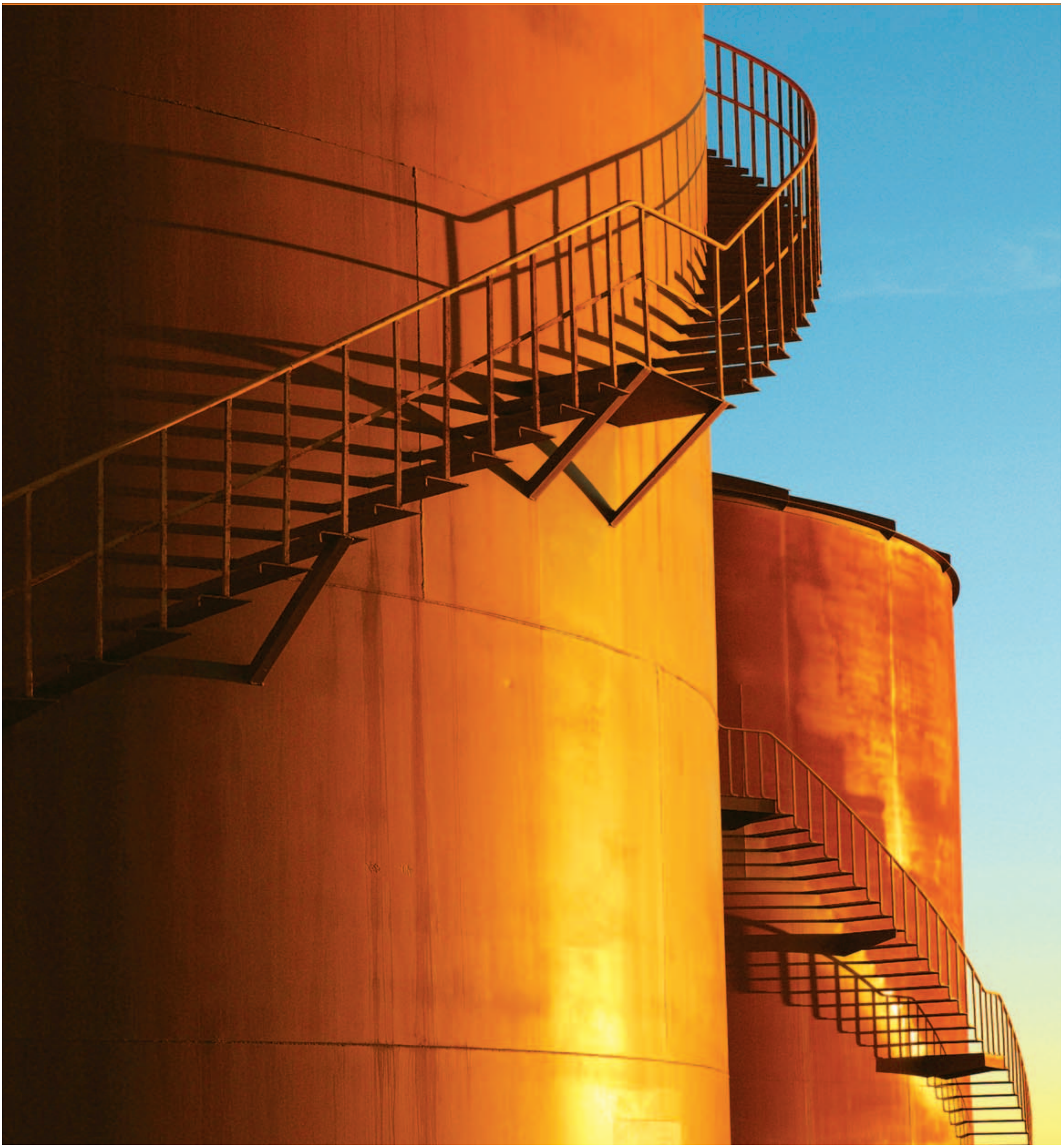
南海石油

SOUTH SEA PETROLEUM HOLDINGS LIMITED

Stock Code : 76

05 ANNUAL REPORT

Contents



Corporate Information

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

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

SHARE REGISTRAR

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

PRINCIPAL BANKERS

Standard Chartered Bank

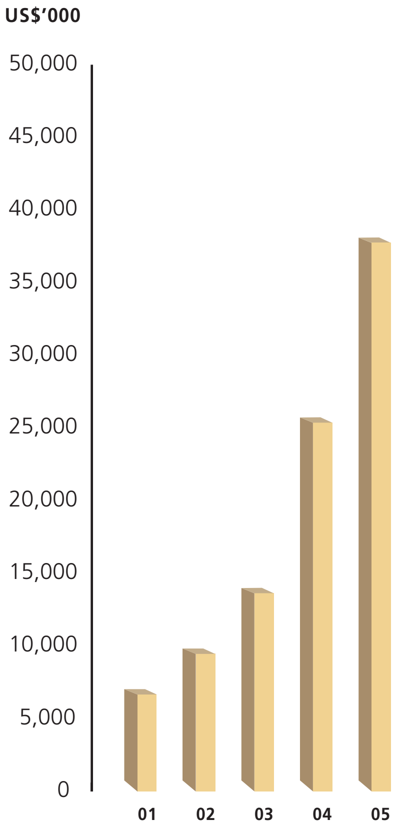
AUDITORS

Johnny Chan & Co. Limited

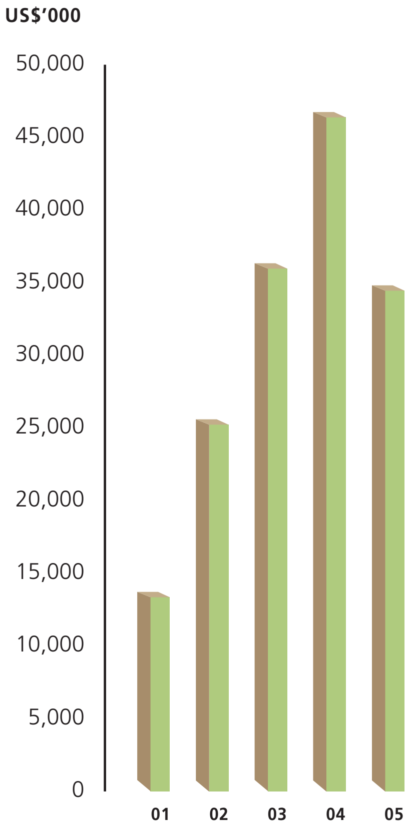
Financial Highlights

	2005 **US$'000**	2004 US$'000
Turnover	34,462	46,379
(Loss)/Profit from Operating Activities	(4,707)	2,045
Net (Loss)/Profit Attributable to Shareholders	(4,687)	1,144
Funds Attributable to Equity Holders of the Company	37,743	25,373
Basic (Loss)/Earning Per Share (US Cents)	(0.83)	0.25

Funds attributable to equity holders of the Company



Turnover





Directors' Business Review

OVERVIEW

For the year ended 31 December 2005, due to the expiry of an Enhanced Oil Recovery Contract with Pertamina of Indonesia on 31 December 2004, the Group's turnover fell 25.6%, or US$11.92 million, to US$34.46 million from US$46.38 million for the same period in 2004. The net loss attributable to shareholders was US$4.66 million, or US $0.78 cents per share, as compared to net income of US$1.14 million, or US$0.25 cents per share, of the prior year. On the balance sheet, the total assets of the Group increased 9.4% to US$54.56 million at 31 December 2005 from US$49.83 million at the end of 2004, and the net assets of the Group increased 48.7% to US$38.61 million in 2005 from US$25.96 million in 2004.

BUSINESS DEVELOPMENT

The Company has two principal lines of business. The first line of business is, through its wholly owned subsidiary Global Select Limited ("Global Select"), to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is, through its subsidiary Axiom Manufacturing Services Ltd. ("Axiom"), to provide electronic manufacturing services in the United Kingdom.

During the past year, the Company has made several crude oil properties acquisitions in Asia to strengthen its crude oil business. 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-Dava Basin in Dava 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. A wholly owned subsidiary of the Company has been set up in Philippines to conduct the exploitation and production operations.

In April 2005, the Company, through its wholly owned subsidiary Global Select, entered into an agreement to acquire 65% of equity interest in PT. Cahaya Batu Raja Blok, an Indonesian corporation, for US$5.8 million. PT Cahaya Batu Raja Blok owns a Product Contract signed with the Department of Petroleum (BPMIGAS) of the Indonesia government. Pursuant to the Product Contract, PT. Cahaya Batu Raja Blok will explore and develop petroleum and natural gas in Air Komering Block, an area consists of approximately 4,110 square kilometers located in Southern Sumatra, Indonesia for 30 years ending in 2034. As of the date of this Report, the acquisition has not been completed.

On 27 September 2005, Global Select Ltd. entered into a share purchase agreement with Lion Energy Limited, an Australian listed company, to acquire 100% equity interests in each of its subsidiaries, Kalrez Petroleum (Seram) Limited ("Kalrez") and Indonesian Prima Energy Services Limited ("IPE") for an aggregate consideration of US$4,850,000.

Kalrez is engaged in the business of exploitation and production of crude oil in Bula Block Oilfield on the Island of Seram in Indonesia. Kalrez holds 100% interest in Bula Petroleum Production Sharing Contract ("Bula PSC") that was

Directors' Business Review

entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will be expired in 2019. Kalrez is the operator of the Bula Block Oilfields. The acquisition of Kalez is closed on 30 October 2005.

IPE, through its 100%-owned subsidiary PT Prima Jasa Energi ("PJE"), owns and operates a drilling rig and other heavy equipment in Indonesia. The Company brought Kalrez and IPE together as a package.

The Company's crude oil operation under an Enhanced Oil Recovery Contract with Pertamina, the Indonesia state-owned petroleum giant, was expired on 31 December 2004. The Company intends to negotiate with BPMIGAS, Department of Petroleum of Indonesia, to enter into a new contract. No assurance can be given that the new contract will be granted and when it will be granted.

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

For the year ended 31 December 2005, the Group's turnover was US$34.46 million as compared to US$46.38 million in the same period of the previous year. The decrease in turnover was primarily due to the expiration of the EOR Contract on 31 December 31, 2004. For the year ended 31 December 2005, the Group's had net loss of US$4.66 million, or US$0.008 per share, as compared to net profit of US$1.02 million, or US$0.0025 per share for the same period of 2004.

Directors' Business Review

Looking forward, the Group intends to continue its expansion in crude oil business because of increasing demand for petroleum products and the climbing oil price. Kalrez Petroleum (Seram) Limited, the newly acquired subsidiary of the Company, currently produces 350-400 barrels of crude oil a day. The Company is planning to conduct seismic surveys in Indonesia and the Philippines to exploit and develop crude oil and natural gas. The Company's electronics manufacturing services subsidiary in 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.

LIQUIDITY AND CAPITAL RESOURCES

At 31 December 2005 the Group's cash and cash equivalents were US$2.00 million, as compared to US$2.24 million at 31 December 2004. For the year ended 31 December 2005, the operating and investing activities of the Group used net cash of US$1.62 million and US$8.01 million, respectively. During the same period, the Group's financing activities provided US$11.52 million of net cash, largely by issuing convertible debenture.

At 31 December 2005, the Group had no contingent liabilities. The Group 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 Group'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 AND REMUNERATION POLICIES

At 31 December 2005, the Group had a total of approximately 272 full-time employees in Indonesia, the United Kingdom and Hong Kong. The Group believes that its relationship with its employees is satisfactory. From time to time, the Group may also use the services of independent consultants and contractors to perform various professional services.

The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility.

MATERIAL UNCERTAINTIES

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

FOREIGN EXCHANGE EXPOSURE

The Group mainly earned revenues and incurred costs in US dollars. The Directors consider that the Group's foreign exchange risks are minimal.

CHANGE OF THE COMPANY ADDRESS

Effective 28 February 2006, the Company's registered office was changed to Unit 6605, 66/F., The Centre, 99 Queen's Road Central, Hong Kong.

LEGAL PROCEEDINGS

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

GEARING RATIO

The gearing ratio of the Group at 31 December 2005 is 7% (2004: 12%).

CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2005 (2004: Nil).

FOREIGN EXCHANGE EXPOSURES

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

Lee Sin Pyung
Managing Director

Hong Kong, 24 April 2006

Report of the Directors

The directors are pleased to present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005, which were approved by the Board of Directors on 24 April 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 25.

For the year ended 31 December 2005, the Company has not declared or paid any dividend on its ordinary shares (2004: Nil). The Company currently intends to retain available funds for use in the operations and expansion of its business.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 29 and 30 and note 26 to the financial statements respectively.

FIXED ASSETS

During the year the Group's fixed assets decreased to US$13.03 million from US$13.45 million at the end of 2005.

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.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2005 (2004: Nil).

SHARE CAPITAL

During the year, the Company issued 172,173,248 ordinary shares. Details of movements in the share capital of the Company are set out in note 24 to the financial statements.

Report of the Directors

DIRECTORS

For the year ended 31 December 2005, the Company had six (6) directors, whose biographical information is as below:

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

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.

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.

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 and the remuneration committee. Mr. Lu has over 40 years experience in petroleum industry and had been responsible for many oilfield projects in China. He was an associate of the World Associate of Production Science and Chairman of Shengli Branch of Society of Petroleum Engineers. Mr. Lu was a part-time professor at Shanghai Communication University and Petroleum University.

Chai Woon Chew has been the Company's independent non-executive director since in 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. Chai is a member of the audit committee and the chairman of the remuneration committee.

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 remuneration committee and the chairman of the audit committee of the Company.

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Articles of Association of the Company, Mr. Lu Ren Jie, Ms. Lee Sin Pyung and Ms. Chai Woon Chew retire by rotation and, being eligible, offer themselves for re-election.

None of the Directors offering themselves for election or re-election at the AGM has a service contract with the Company or any of its subsidiaries.

Report of the Directors

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied throughout the year within the Code on Corporate Governance Practice (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Throughout the year, the Company has complied with all applicable Code Provisions in the Corporate Governance Code. For more information on the Company's corporate governance practices, please see the Company's Corporate Governance Report beginning on page 14.

DIRECTORS' INTERESTS IN SHARES

Details of Directors' interests in shares of the Company are set out in the Company's Corporate Governance Report on page 18.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Company paid consultancy fee of approximately USD538,000 to Bondic Holdings Ltd. in which Ms. Lee Sin Pyung has beneficial interest.

Save as the aforesaid, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2005, no person, other than Mr. Zhou Ling's interests which are disclosed in the "Corporate Governance Report," had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept record by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

RELATED PARTY TRANSACTIONS

During the year under review, the Group paid consultancy fee of approximately USD538,000 to Bondic Holdings Ltd. in which Ms. Lee Sin Pyung has beneficial interest.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, neither the Company, nor its subsidiaries, had purchased, sold, or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 6.76% and 22.74% respectively of the Group's total turnover for the year.

The aggregate purchased attributable to the Group's five largest suppliers accounted for 29.87% of the Group's total purchased of which approximately 8.48% 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.

CODE OF BEST PRACTICE

For the year ended 31 December 2005, 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Annual Report as required under the Listing Rules.

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 2005.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-Executive Directors to be independent.

INDEPENDENT AUDITORS

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

On Behalf of the Board

Zhou Ling
Chairman

Hong Kong, 24 April 2006

Corporate Governance Report

In November 2004, the Hong Kong Stock Exchange issued its "Code on Corporate Governance Practices and Corporate Governance Report," which has taken effect for accounting periods commencing on or after 1 January 2005. The Stock Exchange's Code on Corporate Governance Practices (the "Corporate Governance Code") sets out principles of good corporate governance and two levels of recommendation, namely:

- Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and

- Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

The Stock Exchange allows issuers to devise their own codes on corporate governance practices on such terms as they may consider appropriate, provided reasons are given for any deviation from the Code.

COMMITMENT TO CORPORATE GOVERNANCE

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board and the senior management of the Company ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company. These include a board comprising high caliber members, board committees and effective internal systems and controls.

The Board of Directors of the Company has adopted the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as its own Code on Corporate Governance Practices.

Throughout the year ended 31 December 2005, the Company was in compliance with the Code of Corporate Governance Practices, save for a deviation from code provision A. 4.1 of the Code in respect of the service term of independent non-executive directors.

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

The Board intends to review its corporate governance practices from time to time to ensure they meet shareholders' expectation, comply with regulatory and professional standards.

Corporate Governance Report

BOARD OF DIRECTORS

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

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

The Directors are responsible for the preparation of the accounts for each financial period that give a true and fair view of the states of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2005, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable.

The Board of Directors of the Company currently comprises six (6) Directors, as set out below:

- Zhou Ling, Chairman of the Board;
- Lee Sin Pyung, Managing Director;
- Sit Mei, Executive Director;
- Lu Ren Jie, Independent Non-Executive Director;
- Chai Woon Chew, Independent Non-Executive Director; and
- Ho Choi Chiu, Independent Non-Executive Director

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

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

Corporate Governance Report

The details of all Directors, including Chairman, Executive Directors and Independent Non-Executive Directors are given on page 11 of this Annual Report.

There were no financial, business, family or other material or relevant relationships among members of the Company's Board of Directors.

During the year ended 31 December 2005, the Board at all times exceeded the minimum requirements of the Listing Rules relating to the appointment of at least three independent Non-Executive Directors.

Directors ensure that they can give sufficient time and attention to the affairs of the Company. Directors have disclosed to the Company the number and nature of offices held in public companies or organisations and other significant commitments, with the identity of the public companies or organizations and an indication of the time involved. The Company considers all of the Independent Non-Executive Directors to be independent.

BOARD MEETINGS

The full Board meets at least quarterly and on other occasions when a Board decision is required on major issues. The following table sets out the details of Directors' attendance at the AGM, Board and Board Committee Meetings held in 2005:

Directors	**Board Meeting**	**Audit Committee Meeting**	AGM
Mr. Zhou Ling	4/4	N/A	1
Ms. Lee Sin Pyung	4/4	N/A	0
Ms. Sit Mei	4/4	N/A	1
Mr. Lu Ren Jie	3/4	2/3	0
Mr. Chai Woon Chew	3/4	2/3	0
Mr. Ho Choi Chiu	4/4	3/3	0

CHAIRMAN AND MANAGING DIRECTOR

The Chairman of the Board is Mr. Zhou Lin, and the Managing Director is Ms. Lee Sin Pyung, who is the Chief Executive Officer as described in Appendix 14 of the Listing Rules. The Chairman's and the Managing Director's roles are clearly defined to ensure the independence, accountability and responsibility.

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

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

NON-EXECUTIVE DIRECTORS

Non-Executive Directors are expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent Directors and officers; adoption of a system of internal check and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that exercise of Board authority is within the powers conferred to the Board under its Articles of Association and applicable laws, rules and regulations.

INDEPENDENCE

The independent Non-Executive Directors of the Company are highly skilled professional with a broad range of expertise and experience in the fields of accounting, finance, laws and business. Their skills and expertise in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company.

Each Independent Non-Executive Directors gives the Company an annual confirmation of his independence. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expenses of the Company.

APPOINTMENT OF DIRECTORS

There is currently no Nomination Committee in the Company. Directors of the Company are responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors, with a view to appoint to the Board individuals with those experienced, high caliber individuals. The Board formulates the policy, review the size, structure and composition of the Board, and assesses the independence of its Independent Non-Executive Directors in accordance with the criteria prescribed under the Listing Rules and the Code.

All Non-Executive Directors are appointed for a term of not more than three years. This term is subject to curtailment upon that Director's retirement by rotation and re-election by shareholders. One third of the Directors, including both Executive and Non-executive Directors, are required to retire from office at the AGM in each year. A retiring director is eligible for re-election.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. Specific enquiry has been made of all the Directors of the Company who have confirmed their compliance with the required standard as set out in the Model Code throughout the year of 2005.

Directors are required to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board of Directors at Board Meetings and withdraw from the meetings as appropriate. At each financial reporting period, the Company seeks confirmation from Directors in respect of any transactions of the Company or its subsidiaries that are related to Directors or their associates.

At 31 December 2005, the directors of the Company held following long position in the ordinary share of the Company:

	Number of Ordinary Shares held		Approximate %
Name	**Personal Interests**	**Corporate Interests**	**of shareholding**
Zhou Ling	–	32,000,000 *(Note 1)*	5.49
Lee Sin Pyung	–	500,000 *(Note 2)*	0.07

Notes:

1. Mr. Zhou Ling was holding 32,000,000 shares in the Company through Palmsville Equities Inc., a company beneficially owned by him.

2. Ms. Lee Sin Pyung was holding 500,000 shares in the Company through Bondic Holdings Limited, a company beneficially owned by her.

Save as disclosed above, as at 31 December 2005, none of the directors and executive officers of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

All Directors have confirmed that throughout the year ended 31 December 2005 they complied with the required standard set out in the Model Code.

REMUNERATION OF DIRECTORS

A Remuneration Committee, comprising three independent non-executive directors, has been established in 2005. The committee was set up to review and approve the remuneration packages of the directors.

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

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

NON-EXECUTIVE DIRECTORS' REMUNERATION

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

Non-executive directors of the Company are paid fees in line with market practice. Executive Directors serving on the Board and Board Committee are not entitled to any Directors' fees. The fee paid by the Company to each of our non-executive directors in 2005 for their services on the Company's Board of Directors are as below:

Name of Independent Non-Executive Directors	**Fees per Annum** (US$'000)
Mr. Lu Ren Jie	20
Mr. Chai Woon Chew	15
Mr. Ho Choi Chiu	15

The non-executive Directors of the Company received no other compensation from the Company except for the fees disclosed above.

Corporate Governance Report

EXECUTIVE DIRECTORS' REMUNERATION

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

The remuneration paid to the Executive Directors of the Company in 2005 was as below:

Name of Executive Directors	Compensation Per Annum (US$'000)
Mr. Zhou Ling	107
Ms. Lee Sin Pyung	155
Ms. Sit Mei	49

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

The Company does not have a share option scheme.

AUDIT COMMITTEE

As of 31 December 2005, the Audit Committee consists of the following three directors: Mr. Ho Choi Chiu, Mr. Lu Ren Jie and Mr. Chai Woon Chew. Mr. Ho was the Committee Chairman. All of the Committee members were independent non-executive Directors.

It is the practice of the Audit Committee to meet twice each year. Special meetings may be called at the discretion of the Chairman or at the request of the Managing Director to review significant control or financial issues.

During 2005, the Audit Committee met three times and discharge its responsibilities in its review of the half-yearly and annual results and system of internal control, and its other duties as set out in Listing Rules of the Hong Kong Stock Exchange.

In 2005, the Audit Committee discharged its responsibilities by:

- Making recommendations to the Board on the reappointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

- Monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discussing with external auditor the nature and scope of the audit and reporting obligations;

- Reviewing, and monitoring the integrity of, the financial statements of the Company and the Company's annual and interim reports and the auditor's report to ensure that the information presents a true and balance assessment of the Company's financial position;

- Reviewing the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

- Reviewing the Company's financial and accounting policies and practices;

- Reviewing the external auditor's management letter, material queries raises by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and;

- Reporting to the Board on the matters set out in the Code on Corporate Governance Practices on the Audit Committee.

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. The Audit Committee is authorised by the Board to obtain external legal or other independent professional advice and to ensure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The Audit Committee is provided with sufficient resources by the Company to discharge its duties.

None of the members of the Committee has any personal financial interests, conflicts of interest in the business of the Company and its subsidiaries.

AUDITORS' REMUNERATION

The Company's independent auditors are Johnny Chan & Co. Limited. In order to maintain their independence, Johnny Chan & Co. Limited will not be employed for non-audit work unless it is permissible under the Listing Rules of the Hong Kong Stock Exchange and has been pre-approved by the Audit Committee of the Company.

The following is a summary of the fees billed to us by our principal independent auditors during the financial years ended 31 December 2005 and 2004:

Fee Category	**2005 (US$'000)**	2004 (US$'000)
Audited fees	**124**	124
Other Services	**23**	11

The Audit Committee has resolved the re-appointment of Johnny Chan & Co. Limited for statutory audits for the financial year 2006. This resolution has been approved by the Board of Directors and is subject to final approval and authorization by the shareholders at the 2006 AGM.

Corporate Governance Report

INTERNAL CONTROLS

The Company's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant rules and regulations.

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The Board Audit Committee conducts reviews of the effectiveness of the Company's system of internal control, including those of its subsidiaries twice a year, and reports annually to the Board on such reviews.

For the year ended 31 December 2005, based on the evaluation of the Company's internal control, the Board considered its internal control system effective and adequate. No significant areas of concern that might affect shareholders were identified.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Company for the year under review. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality. As at 31 December 2005, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

In 2005, the Company has made some changes of its accounting policies following the adoption of new and revised Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations which came into effect on 1 January 2005. The new and revised accounting standards that have been adopted by the Company are set out in the Significant Accounting Policies of the Notes to the Accounts on pages 33 to 41.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on page 23.

By Order of the Board
South Sea Petroleum Holdings Limited

Lee Sin Pyung
Managing Director

Hong Kong, 24 April 2006

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
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 25 to 69 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 Hong Kong Standards on Auditing 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. 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.

Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Johnny Chan & Co. Limited
Certified Public Accountants

24 April 2006
Chan Kin Hang Johnny
Practising Certificate number P00932

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 US$'000	2004 US$'000
TURNOVER	*3*	**34,462**	46,379
Cost of sales		**(28,076)**	(26,137)
		6,386	20,242
Other revenues	*3*	**4,857**	7,106
General and administrative expenses		**(12,732)**	(25,003)
Loss in fair value of financial assets through profit and loss		**(1,931)**	–
Impairment of investments		**(1,287)**	(300)
(LOSS) PROFIT FROM OPERATING ACTIVITIES	*4*	**(4,707)**	2,045
Finance costs	*5*	**(478)**	(487)
(LOSS) PROFIT BEFORE TAX		**(5,185)**	1,558
Tax	*8*	**523**	(542)
(LOSS) PROFIT FOR THE YEAR		**(4,662)**	1,016
Attributable to:			
Equity holders of the parent	*9*	**(4,687)**	1,144
Minority interests		**25**	(128)
		(4,662)	1,016
(LOSS) EARNINGS PER SHARE – BASIC (US cents)	*10*	**(0.83)**	0.25

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 US$'000	2004 US$'000
NON-CURRENT ASSETS			
Oil properties	*11*	**219**	–
Goodwill	*12*	**2,934**	(6,549)
Fixed assets	*13*	**12,814**	13,449
Available-for-sale investments / unlisted investments	*15*	**–**	1,287
Project advance		**5,944**	1,478
Other assets		**288**	–
		22,199	9,665
CURRENT ASSETS			
Cash and bank balances		**1,996**	2,243
Due from minorities		**2**	2
Due from related companies		**21**	16
Due from a shareholder		**–**	3,239
Financial assets at fair value through profit or loss	*16*	**116**	1
Trade receivables	*17*	**8,039**	17,176
Inventories	*18*	**6,406**	6,186
Prepayments, deposits and other receivables		**15,451**	11,092
Deferred tax assets	*23*	**335**	–
Tax recoverable		**–**	214
		32,366	40,169
CURRENT LIABILITIES			
Trade payables and notes payable	*19*	**5,860**	14,109
Other payables and accrued expenses		**3,673**	505
Loan from discounted debtors		**2,294**	2,771
Receipt in advance for debenture		**–**	1,871
Due to a director		**142**	–
Due to shareholders		**115**	–
Due to related companies		**76**	–
Bank overdraft		**125**	187
Government grant received in advance-current portion		**674**	713
Finance lease-current portion	*21*	**168**	144
Bank loan-current portion	*22*	**62**	69
Taxation		**62**	–
Provision		**1,218**	–
		14,469	20,369

	Notes	2005 US$'000	2004 US$'000
NET CURRENT ASSETS		**17,897**	19,800
TOTAL ASSETS LESS CURRENT LIABILITIES		**40,096**	29,465
NON-CURRENT LIABILITIES			
Finance lease	*21*	**183**	142
Bank loan	*22*	**15**	86
Government grant received in advance		**1,288**	2,816
Deferred tax	*23*	**–**	460
		1,486	3,504
		38,610	25,961
CAPITAL AND RESERVES			
Share capital	*24*	**6,505**	4,783
Revaluation reserve		**3,174**	3,441
Special capital reserve		**12,037**	12,037
Share premium		**24,764**	13,236
Translation reserve		**3,839**	6,314
Profit and loss account		**(12,576)**	(14,438)
Funds attributable to equity holders of the Company		**37,743**	25,373
Minority interests		**867**	588
		38,610	25,961

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

BALANCE SHEET

31 December 2005

	Notes	2005 US$'000	2004 US$'000
NON-CURRENT ASSETS			
Fixed assets	*13*	**17**	34
Unlisted investment		**–**	300
Interests in subsidiaries	*14*	**25,859**	26,688
		25,876	27,022
CURRENT ASSETS			
Cash and bank balances		**466**	77
Financial assets at fair value through profit or loss	*16*	**1**	1
Prepayments, deposits and other receivables		**169**	238
		636	316
CURRENT LIABILITIES			
Other payables and accrued expenses		**69**	94
Due to shareholders		**114**	-
Receipt in advance for debenture		**–**	1,871
		183	1,965
NET CURRENT ASSETS (LIABILITIES)		**453**	(1,649)
		26,329	25,373
CAPITAL AND RESERVES			
Share capital	*24*	**6,505**	4,783
Reserves	*26*	**19,824**	20,590
		26,329	25,373

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2005

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Special Capital reserve US$'000	Translation reserve US$'000	Revaluation reserve US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1.1.2005									
– as originally stated	4,783	13,236	12,037	6,314	3,441	(14,438)	25,373	588	25,961
– effect of changes in accounting policy	–	–	–	–	–	6,549	6,549	–	6,549
– as restated	4,783	13,236	12,037	6,314	3,441	(7,889)	31,922	588	32,510
Exchange difference	–	–	–	(2,475)	(435)	–	(2,910)	(147)	(3,057)
Revaluation of properties	–	–	–	–	290	–	290	–	290
Release on disposal	–	–	–	–	(122)	–	(122)	–	(122)
Net loss recognized directly in equity	–	–	–	(2,475)	(267)	–	(2,742)	(147)	(2,889)
Loss for the year	–	–	–	–	–	(4,687)	(4,687)	25	(4,662)
Total recognized income and expenses for the year	–	–	–	(2,475)	(267)	(4,687)	(7,429)	(122)	(7,551)
Issue of shares	1,722	11,528	–	–	–	–	13,250	–	13,250
Acquisition of subsidiary	–	–	–	–	–	–	–	(234)	(234)
Contribution from a minority shareholder	–	–	–	–	–	–	–	635	635
At 31.12.2005	6,505	24,764	12,037	3,839	3,174	(12,576)	37,743	867	38,610

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2005

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Special Capital reserve US$'000	Translation reserve US$'000	Revaluation reserve US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1.1.2004	4,044	6,581	12,037	4,673	1,883	(15,582)	13,636	1,032	14,668
Exchange difference	–	23	–	1,641	51	–	1,715	230	1,945
Revaluation	–	–	–	–	1,507	–	1,507	–	1,507
Dilution of interests in subsidiaries	–	(1,917)	–	–	–	–	(1,917)	(546)	(2,463)
Net gain (loss) recognized directly in equity	–	(1,894)	–	1,641	1,558	–	1,305	(316)	989
Profit for the year	–	–	–	–	–	1,144	1,144	(128)	1,016
Total recognized income and expenses for the year	–	(1,894)	–	1,641	1,558	1,144	2,449	(444)	2,005
Issue of shares	739	8,549	–	–	–	–	9,288	–	9,288
At 31.12.2004	4,783	13,236	12,037	6,314	3,441	(14,438)	25,373	588	25,961

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 US$'000	2004 US$'000
NET CASH USED IN OPERATING ACTIVITIES	*27(a)*	**(701)**	(11,968)
INVESTING ACTIVITIES			
Decrease in investments		**–**	1,890
Purchase of financial assets at fair value through profit or loss		**(2,046)**	–
Additions to oil properties		**(12)**	(117)
Payments for fixed assets		**(594)**	(321)
Payment for other fixed assets		**–**	(2)
Deposit paid for oil discovery project		**(4,466)**	(1,478)
Cash outflow on dilution of interests in subsidiaries		**–**	(623)
Cash outflow on acquisition of subsidiaries	*27(b)*	**(2,821)**	–
Cash inflow on disposal of a subsidiary	*27(c)*	**99**	–
Interest received		**16**	55
Proceeds from disposal of fixed assets		**843**	50
Net cash outflow from investing activities		**(8,981)**	(546)
FINANCING ACTIVITIES			
Issue of convertible debentures		**11,379**	9,216
Convertible debenture receipt in advance		**–**	1,871
Contribution from a minority shareholder		**635**	–
Capital element of finance lease		**65**	(126)
Net proceed from bank loan		**(78)**	(69)
Loan from debtors discounted		**(477)**	831
Net cash from financing activities		**11,524**	11,723
DECREASE IN CASH AND CASH EQUIVALENTS		**1,842**	(791)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**2,056**	1,167
EFFECT OF FOREIGN EXCHANGE RATES		**(2,027)**	1,680
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,871**	2,056
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,996**	2,243
Bank overdraft		**(125)**	(187)
		1,871	2,056

1. CORPORATE INFORMATION

South Sea Petroleum 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 Unit 6605, The Center, 99 Queen's Road Central, Hong Kong.

The Company has two principal lines of business. The first line of business is, through its wholly owned subsidiary Global Select Limited ("Global Select"), to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is, through its subsidiary Axiom Manufacturing Services Ltd. ("Axiom"), to provide electronic manufacturing services in the United Kingdom.

During the past year, the Company has made several crude oil properties acquisitions in Asia to strengthen its crude oil business. 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 - Davas Basin in Davas 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. A wholly owned subsidiary of the Company has been set up in Philippines to conduct the exploitation and production operations.

In April 2005, the Company, through its wholly owned subsidiary Global Select, entered into an agreement to acquire 65% of equity interest in PT. Cahaya Batu Raja Blok, an Indonesian corporation, for US$5.8 million. PT. Cahaya Batu Raja Blok owns a Product Contract signed with the Department of Petroleum (BPMIGAS) of the Indonesia government. Pursuant to the Product Contract, PT. Cahaya Batu Raja Blok will explore and develop petroleum and natural gas in Air Komering Block, an area consists of approximately 4,110 square kilometers located in Southern Sumatra, Indonesia for 30 years ending in 2034. The acquisition has not been completed up to the date of issue of these financial statements.

On 27 September 2005, Global Select Ltd. entered into a share purchase agreement with Lion Energy Limited, an Australian listed company, to acquire 100% equity interests in each of its subsidiaries, Kalrez Petroleum (Seram) Limited ("Kalrez") and Indonesian Prima Energy Services Limited ("IPE") for an aggregate consideration of US$4,850,000.

Kalrez is engaged in the business of exploitation and production of crude oil in Bula Block Oilfield on the Island of Seram in Indonesia. Kalrez holds 100% interest in Bula Petroleum Production Sharing Contract ("Bula PSC") that was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will be expired in 2019. Kalrez is the operator of the Bula Block Oilfields. The acquisition of Kalez is closed on 30 October 2005.

IPE, through its 100%-owned subsidiary PT Prima Jasa Energi ("PJE"), owns and operates a drilling rig and other heavy equipment in Indonesia. The Company brought Kalrez and IPE together as a package.

The Company's crude oil operation under an Enhanced Oil Recovery Contract with Pertamina, the Indonesia state-owned petroleum giant, was expired on 31 December 2004. The Company intends to negotiate with BPMIGAS, Department of Petroleum of Indonesia, to enter into a new contract. No assurance can be given that the new contract will be granted and when it will be granted.

1. CORPORATE INFORMATION (Continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The HKFRSs are inclusive of all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations 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 financial assets at fair value through profit or loss, land and buildings and investment properties as further explained below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 34.

ADOPTION OF NEW/ REVISED HKFRS

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005.

Certain accounting policies have been changed upon the adoption of new HKFRSs and comparative figures have been amended as required. Details of the changes are summarised as below:

HKAS 1 "Presentation of financial statements

Minority interests are now treated as a part of equity rather than as a deduction from net assets and in the profit and loss account, minority interests are now disclosed as an allocation to the profit/loss for the period rather than a deduction from profit/loss. This change has been applied retrospectively and 2004 comparatives have been restated accordingly.

HKFRS 3 "Business Combinations", HKAS 36 "Impairment of assets" and HKAS 38 "Intangible assets"

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Positive goodwill

In prior years, positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment. However, with effect from 1 January 2005, goodwill is no longer amortized. The carrying amount of goodwill is reviewed annually and is written down should any impairment arise. The Group has also applied the relevant transitional arrangement in HKFRS 3. No comparative figures for 2004 have been restated accordingly.

Negative goodwill

In prior years, negative goodwill of the Group was amortised over the weighted average useful life of the depreciable/amortizable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in profit and loss accounts those expected losses were incurred.

In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill amounting to US$6,549,000 at 1 January 2005 with a corresponding decrsease in accumulated losses. As a result of this change in accounting policy, no negative goodwill is released to profit and loss accounts in the current period. Comparative figures for 2004 have not been restated.

HKAS 21 "Effects of Changes in Foreign Exchange Rates"

In the current period, the Group has also applied HKAS 21 which requires positive goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, positive goodwill arising on acquisition of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, positive goodwill arising on acquisition prior to 1 January 2005 is treated as a non-monetary foreign currency item of the Group. Thus, no prior period adjustment has been made.

HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39, Financial Instruments: Recognition and Measurement

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision for impairment. With effect from 1 January 2005, and in accordance with HKSA 39, all non-trading investments amounting to US$1,287,000 are classified as available-for-sale investments and continued to be measured at cost less provision for impairment.

Short-term investment held for trading purposes in prior years are reclassified as financial assets at fair value through profit or loss.

HKAS 40 "Investment properties"

In prior years, the increases in fair value of the group's investment properties should be credited to the investment properties revaluation reserve; decreases should be first set off against increases on earlier valuations on a portfolio basis and thereafter debited to operating profit.

In the current year, the Group has, for the first time, adopted HKAS 40 "Investment properties" and elected to use the fair value model to account for all changes in the fair value of investment properties directly recognised in the profit and loss account. Gain on revaluation of US$801,000 was credited to the income statement in current year.

Since there is no revaluation made on the investment properties before, no prior year adjustment is required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or disposed of during the year are included in consolidated income statement from the effective date of acquisition or 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.

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 profit and loss account 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post employment benefit plans which are for the benefit of employees of the Group or of an entity that is a related party of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation before 1 January 2005 represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generated units and is tested annually for impairment. On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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 equity securities

The Group classified its investments in equity securities into the following categories: Financial assets at fair value through profit or loss and available-for-sale investments.

(a) *Financial assets at fair value through profit or loss*

Investments in equity securities held for trading purposes are classified as current assets and are initially stated at their fair values on the basis of their market price at the balance sheet date. The gains or losses arising from changes in the fair value are credited or charged to the consolidated income statement for the period in which they arise.

(b) *Available-for-sale investments*

Non-trading investments which are intended to be held for long term purposes are classified as non-current assets. Investments in equity security that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Investments are recognised/ derecognised on the date the Group and/ or the Company commits to purchase/ sell the investments or they expire.

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 profit and loss account. All development costs are capitalised. Maintenance and repairs are charged to the profit and loss account while renewals and betterments, which extend the economic lives of assets, are capitalised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 profit and loss account.

Freehold land and buildings

Freehold 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.

Investment properties

Investment properties are interests in land and buildings which are intended to be held on a long term basis for their investment potential, with rental income being negotiated at arm's length. Such properties are not depreciated and amortised and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Any changes in the value of investment properties are dealt with in the profit and loss account in the year in which they arise.

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 profit and loss account 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
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 profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets under leases

(i) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the leases at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities.

The finance charges are charged to profit and loss account 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 lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessors are charged to the profit and loss account on the straight-line basis over the lease periods.

Where the Group is the lessor, assets leased by the Group under operating leases are included in fixed assets in the balance sheet. Rental income net of any incentives given to the leasees is recongised on the straight-line basis over the lease terms.

Impairment of assets other than financial assets and goodwill

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss recognized in prior years for an asset other than goodwill is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

Impairment of financial assets

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

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 as it accrues using the effective interest method.

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

(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 profit and loss account on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are recognized in the profit and loss account as revenue on a systematic basis over the useful life of the asset.

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

(f) Advertising income is recognized on time basis by reference to the period in which the advertisement is published.

Deferred income tax

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

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

Convertible debentures

Convertible debentures that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over amount initially recognized as the liability component is recognized as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade and other receivables

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

Foreign currency transactions

Foreign currency transactions are translated into United States dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are translated at the rates ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in currency other than United State dollars that are stated at fair value are translated using the exchange rates ruling at the dates the fair value was determined.

Translation differences on non-monetary items, such as equity held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities and available-for-sale investments, are included in the fair value reserve in equity.

The results of the enterprises of the Group are translated into United State dollars at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Balance sheet items, including goodwill arising on consolidation of subsidiaries acquired on or after 1 January 2005, are translated into United States dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in equity which relate to that foreign operation is included in the calculation of the profit and loss on disposal.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 United Kingdom operates a defined contribution scheme for its employees. The assets of the scheme are held separately from those of the subsidiary.

Contributions to defined contribution retirement schemes are charged to the profit and loss account as incurred.

Cash equivalents

Cash equivalents comprise cash at banks and on hand, not of outstanding bank overdrafts, which are repayable on demand, and short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

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.

	2005 US$'000	2004 US$'000
An analysis of the group's turnover and revenues is as follows:		
Turnover		
Oil and gas	**3,574**	18,334
Assembly of electronic components	**30,627**	28,045
Sales of goods and advertising income	**261**	–
	34,462	46,379
Other revenues		
Interest income	**16**	9
Rental income	**621**	559
Release of Government grant *(Note)*	**676**	689
Service income	**105**	3,599
Gain on disposal of fixed assets	**602**	50
Release of negative goodwill	**–**	903
Gain on revaluation of investment properties	**801**	–
Gain on disposal of a subsidiary	**100**	–
Exchange gain	**1,829**	–
Gain on dilution of interests in subsidiaries	**–**	980
Other income	**107**	317
	4,857	7,106
Total revenues	**39,319**	53,485

Note

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 profit and loss account 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.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Primary reporting format - business segment

	Oil		Contract Electronic manufacturing		Investment properties		Unallocated		Inter-segment elimination		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**3,574**	18,334	**30,627**	28,045	**–**	–	**261**	–	**–**	–	**34,462**	46,379
Inter-segment revenue	**–**	7,209	**–**	–	**–**	–	**–**	4,493	**–**	(11,702)	**–**	–
Other income from external customers	**–**	–	**608**	609	**–**	–	**241**	3,925	**–**	–	**849**	4,534
Exchange gain	**–**	–	**1,829**	–	**–**	–	**–**	–	**–**	–	**1,829**	–
Gain on disposal of fixed assets	**–**	–	**602**	–	**–**	–	**–**	–	**–**	–	**602**	–
Gain on disposal of subsidiary	**–**	–	**–**	–	**–**	–	**100**	980	**–**	–	**100**	980
Gain on revaluation of investment properties	**–**	–	**–**	–	**801**	–	**–**	–	**–**	–	**801**	–
Negative goodwill amortized	**–**	–	**–**	903	**–**	–	**–**	–	**–**	–	**–**	903
Government grant released	**–**	–	**676**	689	**–**	–	**–**	–	**–**	–	**676**	689
Total	**3,574**	25,543	**34,342**	30,246	**801**	–	**602**	9,398	**–**	(11,702)	**39,319**	53,485
Segment results	**(5,710)**	3,992	**3,777**	(650)	**388**	(9)					**(1,545)**	3,333
Unallocated income and expenses											**(3,162)**	(1,288)
(Loss) profit from operation											**(4,707)**	2,045
Finance costs	**–**	–	**(445)**	(487)	**–**	–	**(33)**	–	**–**	–	**(478)**	(487)
Taxation	**246**	(542)	**228**	–	**–**	–	**(6)**	–	**–**	–	**523**	(542)
(Loss) profit for the year											**(4,662)**	1,016

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Primary reporting format - business segments

	Oil		Contract electronic manufacturing		Investment properties		Unallocated		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Depreciation and amortisation	**25**	1,734	**769**	(214)	**9**	6	**25**	23	**828**	1,549
Significant non-cash expenses	**2,644**	276	**318**	1,284	**–**	–	**1,287**	–	**4,249**	1,560
Segment assets	**15,367**	18,968	**23,684**	24,489	**1,861**	1,968	**–**	–	**40,912**	45,425
Unallocated assets									**13,653**	10,959
Total assets									**54,565**	56,384
Segment liabilities	**(3,791)**	(8,618)	**(11,710)**	(19,786)	**(50)**	(54)	**–**	–	**(15,551)**	(28,458)
Unallocated liabilities									**(404)**	(1,964)
Total liabilities									**(15,955)**	(30,422)
Capital expenditure										
Additions	**12**	117	**592**	351	**–**	–	**2**	77	**606**	545
Acquisition of subsidiaries	**232**	–	**–**	–	**–**	–	**44**	–	**276**	–

Secondary reporting format - geographical segments

	Turnover		Total assets		Capital expenditure	
	2005	2004	**2005**	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Indonesia	**3,574**	18,334	**12,529**	18,968	**245**	117
United Kingdom	**30,627**	28,045	**23,684**	24,488	**591**	351
China	**106**	–	**12,560**	12,218	**46**	–
Philippine	**–**		**1,838**	–	**–**	–
America	**–**	–	**50**	50	**–**	73
Hong Kong	**155**	–	**3,904**	660	**–**	4
	34,462	46,379	**54,565**	56,384	**882**	545

4. (LOSS) PROFIT FROM OPERATING ACTIVITIES

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

	2005 **US$'000**	2004 US$'000
Amortisation of positive goodwill	**–**	532
Provision for bad debts	**–**	276
Depreciation, depletion and amortisation of oil properties	**25**	1,534
Depreciation:		
– owned fixed assets	**718**	656
– leased fixed assets	**85**	62
Operating lease rentals on		
– land and buildings	**536**	705
– plant and machinery	**273**	706
Staff costs (including directors' remuneration - *note 6*)	**6,808**	10,349
Auditors' remuneration		
– audit fee	**124**	124
– other services	**23**	11
Provision for short term investments	**–**	1
Foreign exchange losses, net	**–**	1,370

5. FINANCE COSTS

	2005 **US$'000**	2004 US$'000
Debenture interest paid	**30**	53
Bank discounting charges	**225**	240
Bank interest paid	**193**	176
Interest on finance lease	**30**	18
	478	487

6. DIRECTORS' REMUNERATION

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

Name of director	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Pension scheme contributions US$'000	2005 Total US$'000
Executive directors				
Zhou Ling	–	105	2	**107**
Lee Sin Pyung	17	138	–	**155**
Sit Mei	–	47	2	**49**
Independent non-executive directors				
Lu Ren Jie	20	–	–	**20**
Chai Woon Chew	15	–	–	**15**
Ho Choi Chiu	15	–	–	**15**
	67	290	4	**361**

Name of director	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Pension scheme contributions US$'000	2004 Total US$'000
Executive directors				
Zhou Ling	–	155	–	**155**
Lee Sin Pyung	–	105	2	**107**
Sit Mei	–	43	2	**45**
Independent non-executive directors				
Lu Ren Jie	20	–	–	**20**
Chai Woon Chew	15	–	–	**15**
Ho Choi Chiu	4	–	–	**4**
	39	303	4	**346**

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2004: one), details of whose remuneration are set out in note 6 above. The details of the remuneration of the four remaining non-directors (2004: four), highest paid employees are set out below.

	2005 **US$'000**	2004 US$'000
Salaries, allowances and benefits in kind	**612**	801

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

	Number of non-directors **2005**	2004
US$Nil to US$129,000	**–**	–
US$129,001 to US$192,300	**4**	1
US$192,301 to US$256,400	**–**	3
	4	4

8. TAX

(a) Taxation in the consolidated income statement represents:

	2005 **US$'000**	2004 US$'000
Overseas tax charge	**58**	527
Overseas tax prepaid in 2004 not refund	**214**	–
Deferred tax (reversed) charged - *note 23*	**(460)**	15
Deferred tax credited - *note 23*	**(335)**	–
Tax charge for the year	**(523)**	542

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

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

In current year, tax prepaid of US$214,000 made by Seaunion Energy (Limau) Limited in 2004 was refused to refund by the Indonesia Tax Authority.

8. TAX (Continued)

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

	2005 US$'000	2004 US$'000
(Loss) profit before tax	**(5,185)**	1,558
(Tax credit)/ notional tax on (loss) profit before tax, calculated at the rates applicable to profits in the countries concerned	**(983)**	986
Tax effect of non-deductible expenses	**992**	1,032
Tax effect of non-taxable income	**(806)**	(2,471)
Tax effect of unused tax losses not recognized	**1,238**	995
Tax loss recognized	**(882)**	–
Other timing difference	**(284)**	–
Margin relief	**(12)**	–
Tax paid not refunded	**214**	–
(Tax credit) tax expenses	**(523)**	542

9. NET (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$12,364,000 (2004: US$155,000).

10. BASIC (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the net loss attributable to shareholders for the year of US$4,687,000 (2004: a profit of US$1,144,000), and the weighted average of 564,365,955 (2004: 451,580,784) ordinary shares in issue during the year.

There is no fully diluted earnings per share for the year (2004: Nil).

11. OIL PROPERTIES

	Group	
	2005	2004
	US$'000	US$'000
Cost:		
At 1 January	**41,543**	41,426
Additions	**12**	117
Acquisition of a subsidiary	**7,291**	–
At 31 December	**48,846**	41,543
Accumulated depreciation, depletion and amortisation:		
At 1 January	**41,543**	40,009
Provided during the year	**25**	1,534
Acquisition of a subsidiary	**7,059**	–
At 31 December	**48,627**	41,543
Carrying value at 31 December	**219**	–

12. GOODWILL

	Positive	**Negative**	**Total**
	US$'000	US$'000	US$'000
Net carrying value			
At 1.1.2005			
-as previously reported	–	(6,549)	(6,549)
-derecognition of negative goodwill	–	6,549	6,549
-as restated	–	–	–
Acquisition of subsidiaries	2,934	–	2,934
At 31.12.2005	**2,934**	**–**	**2,934**

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 1.1.2005	10,537	1,054	18,323	415	7,093	105	37,527
Exchange differences	(1,036)	–	(1,805)	–	(704)	–	(3,545)
Additions	–	–	567	–	27	–	594
Revaluation	–	801	–	–	–	–	801
Acquisition of subsidiary	–	–	–	–	53	–	53
Disposal	(383)	–	(633)	–	–	–	(1,016)
At 31.12.2005	**9,118**	**1,855**	**16,452**	**415**	**6,469**	**105**	**34,414**
Representing:							
Cost	–		16,452	415	6,469	105	23,441
Valuation	9,118	1,855	–	–	–	–	10,973
	9,118	1,855	16,452	415	6,469	105	34,414
Accumulated depreciation:							
At 1.1.2005	–	–	17,020	401	6,562	95	24,078
Exchange difference	–	–	(1,693)	–	(657)	–	(2,350)
Charge for the year	307	–	386	8	99	3	803
Revaluation adjustment	(307)	–	–	–	–	–	(307)
Acquisition of subsidiary	–	–	–	–	9	–	9
Eliminated on disposal	–	–	(633)	–	–	–	(633)
At 31.12.2005	**–**	**–**	**15,080**	**409**	**6,013**	**98**	**21,600**
Net book value:							
At 31.12.2005	**9,118**	**1,855**	**1,372**	**6**	**456**	**7**	**12,814**
At 31.12.2004	10,537	1,054	1,303	14	531	10	13,449

13. FIXED ASSETS (Continued)

Company

	Leasehold improvements US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:				
At 1.1.2005	391	184	105	680
At 31.12.2005	**391**	**184**	**105**	**680**
Accumulated depreciation:				
At 1.1.2005	391	160	95	646
Charge for the year	–	14	3	17
At 31.12.2005	**391**	**174**	**98**	**663**
Net book value:				
At 31.12.2005	**–**	**10**	**7**	**17**
At 31.12.2004	–	24	11	34

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 25 January 2006 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors.

The investment properties were revalued on 15 April 2006 on the basis of their open market value by Youlanda, an independent firm of chartered surveyors.

The directors are of the opinion that these valuations give a fair reflection of the values of the freehold land and buildings and investment properties at 31 December 2005.

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	
	2005 US$'000	2004 US$'000
Unlisted shares, at cost	**614**	114
Amounts due from subsidiaries	**37,248**	28,495
Amount due to a subsidiary	**(50)**	(50)
	37,812	28,559
Provisions for impairment in values	**(11,953)**	(1,871)
Carrying value at 31 December	**25,859**	26,688

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

14. INTERESTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows:

Company	Place of incorporation	Place of operations	Issued/ registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Global Select Limited *	British Virgin Islands	Indonesia	3 ordinary shares of US$1 each	100	–	Investment holding
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. Seaunion Energy Resources*	British Virgin Islands	Indonesia	10,000 ordinary shares of US$100 each	5	95	Operator of an enhanced oil recovery contract for hydrocarbons
PT. Global Select Indonesia#*	Indonesia	Indonesia	500,000 ordinary shares of US$1 each	–	100	Dormant
Kalrez Petroleum (Seram) Limited#*	Maritius	Indonesia	2 ordinary shares of US$1 each	–	100	Development and production of crude oil
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 Island	PRC	1 ordinary shares of US$1 each	100	–	Properties investment
Comp International Limited	British Virgin Island	Hong Kong	64,300 ordinary shares of US$1 each	100	–	Travelling agency

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
Comp Property International Limited	British Virgin Island	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 Island	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Prime Reward Group Limited	British Virgin Island	Hong Kong	1 ordinary shares of US$1 each	–	100	Dormant
Starlight Media & Advertising 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 shares of US$0.0001 each	–	94.81	Investment holding
Easton Technologies Corp.*	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
Cowley Technologies Inc.*	USA	USA	16,100,000 ordinary shares of US$0.0001 each	–	88.51	Investment holding
Greenway Technologies Inc.*	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant

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
Sen Hong Resources Holdings Limited	Hong Kong	Hong Kong	1 ordinary shares of HK$1 each	100	–	Dormant
Beijing Fortune World Advertising Limited#*	PRC	PRC	RMB18,000,000	–	62	Advertising in magazine

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

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. AVAILABLE-FOR-SALE INVESTMENTS/UNLISTED INVESTMENTS

	Group 2005 US$'000	Group 2004 US$'000
Unlisted shares, at cost		
Balance at beginning of year	**1,287**	987
Reclassified from subsidiaries	**–**	600
	1,287	1,587
Less: Impairment	**1,287**	300
	–	1,287

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares	**1**	1	**1**	1
Overseas unlisted shares	**115**	–	**–**	–
	116	1	**1**	1

17. TRADE RECEIVABLES

	Group	
	2005	2004
	US$'000	US$'000
Receivable from Pertamina	**2,331**	10,616
Receivable from others	**5,708**	6,560
	8,039	17,176

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	
	2005	2004
	US$'000	US$'000
0 - 30 days	**5,833**	7,564
31 - 60 days	**924**	4,656
61 - 90 days	**20**	3,082
Over 90 days	**1,262**	1,874
	8,039	17,176

18. INVENTORIES

	Group 2005 US$'000	2004 US$'000
Production supplies and raw materials	**5,836**	4,837
Work-in-progress	**–**	1,300
Finished goods	**570**	49
	6,406	6,186

19. TRADE PAYABLES AND NOTES PAYABLES

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

	Group 2005 US$'000	2004 US$'000
0 - 30 days	**3,570**	9,813
31 - 60 days	**1,728**	2,720
61 - 90 days	**382**	891
Over 90 days	**180**	685
	5,860	14,109

20. 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	
	2005	2004
	US$'000	US$'000
Total costs incurred:		
At 1 January	–	117,414
Additional costs incurred	–	7,995
At 31 December	–	125,409
Total costs recovered:		
At 1 January	–	118,591
Costs recovered during the year	–	6,542
Written off during the year	–	276
At 31 December	–	125,409
Deferred revenue at 31 December	–	–

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.

21. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2005, the group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**195**	165	**168**	144
After one year but within two years	**117**	114	**102**	98
After two year but within five years	**95**	51	**81**	44
	407	330	**351**	286
Less : future finance charges	**56**	44		
Present value of finance lease	**351**	286		
Less: Amount shown under current liabilities			**168**	144
			183	142

22. BANK LOANS

	Group	
	2005	2004
	US$'000	US$'000
Wholly repayable within five years	**77**	155
Less: current portion included in current liabilities	**(62)**	(69)
	15	86

23. DEFERRED TAX (ASSETS)/LIABILITIES

	Group	
	2005	2004
	US$'000	US$'000
At 1 January	**460**	445
(Reversed) charged for the year – *note 8*	**(460)**	15
Credited for the year – *note 8*	**(335)**	–
At 31 December	**(335)**	460

Deferred tax in 2004 represented 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.

In the opinion of the Company's directors, deferred tax assets have been recognised in respect of the tax losses brought forward of Axiom Manufacturing Services Limited to the extent that it is probable that future profit will be sufficient to utilise the assets.

24. SHARE CAPITAL

	Group and Company	
	2005	2004
	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:		
650,495,059 (2004: 478,285,811) ordinary shares of US$0.01 each	**6,505**	4,783

24. SHARE CAPITAL (Continued)

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

	Number of ordinary shares	Amount US$'000
At 1 January 2005	478,285,811	4,783
Allotment of shares	172,173,248	1,722
At 31 December 2005	**650,459,059**	**6,505**

During the year, 172,173,248 (2004: 73,840,000) ordinary shares were issued by exercising the convertible debenture for an aggregate consideration of approximately US$13,250,000 (2004: US$9,288,000).

25. 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.

25. SHARE OPTION SCHEME (Continued)

5. Exercise period

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

6. Payment on acceptance of option

Options granted should be taken up at the amount of HK$1 per option.

7. Basis of determining the exercise price

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

8. The remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 1 January 1999.

No share option was granted during the year.

26. RESERVES

Company

	Share premium US$'000	Special capital reserve US$'000	Exchange reserve US$'000	Accumulated losses US$'000	Total US$'000
At 1.1.2004	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
Issue of shares	11,528	–	–	–	11,528
Translation difference	–	–	70	–	70
Loss for the year	–	–	–	(12,364)	(12,294)
At 31.12.2005	**24,764**	**12,037**	**164**	**(17,141)**	**19,824**

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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2005 US$'000	2004 US$'000
(Loss) profit before tax	**(5,185)**	1,558
Interest income	**(16)**	(55)
Interest expenses	**478**	245
Government grant released	**(676)**	(689)
Provision for bad debts	**–**	(276)
Gain arising on decrease in equity interest in subsidiaries	**–**	(980)
Provision for short term investment	**–**	1
Loss in fair value of financial assets through profit and loss	**1,931**	–
Impairment of investments	**1,287**	300
Gain on disposal of fixed assets	**(602)**	(50)
Gain on disposal of a subsidiary	**(100)**	–
Gain on revaluation of investment properties	**(801)**	–
Depreciation of fixed assets	**803**	718
Amortisation of goodwill	**–**	(371)
Depreciation, depletion and amortisation of oil properties	**25**	1,534
Amortisation of other asset	**24**	–
Deferred costs incurred, net	**–**	(901)
Operating (loss) profit before working capital	**(2,832)**	1,034
Increase (decease) in trade receivables	**9,252**	(3,109)
Increase in inventories	**(172)**	(1,645)
Increase in prepayments, deposits and other receivables	**(3,614)**	(9,505)
(Decrease) increase in trade payables and notes payable	**(8,249)**	6,030
Increase (decease) in other payables and accrued expenses	**2,432**	(2,194)
Increase in provision	**1,218**	–
Decrease in amount due to a director	**(1,706)**	(38)
Increase (Decrease) in amount due to shareholders	**3,354**	(3,352)
Changes in amount due to/from related companies	**71**	1,730
Cash used in operation	**(246)**	(11,049)
Overseas tax paid	**(6)**	(675)
Interest paid	**(449)**	(244)
Net cash used in operating activities	**(701)**	(11,968)

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

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

	2005 US$'000	2004 US$'000
Net assets acquired		
Oil Properties	232	–
Fixed assets	44	–
Other assets	312	–
Cash and bank balances	24	–
Accounts receivable	115	–
Inventories	48	–
Deposits, prepayments and other receivable	750	–
Due to a director	(1,848)	–
	(323)	–
Minorities	234	–
Net liabilities acquired	(89)	–
Purchase consideration	2,845	–
Goodwill arising on consolidation	2,934	–
Satisfied by Cash	2,845	–

On 26 January 2005, Starlight Media and Advertising Limited, a subsidiary of the Group, acquired 70% of the issued capital of Beijing Fortune World Advertising Ltd. ("Beijing Fortune") at a cash consideration of RMB350,000. Beijing Fortune contribute insignificant revenue and loss before tax for the period from the date of acquisition to the balance sheet date.

On 27 September 2005, Global Select Ltd. entered into a share purchase agreement with Lion Energy Limited, an Australian listed company, to acquire 100% equity interests in each of its subsidiaries, Kalrez Petroleum (Seram) Limited ("Kalrez") at a consideration of US$2,803,000. Kalrez contribute USD1,441,000 of revenue and USD209,000 of loss before taxation for the period from the date of acquisition to the balance sheet date.

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

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

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

	2005	2004
	US$'000	US$'000
Acquisition of subsidiary		
Cash consideration	**(2,845)**	–
Bank balances and cash acquired	**24**	–
Outflow of cash and cash equivalents	**(2,821)**	–

(c) Analysis of the inflow of cash and cash equivalents on disposal of a subsidiary

	2005	2004
	US$'000	US$'000
Bank balances and cash	**1**	–
Other receivable	**5**	–
Other payable	**(6)**	–
	–	–
Gain on disposal	**(100)**	–
	(100)	–
Disposal of a subsidiary		
Cash consideration received	**100**	–
Bank balances and cash disposed of	**(1)**	–
Outflow of cash and cash equivalents	**99**	–

(c) Major non-cash transaction

(i) The convertible debenture holders converted HK$103,840,000 (2004: HK$73,840,000) convertible debenture into the Company's shares.

28. JOINTLY CONTROLLED ASSETS

At 31 December 2005, 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:

	2005 **US$'000**	2004 US$'000
Income	**2,133**	18,334
Expenses	**(1,924)**	(17,571)
Profit for the year	**209**	763
Current assets	**1,142**	942

29. COMMITMENTS

Commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	Group		Company	
	2005 **US$'000**	2004 US$'000	**2005** **US$'000**	2004 US$'000
(a) Capital commitments contracted but not provided for in respect of:				
Purchase of subsidiaries	**2,620**	423	**–**	–
Purchase of investment properties	**–**	224	**–**	–
Acting as contractor for exploration of petroleum with expected minimum expenditure	**38,000**	1,622	**–**	1,622
	40,620	2,269	**–**	1,622
(b) Total future minimum lease payments under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**313**	445	**293**	394
In the second to fifth years, Inclusive	**131**	204	**89**	147
	444	649	**382**	541
(ii) on other fixed assets expiring:				
Within one year	**56**	64	**–**	–
In the second to fifth years, Inclusive	**146**	36	**–**	–
	202	100	**–**	–

30. 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 2005, fixed assets and current assets of this subsidiary pledged were US$10,899,000 (2004: US$12,338,000) and US$12,795,000 (2004: US$ 12,150,000) respectively.

31. RELATED PARTIES TRANSACTIONS

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

	2005	2004
	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	**538**	985

32. DEBENTURES

	Group		**Company**	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Convertible debentures 2 - 5 years	**–**	–	**–**	–

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 proceeds will be used as the working capital of the United Kingdom subsidiary.

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.

On 17 June 2005, the Company has entered into subscription agreement with Tin Loon Trading Company for an aggregate amount of HK$40,000,000 of 1% interest unlisted convertible debentures due 2008. The net proceeds is intended to be used as the consideration of US$5,800,000 for the acquisition of 65% of Pt. Cahaya Batu Raja Blok.

During the year the conversion right was exercised to convert all of debentures totalling HK$103,8400,000 for 172,173,248 shares of US$0.01 each.

33. FINANCIAL RISK MANAGEMENT

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

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

(A) Market Risk

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

(ii) Interest rate risk. The interest rate risk arises from debt borrowing. Borrowing issued at variable rates exposes the Group to cash flow interest rate risk while borrowing issued at fixed rates exposure the Group to fair value interest rate risk. For the year ended 31 December 2005, the Group had no borrowing. Therefore, there was no interest rate risk exposure to the Group.

(iii) Price risk. Global Select Ltd., a wholly owned subsidiary of the Company, sells crude oil it produces in Indonesia to Pertamina, the national petroleum company of Indonesia, at market prices, which exposes the Group at price risk, if the crude oil price falls significantly. During the year of 2005, the crude oil price keeps increasing, and therefore, no measures have been taken. However, the Group intends to actively monitor and manage the crude oil price risk.

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

33. FINANCIAL RISK MANAGEMENT (Continued)

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

As of December 31, 2005, we had no material exposure to any other market risks.

34. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Provision for bad debts

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

(b) Unlisted investment

The Group determines that the unlisted investments are impaired when there has been a significant of prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Any indication of deterioration of the above factors will affect the fair value.

35. SUBSEQUENT EVENT

Pursuant to an ordinary resolution passed at the SGM, the company made an open offer of 325,229,529 shares of HK$0.20 each to shareholders at a subscription price of HK$0.20 per share on the basis of one offer share for every two existing shares held on 20 February 2006. The open offer was completed on 15 March 2006. The net proceeds of approximately HK$63 million will be fully used to finance the Company's business of exploitation and production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia and the operation expense and other relevant and related activities.

The Company's investment in Indonesian Prima Energy Services Limited was sold at 27 March 2006 for a consideration of HK$900,000. The loss in fair value of the investment of US$1,931,000 was recognized in the income statement for the year.

36. COMPARATIVE FIGURES

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 April 2006.

FIVE-YEAR FINANCIAL SUMMARY

31 December 2005

RESULTS

For the years ended 31 December

	2005	2004	2003	2002	2001
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**34,462**	46,379	35,970	25,239	13,355
Profit (loss) before tax	**(5,185)**	1,558	(5,853)	(4,933)	(13,493)
Tax	**523**	(542)	(228)	(760)	(1,559)
Profit (loss) after tax	**4,662**	1,016	(6,081)	(5,693)	(15,052)
Minority interests	**25**	128	143	–	125
Net profit (loss) attributable to shareholders	**4,687**	1,144	(5,938)	(5,693)	(14,927)

ASSETS, LIABILITIES AND MINORITY INTERESTS

31 December

	2005	2004	2003	2002	2001
	US$'000	US$'000	US$'000	US$'000	US$'000
Oil properties	**219**	–	1,417	5,772	5,626
Goodwill	**2,934**	(6,549)	(6,920)	(8,108)	973
Fixed assets	**12,814**	13,449	11,578	10,190	175
Unlisted investment	**–**	1,287	987	–	–
Project advance	**5,944**	1,478	–	–	–
Other assets	**288**	–	–	–	–
Trade mark	**–**	–	6	–	–
Interests in associates	**–**	–	–	–	309
Current assets	**32,366**	40,169	26,946	18,823	10,537
Total assets	**54,565**	49,834	34,014	26,677	17,620
Total liabilities	**(15,955)**	(23,873)	(19,346)	(17,212)	(11,067)
Minority interests	**(867)**	(588)	(1,032)	–	114
	37,743	25,373	13,636	9,465	6,667