Interests in subsidiaries	*14*	**26,688**	16,311
		27,022	16,360
CURRENT ASSETS			
Cash and bank balances		**77**	96
Short term investments	*17*	**1**	2
Prepayments, deposits and other receivables		**238**	150
		316	248
CURRENT LIABILITIES			
Other payables and accrued expenses		**94**	159
Due to a director		**–**	38
Due to shareholders		**–**	113
Receipt in advance for debenture		**1,871**	–
		1,965	310
NET CURRENT LIABILITIES		**(1,649)**	(62)
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,373**	16,298
NON-CURRENT LIABILITIES			
Debentures	*33*	**–**	71
		25,373	16,227
CAPITAL AND RESERVES			
Share capital	*25*	**4,783**	4,044
Reserves	*27*	**20,590**	12,183
		25,373	16,227

Lee Sin Pyung
Managing Director

Zhou Ling
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2004

	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
At 1.1.2003	2,552	1,878	12,037	897	1,745	(9,644)	9,465
Issue of shares	1,492	4,703	–	–	–	–	6,195
Exchange difference	–	–	–	3,776	138	–	3,914
Loss for the year	–	–	–	–	–	(5,938)	(5,938)
At 31.12.2003	4,044	6,581	12,037	4,673	1,883	(15,582)	13,636
Issue of shares	739	8,549	–	–	–	–	9,288
Exchange difference	–	23	–	1,641	51	–	1,715
Dilution of interests in subsidiaries	–	(1,917)	–	–	–	–	(1,917)
Revaluation	–	–	–	–	1,507	–	1,507
Profit for the year	–	–	–	–	–	1,144	1,144
At 31.12.2004	**4,783**	**13,236**	**12,037**	**6,314**	**3,441**	**(14,438)**	**25,373**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	Notes	2004 US$'000	2003 US$'000
NET CASH USED IN OPERATING ACTIVITIES	*28(a)*	**(11,724)**	(3,658)
INVESTING ACTIVITIES			
Decrease in/(Acquisition of) short term investments		**1,890**	(1,890)
Additions to oil properties		**(117)**	(1,145)
Payments for fixed assets		**(321)**	(1,388)
Payment for other fixed assets		**(2)**	(6)
Deposit paid for acquisition of investment properties		**–**	(897)
Payment for unlisted investment		**–**	(987)
Deposit paid for oil discovery project		**(1,478)**	–
Cash outflow on dilution of interests in subsidiaries		**(623)**	–
Cash outflow on acquisition of a subsidiary		**–**	(267)
Interest received		**55**	11
Proceeds from disposal of fixed assets		**50**	19
Net cash outflow from investing activities		**(546)**	(6,550)
FINANCING ACTIVITIES			
Issue of convertible debentures		**9,216**	2,667
Convertible debenture receipt in advance		**1,871**	–
Proceeds from issue of shares of a subsidiary		**–**	2,568
Capital element of finance lease rentals paid		**(126)**	(45)
Interest paid		**(244)**	(131)
Net proceed from bank loan		**(69)**	(65)
Net proceeds from debtors discounted		**831**	1,650
Net cash from financing activities		**11,479**	6,644
DECREASE IN CASH AND CASH EQUIVALENTS		**(791)**	(3,564)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,167**	1,319
EFFECT OF FOREIGN EXCHANGE RATES		**1,680**	3,412
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,056**	1,167
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,243**	1,249
Bank overdraft		**(187)**	(82)
		2,056	1,167

1. CORPORATE INFORMATION

South Sea Petroleum Holdings Limited (formerly "Sen Hong Resources Holdings Limited") (the "Company") is incorporated in Hong Kong with limited liabilities. Its shares are listed on The Stock Exchange of Hong Kong Limited. The Company's registered office is Suite 2602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong.

As an investment holding company, the Company has two principal lines of business. The first is, through its wholly owned subsidiary Seaunion Energy (Limau) Ltd., to develop, explore and produce crude oil in South Sumatra, Indonesia, and the second one is, through its subsidiary Axiom Manufacturing Services Ltd., to provide electronic manufacturing services in the United Kingdom.

In 1994, the Company purchased Global Select Limited, a British Virgin Island corporation, which holds 100% of the equity interest in Husky Oil (Limau) Limited from Husky Oil International Corporation, a Canadian corporation. On 1 April 1997, the name of "Husky Oil (Limau) Limited" was changed to Seaunion Energy (Liamau) Limited ("Seaunion"). Since 1994, the Company's crude oil business has been operated under a 15-year Enhanced Oil Recovery Contract (the "EOR Contract") with PERTAMINA, the Indonesia state-owned petroleum giant. The EOR Contract was expired on 31 December 2004. The Company has been negotiating with PERTAMINA for extension of the Contract or entering into a new agreement for years. No assurance can be given that the extension or a new contract will be granted and when it will be granted in the near future. In April 2005, the Company's wholly owned subsidiary, Global Select Limited, entered into a Share Purchase Agreement to acquire 65% of equity interest of PT. Cahaya Batu Raja Blok, a corporation organized in Indonesia ("PTCBRB"), for an aggregate consideration of US $5.8 million in cash. PTCBRB owns a Production Contract signed with the Petroleum Department (BPMIGAS) of the Indonesian Government. Pursuant to the Production Contract, PTCBRB will explore and develop crude oil and natural gas in Air Komering Block, an area with approximately 4,110 square kilometres located in Southern Sumatra, Indonesia for 30 years ending in 2034.

In December 2004, the Company entered into a Service Contact, through the Department of Energy, with the Government of the Republic of Philippines. Under the Contract, the Company is granted a permission to exploit crude oil and natural gas in an area with 748,000 hectares, approximately 7,478 square kilometres, at Agusan – Davao Basin in Davao province, south of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. Pursuant to the Contract, the Company may sell the crude oil and natural gas it produces at market price on free market. The Company intends to incorporate a subsidiary in the Philippines to conduct the exploitation and production operations and to provide all necessary services, including technology and financing. The Company may also seek one or more qualified corporations to form a joint venture to conduct the exploitation and production operations.

1. CORPORATE INFORMATION (Continued)

In April 2002, Great Admirer Limited, a wholly owned subsidiary of the Company, acquired 100% of the share capital of Aiwa Wales Manufacturing Ltd., and electronics manufacturing services provider in South Wales, United Kingdom, from Aiwa Co. of Japan. Following the acquisition, the name of "Aiwa Wales Manufacturing Limited" was changed to "Axiom Manufacturing Services Limited" ("Axiom").

Through Axiom, the Company provides electronic manufacturing services to original equipment manufacturers of telecommunication equipment, computers and related products for business enterprises, video/audio/entertainment products, industrial control equipment, testing and instrumentation products and medical devices. The Company provides its customers with a total solution that includes a full range of services that allow the Company's to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Company builds and services products that carry the brand names of its customers.

A substantial portion of the Company's manufacturing services are provided on a turnkey basis, whereby the Company purchases components specified by customers from suppliers, assembles the components on printed circuit boards, perform post-production testing and provides its customers with production process and testing documentation. The Company offers its customers flexible, "just-in-time" delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Company also provides manufacturing services on a consignment basis, whereby the Company utilizes components supplied by the customer to provide assembly and post-production testing services.

To better reflect the business nature of the Company, pursuant to a special resolution passed on 28 May 2004, the name of the Company was changed from Sen Hong Resources Holdings Limited (辛康海聯控股有限公司) to South Sea Petroleum Holdings Limited (南海石油控股有限公司) effective on 9 June 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The HKFRS is inclusive of Statements of Standard Accounting Practices ("SSAPs") and interpretation issued by the HKICPA. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis in the preparation of the financial statements is historical cost except for the measurement of short term investments and land and buildings as further explained below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired/disposed of during the year are included in consolidated income statement from the effective date of acquisition/disposal respectively.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, the investment in subsidiaries is stated at cost less provision for impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Joint ventures

A joint venture is a contractual arrangement, whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the parties has unilateral control.

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interest in jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint venture, are recognised in the income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Goodwill

Goodwill arising on consolidation represents the excess of cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill arising on consolidation of Global Select Limited is amortised on the unit of production method based on the oil production of its subsidiaries or over a period not exceeding 20 years. Other goodwill is amortised over one year.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognized in the consolidated income statement when the future losses and expenses are recognized. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognized in the consolidated income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair value of those assets is recognized in the consolidated income statement immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented in the same balance sheet classification as goodwill. Positive or negative goodwill arising on the acquisition of an associate is included or deducted form the carrying value of that associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after allowance for obsolete or slow-moving items. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

Investments in securities

Investments in equity securities held for trading purposes are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amount, are recognised in the income statement as they arise.

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. Exploratory drilling costs are capitalised pending determination of proven reserves. The costs of exploration wells classified as unsuccessful and all other exploration costs, as incurred, are charged to the income statement. All development costs are capitalised. Maintenance and repairs are charged to the income statement while renewals and betterments, which extend the economic lives of assets, are capitalised.

Depreciation, depletion and amortisation of oil properties

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

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

Land and buildings

Land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date. Increases in valuation are credited to the land and building revaluation reserve; decreases are first set off against increases on earlier valuations on an individual basis and thereafter are debited to operating profit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are not depreciated and are valued at intervals of not more than three years by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties' revaluation reserve; decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit.

Investment properties are not subject to periodic charges for depreciation except where the unexpired term of lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Fixed assets and depreciation

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

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

Freehold land	Nil
Leasehold land	Over the lease terms
Building	Over 36 years
Leasehold improvements	Over the lease terms
Machinery and equipment	14%-20%
Furniture and fittings	14%-50%
Computers	30%
Motor vehicles	30%

The gain or loss on disposal or retirement of fixed assets recognised in the income statement is the difference between the sales proceeds and the carrying value of the relevant assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets under leases

(i) ***Finance leases***

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities.

The finance charges are charged to income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) ***Operating leases***

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessors are charged to the income statement on the straight-line basis over the lease periods.

Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– oil properties;

– fixed assets (other than properties carried at revalued amounts);

– interests in subsidiaries; and

– positive goodwill.

If any such indication exists, the recoverable amount of the asset is estimated and impairment losses, if any, are recognised in the income statement except where the asset is carried at valuation, and the impairment loss does not exceed the revaluation surplus arising on earlier period for that same asset, in which case it is treated as a revaluation decrease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Revenue from sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) Interest income is recognized on a time proportion basis taking into account the principal outstanding and the effective interest rates applicable.

(c) Rental income is recognized on a straight-line basis.

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

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

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

Income tax

Income tax comprises current and deferred tax.

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Convertible debentures

Convertible debentures are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance costs in respect of the convertible debentures is calculated and recognized in the income statement so as to produce a constant periodic rate of charge on the remaining balances of the convertible debentures for each accounting period.

The costs incurred in connection with the issue of convertible debentures are charged to income statement when the costs are incurred. If any of the debentures are redeemed prior to the redemption date, any difference between the consideration paid and the nominal value of the issue of the convertible debentures is recognized in the income statement.

Foreign currency transactions

Foreign currency transactions are converted into United States dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are converted at the rates ruling at the balance sheet date. All exchange differences are dealt with in the income statement, except exchange differences arising from oil development activities which are capitalised to the extent that they are regarded as an adjustment to interest costs.

The results of foreign enterprises are translated into United State dollars at the average exchange rates for the year; balance sheet items are translated into United States dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

Segmental reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenues, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on a similar terms as those available to the external parties. Unallocated costs represent corporate expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segmental reporting (Continued)

In respect of geographical segment reporting, revenues are based on the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

Employee benefits

Salaries, bonus and leave entitlements

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

Retirement benefits

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

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

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

Turnover represents oil revenue from the sale of cost recovery oil, profit oil and uplift oil, and assembly of electronic components for the contract electronics manufacturer.

	2004	2003
	US$'000	US$'000
An analysis of the group's turnover and revenues is as follows:		
Turnover		
Oil and gas	**18,334**	14,766
Assembly of electronic components	**28,045**	21,204
	46,379	35,970
Other revenues		
Interest income	**9**	11
Rental income	**559**	477
Release of Government grant *(Note a)*	**689**	631
Service income *(Note b)*	**3,599**	–
Gain on disposal of fixed assets	**50**	18
Release of negative goodwill	**903**	908
Gain on dilution of interests in subsidiaries	**980**	–
Other income	**317**	129
	7,106	2,174
Total revenues	**53,485**	38,144

Notes:

(a) The Government grant received during the year ended 31 December 2002 relates to a regional assistance grant awarded by the Welsh Assembly Government in England to the subsidiary of the Company, Axiom Manufacturing Services Limited. The grant relates to capital expenditure and the safeguarding of jobs. The employment related element is spread over the period during which the jobs are required to be maintained by the grant. The element of the grant relating to capital expenditure is released to the income statement over the useful economic life of the assets.

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

(b) On 26 February 2004, the Group entered into a service agreement with a shareholder of the Company, Megabucks International Ltd. to provide certain corporate finance and regulatory advisory services for acquisition of 7 clean shell companies in United Stated of America to be used as vehicles for medium-sized private Chinese enterprises to gain listing status on the NASDAQ or OTC Bulletin Board.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	Oil		Contract electronic manufacturing		Investment properties		Unallocated		Inter-segment elimination		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Revenue from external customers	**18,334**	14,766	**28,045**	21,204	**–**	–	**–**	–	**–**	–	**46,379**	35,970
Inter-segment revenue	**7,209**	956	**–**	–	**–**	–	**4,493**	1,817	**(11,702)**	(2,773)	**–**	–
Other income from external customers	**–**	11	**609**	495	**–**	2	**3,925**	127	**–**	–	**4,534**	635
Gain on dilution of interests in subsidiaries	**–**	–	**–**	–	**–**	–	**980**	–	**–**	–	**980**	–
Negative goodwill amortised	**–**	–	**903**	908	**–**	–	**–**	–	**–**	–	**903**	908
Government grant released	**–**	–	**689**	631	**–**	–	**–**	–	**–**	–	**689**	631
Total	**25,543**	15,733	**30,246**	23,238	**–**	2	**9,398**	1,944	**(11,702)**	(2,773)	**53,485**	38,144
Segment results	**3,992**	1,848	**(650)**	(4,282)	**(9)**	(9)	**–**	–	**–**	–	**3,333**	(2,443)
Unallocated income and expenses											**(1,288)**	(3,168)
Profit/(loss) from operation											**2,045**	(5,611)
Finance costs	**–**	–	**(487)**	(242)	**–**	–	**–**	–	**–**	–	**(487)**	(242)
Taxation	**(542)**	(228)	**–**	–	**–**	–	**–**	–	**–**	–	**(542)**	(228)
Minority interests											**128**	143
Profit/(loss) attributable to shareholders											**1,144**	(5,938)

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment (Continued)

	Oil		Contract electronic manufacturing		Investment properties		Unallocated		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Depreciation and amortisation	**1,734**	5,900	**(214)**	107	**6**	36	**23**	1,799	**1,549**	7,842
Significant non-cash expenses	**276**	–	**1,284**	2,992	**–**	–	**–**	1	**1,560**	2,993
Segment assets	**18,968**	12,989	**24,489**	22,220	**1,968**	1,203			**45,425**	36,412
Unallocated assets									**10,959**	5,054
Total assets									**56,384**	41,466
Segment liabilities	**(8,618)**	(5,484)	**(19,786)**	(20,767)	**(54)**	(154)			**(28,458)**	(26,405)
Unallocated liabilities									**(1,964)**	(394)
Total liabilities									**(30,422)**	(26,799)
Capital expenditure										
Additions	**117**	1,145	**351**	238	**–**	1,081	**77**	69	**545**	2,533

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2004	2003	**2004**	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Indonesia	**18,334**	14,766	**18,968**	12,989	**117**	1,145
United Kingdom	**28,045**	21,204	**24,488**	22,220	**351**	238
China	**–**	–	**12,218**	2,191	**–**	1,081
America	**–**	–	**50**	2,615	**73**	22
Hong Kong	**–**	–	**660**	1,451	**4**	47
	46,379	35,970	**56,384**	41,466	**545**	2,533

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2004 **US$'000**	2003 US$'000
Amortisation of positive goodwill	**532**	2,141
Provision for bad debts	**276**	–
Depreciation, depletion and amortisation of oil properties	**1,534**	5,500
Depreciation:		
– owned fixed assets	**656**	956
– leased fixed assets	**62**	63
Operating lease rentals on		
– land and buildings	**705**	525
– plant and machinery	**706**	584
Staff costs (including directors' remuneration – *Note 6*)	**10,349**	9,364
Auditors' remuneration	**135**	119
Gain on disposal of fixed assets	**(50)**	(10)
Provision for short term investments	**1**	–
Loss for market price decline and obsolete and slow-moving inventories	**–**	343
Foreign exchange losses, net	**1,370**	2,971

5. FINANCE COSTS

	2004 **US$'000**	2003 US$'000
Debenture interest paid	**53**	–
Bank discounting charges	**240**	136
Bank interest paid	**176**	95
Interest on finance lease	**18**	11
	487	242

6. DIRECTORS' REMUNERATION

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

	2004	2003
	US$'000	US$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	13
Independent non-executive directors	**39**	36
	39	49
Other emoluments:		
Salaries and other benefits in kind to executive directors	**307**	171
	346	220

The remuneration of the above directors fell within the following bands:

	Number of directors	
	2004	2003
US$Nil to US$129,000	**5**	5
US$129,001 to US$192,300	**1**	–
	6	5

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2003: Nil), details of whose remuneration are set out in note 6 above. The details of the remuneration of the four remaining non-directors (2003: five), highest paid employees are set out below.

	2004 US$'000	2003 US$'000
Salaries, allowances and benefits in kind	**801**	883

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

	Number of non-directors 2004	2003
US$Nil to US$129,000	**–**	–
US$129,001 to US$192,300	**1**	4
US$192,301 to US$256,400	**3**	1
	4	5

8. TAX

(a) Taxation in the consolidated income statement represents:

	2004 US$'000	2003 US$'000
Overseas tax charge	**527**	957
Overseas tax refund	**–**	(665)
Deferred tax charge/(reversed) *(Note 24(a))*	**15**	(64)
Tax charge for the year	**542**	228

The Group's provision for tax mainly represents overseas withholding tax, overseas income tax and deferred tax made in respect of SELL.

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

8. TAX (Continued)

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

	2004	2003
	US$'000	US$'000
Profit/(loss) before tax	**1,558**	(5,853)
Notional tax/(tax credit) on profit before tax, calculated at the rates applicable to profits in the countries concerned	**986**	(490)
Tax effect of non-deductible expenses	**1,032**	1,482
Tax effect of non-taxable income	**(2,471)**	(918)
Tax effect of unused tax losses not recognized	**995**	819
Tax refund	**–**	(665)
Actual tax expenses	**542**	228

9. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$155,000 (2003: US$210,000).

10. BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of US$1,144,000 (2003: a loss of US$5,938,000), and the weighted average of 451,580,784 (2003: 348,092,070) ordinary shares in issue during the year.

There is no fully diluted earnings per share for the year (2003: Nil).

11. OIL PROPERTIES

	Group	
	2004	2003
	US$'000	US$'000
Cost:		
At 1 January	**41,426**	40,281
Additions	**117**	1,145
At 31 December	**41,543**	41,426
Accumulated depreciation, depletion and amortisation:		
At 1 January	**40,009**	34,509
Provided during the year	**1,534**	5,500
At 31 December	**41,543**	40,009
Carrying value at 31 December	**–**	1,417

12. GOODWILL

	Positive	**Negative**	**Total**
	US$'000	US$'000	US$'000
Cost:			
At 1.1.2004	8,520	(9,033)	(513)
Elimination on dilution of interest in subsidiaries	(559)	–	(559)
At 31.12.2004	**7,961**	**(9,033)**	**(1,072)**
Accumulated amortisation:			
At 1.1.2004	7,988	(1,581)	6,407
Provided during the year	532	(903)	(371)
Written back on dilution of interest in subsidiaries	(559)	–	(559)
At 31.12.2004	**7,961**	**(2,484)**	**5,477**
Carrying value:			
At 31.12.2004	**–**	**(6,549)**	**(6,549)**
At 31.12.2003	532	(7,452)	(6,920)

13. FIXED ASSETS

Group

	Freehold land and buildings US$'000	Investment properties US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost or valuation:							
At 1.1.2004	8,982	1,054	17,893	415	6,538	116	34,998
Exchange differences	650	–	1,308	–	463	–	2,421
Additions	–	–	261	–	167	–	428
Revaluation	905	–	–	–	–	–	905
Dilution of subsidiary	–	–	–	–	(75)	(11)	(86)
Disposal	–	–	(1,139)	–	–	–	(1,139)
At 31.12.2004	**10,537**	**1,054**	**18,323**	**415**	**7,093**	**105**	**37,527**
Representing:							
Cost	–	1,054	18,323	415	7,093	105	26,990
Valuation	10,537	–	–	–	–	–	10,537
	10,537	1,054	18,323	415	7,093	105	37,527
Accumulated depreciation:							
At 1.1.2004	347	–	16,568	397	6,016	92	23,420
Exchange difference	33	–	1,142	–	431	–	1,606
Charge for the year	222	–	372	4	117	3	718
Revaluation adjustment	(602)	–	–	–	–	–	(602)
Dilution of subsidiary	–	–	–	–	(2)	–	(2)
Eliminated on disposal	–	–	(1,062)	–	–	–	(1,062)
At 31.12.2004	**–**	**–**	**17,020**	**401**	**6,562**	**95**	**24,078**
Net book value:							
At 31.12.2004	**10,537**	**1,054**	**1,303**	**14**	**531**	**10**	**13,449**
At 31.12.2003	8,635	1,054	1,325	18	522	24	11,578

13. FIXED ASSETS (Continued)

Company

	Leasehold improvements US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:				
At 1.1.2004	391	180	105	676
Additions	–	4	–	4
At 31.12.2004	**391**	**184**	**105**	**680**
Accumulated depreciation:				
At 1.1.2004	391	144	92	627
Charge for the year	–	16	3	19
At 31.12.2004	**391**	**160**	**95**	**646**
Net book value:				
At 31.12.2004	**–**	**24**	**11**	**34**
At 31.12.2003	–	36	13	49

Freehold land and buildings and investment properties of the group are situated outside Hong Kong. The freehold land and building are pledged to secure general banking facilities.

The Freehold land and buildings were revalued on 22 March 2005 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors. The directors are of the opinion that this valuation gives a fair reflection of the value of the freehold land and buildings at 31 December 2004.

The net book value of plant and machinery held under finance leases of the group was US$407,000 (2003: US$178,000).

14. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	US$'000	US$'000
Unlisted shares, at cost	**114**	365
Amounts due from subsidiaries	**28,495**	15,946
Amount due to a subsidiary	**(50)**	–
	28,559	16,311
Provisions for impairment in values	**(1,871)**	–
Carrying value at 31 December	**26,688**	16,311

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

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
Seaunion Energy (Limau) Limited*	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	Operator of an enhanced oil recovery contract for hydrocarbons
PT. Seaunioin Energy Resources*#	Indonesia	Indonesia	10,000 ordinary shares of US$100 each	–	100	Operator of an enhanced oil recovery contract for hydrocarbons

14. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation	Place of operations	Issued/ registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Great Admirer Limited	Hong Kong	Hong Kong	200 ordinary shares of HK$1 each	100	–	Investment holding
Axiom Manufacturing Services Limited*	United Kingdom	United Kingdom	13,564,002 ordinary shares of £1 each	–	94.81	Assemble of electronic components
Comp Hotel International Limited	British Virgin Islands	PRC	1 ordinary shares of US$1 each	100	–	Properties investment
Comp International Limited	British Virgin Islands	Hong Kong	64,300 ordinary shares of US$1 each	100	–	Travelling agency
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
Comp Assets International Limited	British Virgin Islands	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Prime Reward Group Limited	British Virgin Islands	Hong Kong	1 ordinary shares of US$1 each	–	100	Dormant
Starlight Media & Advertising Limited (formerly Starlight E-commerce Limited)	Hong Kong	Hong Kong	10,000 ordinary shares of HK$1 each	–	88.62	Distribution of magazine
Oxford Technologies Inc.*	USA	USA	18,564,002 ordinary holding shares of US$0.0001 each	–	94.81	Investment holding

14. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation	Place of operations	Issued/ registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Norton Industries Corp.*	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
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	–	88.51	Investment holding
Greenway Technologies Inc.*	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant
Sen Hong Resources Holdings Limited#	Hong Kong	Hong Kong	1 ordinary shares of HK$1 each	100	–	Dormant

acquired during the year
* not audited by Johnny Chan & Co. Limited

On 15 October 2003, Weston Technologies Corp. ("Weston") entered into a stock exchange agreement with Best Partners World Limited ("BPW") whereas BPW shareholders desire to transfer the BPW shares to Weston and Weston desires to issue 440,775 shares of common stock of Weston and warrants to purchase 43,636,725 shares of its common stock for a period of five years ending on 14 October 2008, at an exercise price of US$0.001 per share to BPW shareholders in exchange therefor. Pursuant to the stock exchange agreement, BPW became a wholly-owned subsidiary of Weston.

On 30 September 2004, certain shareholders of Weston elected to exercise their warrants to purchase 34,650,000 shares of common stock of Weston. After the transactions, the interests in Weston was diluted from 73.76% to 10.36%. Accordingly, the interests in subsidiaries held by Weston, being BPW, SBT (Holdings) Company Limited and Shenyang SBT People's Technology Republic Development of China Company Limited, were also diluted. The investment cost of US$300,000 in these former subsidiaries concerned was reclassified as unlisted investment as stated in note 15 below.

14. INTERESTS IN SUBSIDIARIES (Continued)

The results of these former subsidiaries for the period from 1 January 2004 to 30 September 2004 were consolidated in the financial statements based on the unaudited management accounts. As a result, the figure of the gain on dilution of interests totaling US$681,000, loss of these former subsidiaries for the period from 1 January 2004 to 30 September 2004 totalling US$351,000 and minority's share of loss totalling US$125,000 of these former subsidiaries were also unaudited.

On 23 March 2004, Ridgefield Industries Corp. (Ridgefield) entered into a Stock Subscription Agreement with Waywood Investment Limited, Comp Property International Limited (holding company of Ridgefield and a subsidiary of the Group), and Mr. Qian Chao. Pursuant to the agreement, Ridgefield agreed to issue 80,000,000 shares of its common stock, to Mr. Qian in exchange for his assignment of the 51% of his rights to and the interest in the Non-Linear Parallel Computer System he currently owns or any and all future intellectual property rights derived therefrom.

After the transaction, the Group's interest in Ridgefield was diluted from 85% to 17%. The investment cost of US$300,000 in Ridgefield was reclassified to unlisted investment as stated in note 15 below.

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.

15. UNLISTED INVESTMENT

	Group	
	2004	2003
	US$'000	US$'000
Unlisted shares, at cost:		
Balance at beginning of year	**987**	987
Reclassified from subsidiaries	**600**	–
	1,587	987
Less: Provision for impairment	**300**	–
	1,287	987

On 29 August 2003, Comp Media & Advertising Limited. ("Comp Media"), a subsidiary of the Company, entered into an acquisition agreement with Beijing Fortune World Advertising Ltd. `(Beijing Fortune) to acquire 49% of its equity interest for HK$3 million.

15. UNLISTED INVESTMENT (Continued)

Concurrently Comp Media was also granted an option to purchase another 50% of the equity interest in Beijing Fortune held by Hainan Sheng Sheng Advertising Ltd. (HSS) for an aggregate cash consideration of HK$300,000 when the "Closer Economic Partnership Arrangement" between PRC and Hong Kong (CEPA) will, on 1 January 2004, allow Hong Kong investors to operate wholly-owned advertising companies in PRC. As a condition precedent and consideration therefore, Comp Media & Advertising Limited entered into a Share Purchase and Option Agreement with HSS to acquire 15% of its interest for an aggregate cash consideration of HK$7,700,000.

The interests in subsidiaries, Weston Technologies Corp., Best Partner Worldwide Limited, SBT (Holdings) Company Limited, Shenyang SBT People's Technology Republic Development of China Company Limited and Ridgefield Industries Corp. were diluted during the year and reclassified as unlisted investment.

16. DUE FROM A SHAREHOLDER

Details of loan to a shareholder are as follows:

Name of company	**Balance at 12.31.2003**	**Balance at 12.31.2004**	**Maximum balance outstanding during year**
	US$'000	US$'000	US$'000
Megabucks International Limited	–	3,239	3,599

The loan is unsecured, non-interest bearing and without fixed payment terms.

17. SHORT TERM INVESTMENTS

	Group		**Company**	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares, at market value	**1**	2	**1**	2
Other investment	**–**	1,890	**–**	–
	1	1,892	**1**	2

Other investment represents insurance policy covered for the employees of SELL for settlement of maturity benefit and death benefit. The policy is effective 27 January 2003 and ended 30 June 2004.

18. TRADE RECEIVABLES

	Group	
	2004	2003
	US$'000	US$'000
Receivable from Pertamina	**10,616**	8,209
Receivable from others	**6,560**	5,858
	17,176	14,067

The receivable from Pertamina 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 50 days credit term.

Nearly all of the receivable from others are pledged to bank to secure loan from these discounted debtors.

The ageing analysis of the trade receivables is as follows:

	Group	
	2004	2003
	US$'000	US$'000
0-30 days	**7,564**	10,099
31-60 days	**4,656**	3,680
61-90 days	**3,082**	198
Over 90 days	**1,874**	90
	17,176	14,067

19. INVENTORIES

	Group	
	2004	2003
	US$'000	US$'000
Production supplies and raw materials	**4,837**	5,553
Work-in-progress	**1,300**	–
Finished goods	**49**	–
	6,186	5,553

20. TRADE PAYABLES AND NOTES PAYABLES

The ageing analysis of the trade payables and notes payable is as follows:

	Group	
	2004	2003
	US$'000	US$'000
0-30 days	**9,813**	4,748
31-60 days	**2,720**	1,736
61-90 days	**891**	1,182
Over 90 days	**685**	449
	14,109	8,115

21. DEFERRED REVENUE

Deferred revenue represents the difference between depreciation, depletion/amortisation and operating costs together with general and administrative costs incurred and the amounts recovered under the EOR Contract since inception.

	Group	
	2004	2003
	US$'000	US$'000
Total costs incurred:		
At 1 January	**117,414**	103,060
Additional costs incurred	**7,995**	14,354
At 31 December	**125,409**	117,414
Total costs recovered:		
At 1 January	**118,591**	106,247
Costs recovered during the year	**6,542**	12,344
Written off during the year	**276**	–
At 31 December	**125,409**	118,591
Deferred revenue at 31 December	**–**	1,177

Under the terms of the EOR Contract, SELL is entitled to recover costs by way of an allocation of incremental oil production, excluding the cost of bonuses paid to Pertamina, in addition to profit oil and uplift oil.

Deferred revenue arises from the recovery of costs under the EOR Contract in excess of costs recognised for accounting purposes. Such revenue will be recognised as revenue in future periods at the time the related costs are recognised for accounting purposes.

22. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2004, the group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**165**	96	**144**	81
After one year but within two years	**114**	95	**98**	81
After two year but within five years	**51**	143	**44**	121
	330	334	**286**	283
Less: Future finance charges	**44**	51		
Present value of finance lease	**286**	283		
Less: Amount shown under current liabilities			**144**	80
			142	203

23. BANK LOANS

	Group	
	2004	2003
	US$'000	US$'000
SECURED BANK LOAN		
Wholly repayable within five years	**155**	210
Less: Current portion included in current liabilities	**(69)**	(65)
	86	145

24. DEFERRED TAX

(a) Deferred tax represents the estimated potential tax liability in respect of the operations of SELL arising mainly in relation to the deferred revenue and depreciation, depletion and amortisation:

	Group	
	2004	2003
	US$'000	US$'000
At 1 January	**445**	509
Charged (reversed) for the year *(Note 8)*	**15**	(64)
At 31 December	**460**	445

(b) Deferred tax assets have not been recognized due to the uncertainty of their realization.

25. SHARE CAPITAL

	Group and Company	
	2004	2003
	US$'000	US$'000
Authorised:		
1,400,000,000 (2003: 1,400,000,000) ordinary shares of US$0.01 each	**140,000**	140,000
Issued and fully paid:		
478,285,811 (2003: 404,445,811) ordinary shares of US$0.01 each	**4,783**	4,044

Movements in the issued share capital of the Company were as follows:

	Number of ordinary shares	**Amount**
		US$'000
At 1 January 2004	404,445,811	4,044
Allotment of shares	73,840,000	739
At 31 December 2004	**478,285,811**	**4,783**

During the year, 73,840,000 ordinary shares were issued by exercising the convertible debenture for an aggregate consideration of approximately US$9,288,000.

26. 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.

26. SHARE OPTION SCHEME (Continued)

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.

27. RESERVES

Company

	Share premium US$'000	Special capital reserve US$'000	Exchange reserve	Accumulated losses US$'000	Total US$'000
At 1.1.2003	1,878	12,037	–	(4,412)	9,503
Issue of shares	2,809	–	–	–	2,809
Translation difference	–	–	81	–	81
Loss for the year	–	–	–	(210)	(210)
At 31.12.2003	4,687	12,037	81	(4,622)	12,183
Issue of shares	8,549	–	–	–	8,549
Translation difference	–	–	13	–	13
Loss for the year	–	–	–	(155)	(155)
At 31.12.2004	**13,236**	**12,037**	**94**	**(4,777)**	**20,590**

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

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

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	Group	
	2004	2003
	US$'000	US$'000
Profit/(loss) before tax	**1,558**	(5,853)
Interest income	**(55)**	(11)
Interest expenses	**245**	106
Grant release	**(689)**	(632)
Provision for stock loss	**–**	343
Provision for bad debts	**(276)**	–
(Gain)/loss arising on decrease in equity interest in subsidiaries	**(980)**	16
Provision for short term investment	**1**	–
Provision for impairment for short term investment	**300**	–
Gain on disposal of fixed assets	**(50)**	(18)
Depreciation of fixed assets	**718**	1,019
Amortisation of goodwill	**(371)**	1,233
Depreciation, depletion and amortisation of oil properties	**1,534**	5,500
Deferred costs incurred, net	**(901)**	(2,010)
Operating profit/(loss) before working capital	**1,034**	(307)
Increase in trade receivables	**(3,109)**	(3,933)
Increase in inventories	**(1,645)**	(1,622)
Increase in prepayments, deposits and other receivables	**(9,505)**	(302)
Increase in trade payables and notes payable	**6,030**	2,348
(Decrease)/increase in other payables and accrued expenses	**(2,194)**	2,398
(Decrease)/increase in amount due to a director	**(38)**	38
(Decrease)/increase in amount due to shareholders	**(3,352)**	113
Changes in amount due to/from related companies	**1,730**	(2,140)
Cash used in operation	**(11,049)**	(3,407)
Overseas tax paid	**(675)**	(916)
Overseas tax refund	**–**	665
Net cash used in operating activities	**(11,724)**	(3,658)

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

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

	Group	
	2004	2003
	US$'000	US$'000
Net assets acquired		
Amount due from minority	–	3
Goodwill arising on consolidation	–	2,097
	–	2,100
Satisfied by:		
Cash	–	2,100

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2004	2003
	US$'000	US$'000
Acquisition of subsidiary		
Cash consideration	–	(2,100)
Bank balances and cash acquired	–	–
Outflow of cash and cash equivalents	–	(2,100)

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

(c) Major non-cash transaction

(i) The convertible debenture holders converted HK$73,840,000 (2003: HK$34,200,000) convertible debenture into the Company's shares.

(ii) In 2003, Great Admirer Limited entered into a Share Exchange Agreement with Oxford. Under the terms and conditions of the agreement, Oxford issued 13,564,002 shares of its common stock to Great Admirer in exchange for all issued and outstanding ordinary shares of Axiom Manufacturing Services Limited ("Axiom") on a one-to-one basis. Axiom is a wholly owned subsidiary. Up to 31 December 2003, 13,351,002 shares of Oxford were issued to Great Admirer Limited. Great Admirer currently owns 94.81% of Oxford's capital stock.

(iii) On 15 October 2003, Weston Technologies Corp. ("Weston") entered into a stock exchange agreement with Best Partners World Limited ("BPW") whereas BPW shareholders desire to transfer the BPW shares to Weston and Weston desires to issue 440,775 shares of common stock of Weston and warrants to purchase 43,636,725 shares of its common stock for a period of five years ending on 14 October 2008, at an exercise price of US$0.001 per share to BPW shareholders in exchange therefor. Pursuant to the stock exchange agreement, BPW became a wholly-owned subsidiary of Weston. On 30 September 2004, certain shareholders of Weston elected to exercise their warrants to purchase 34,650,000 shares of common stock of Weston. After the transactions, the interest in Weston was diluted from 73.76% to 10.36%.

(iv) On 10 September 2003, Cowley Technologies Corp. ("Cowley") entered into a share exchange agreement between Starlight E-commerce Limited ("Starlight") pursuant to which shareholders of Starlight desire to transfer the Starlight Shares to Cowley, and Cowley desires to issue 1,100,000 shares of capital stock of Cowley to shareholders of Starlight in exchange therefor.

29. JOINTLY CONTROLLED ASSETS

At 31 December 2004, the aggregate amounts of assets and liabilities recognized in the consolidated financial statements relating to the group's interest in the jointly controlled assets are as follows:

	2004 **US$'000**	2003 US$'000
Oil properties	–	1,417
Inventories	**942**	258
Prepayments, deposits and other receivable	–	350
Short term investment	–	1,890
	942	3,915
Other payable and accrued expenses	–	(1,955)

30. COMMITMENTS

Commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	Group		Company	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
(a) Capital commitments contracted but not provided for in respect of:				
Purchase of subsidiaries	**423**	423	**–**	–
Purchase of investment properties	**224**	224	**–**	–
Acting as contractor for exploration of petroleum with expected minimum expenditure	**1,622**	–	**1,622**	–
	2,269	647	**1,622**	–
(b) Total future minimum lease payments under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**445**	513	**394**	493
In the second to fifth years, inclusive	**204**	320	**147**	320
	649	833	**541**	813
(ii) on other fixed assets expiring:				
Within one year	**64**	215	**–**	–
In the second to fifth years, inclusive	**36**	66	**–**	–
	100	281	**–**	–

31. PLEDGE OF ASSETS

Fixed and floating charges have been created over all of the assets of the subsidiary in United Kingdom to secure general banking and discounting facilities granted. At 31 December 2004, fixed assets and current assets of this subsidiary pledged were US$12,338,000 and US$12,150,000 respectively.

32. RELATED PARTIES TRANSACTIONS

During the year, the Group entered into the following related parties transactions.

	2004	2003
	US$'000	US$'000
Service income received and receivable from Megabucks International Ltd.	**3,599**	–
Interest received from Weston Technologies Corp.	**4**	–
Consultancy fee paid to shareholders	**985**	905

33. DEBENTURES

	Group		**Company**	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Convertible debentures 2-5 years	**–**	71	**–**	71

On 8 January 2004, the Company has entered into two subscription agreements with Rising International Investment Limited and Ms Jiang Miao Juan for an aggregate amount of HK$72,000,000 (being HK$36,000,000 each) of 5% interest unlisted convertible debentures due 2007. The net proceeds will be applied as general working capital of the Group.

During the year all of the debenture holders exercised their conversion right to convert all of their debentures totalling HK$73,8400,000 for 73,840,000 shares of US$0.01 each.

On 5 October 2004, the Company has entered into subscription agreement with Asia Petroleum Investment Co. Ltd. for an aggregate amount of HK$63,840,000 of 1% interest unlisted convertible debentures due 2007. Half of the net proceeds is intended to be used as production and operation capital for Limau oilfields at South Sumatra, Indonesia, for increasing the number of oilfields and oil production. The other half of the net proceed will be used as the working capital of the United Kingdom subsidiary. At the balance sheet date, HK$14,595,000 was received by the Company.

33. DEBENTURES (Continued)

On 23 November 2004, the Company has entered into subscription agreement with China Nuclear Assets Management Ltd., for an aggregate amount of HK$80,000,000 of 1% interest unlisted convertible debentures due 2007. However, the Company and the subscriber agreed to terminate the subscription agreement on 4 April 2005.

34. SUBSEQUENT EVENT

Subsequent to the balance date on 7 April 2005, a subsidiary of the Group, Global Select Limited, entered into a share purchase agreement to purchase 65% of the capital stock of PT. Cahaya Batu Raja Blok, an Indonesian corporation, at a consideration of US$5,800,000.

35. COMPARATIVE FIGURES

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2005.

RESULTS

For the years ended 31 December

	2004	2003	2002	2001	2000
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**46,379**	35,970	25,239	13,355	15,031
Profit/(loss) before tax	**1,558**	(5,853)	(4,933)	(13,493)	(11,520)
Tax	**(542)**	(228)	(760)	(1,559)	(1,980)
Profit/(loss) before minority interests	**1,016**	(6,081)	(5,693)	(15,052)	(13,500)
Minority interests	**128**	143	–	125	129
Net profit/(loss) attributable to shareholders	**1,144**	(5,938)	(5,693)	(14,927)	(13,371)

ASSETS AND LIABILITIES

31 December

	2004	2003	2002	2001	2000
	US$'000	US$'000	US$'000	US$'000	US$'000
Oil properties	**–**	1,417	5,772	5,626	5,563
Goodwill	**(6,549)**	(6,920)	(8,108)	973	10,458
Deferred costs	**–**	–	–	–	158
Fixed assets	**13,449**	11,578	10,190	175	521
Unlisted investment	**1,287**	987	–	–	–
Trade mark	**–**	6	–	–	–
Interests in associates	**–**	–	–	309	2,244
Current assets	**41,647**	26,946	18,823	10,537	17,139
Total assets	**49,834**	34,014	26,677	17,620	36,083
Total liabilities	**(23,873)**	(19,346)	(17,212)	(11,067)	(13,130)
Minority interests	**(588)**	(1,032)	–	114	(1,631)
Net assets employed/shareholders' funds	**25,373**	13,636	9,465	6,667	21,322