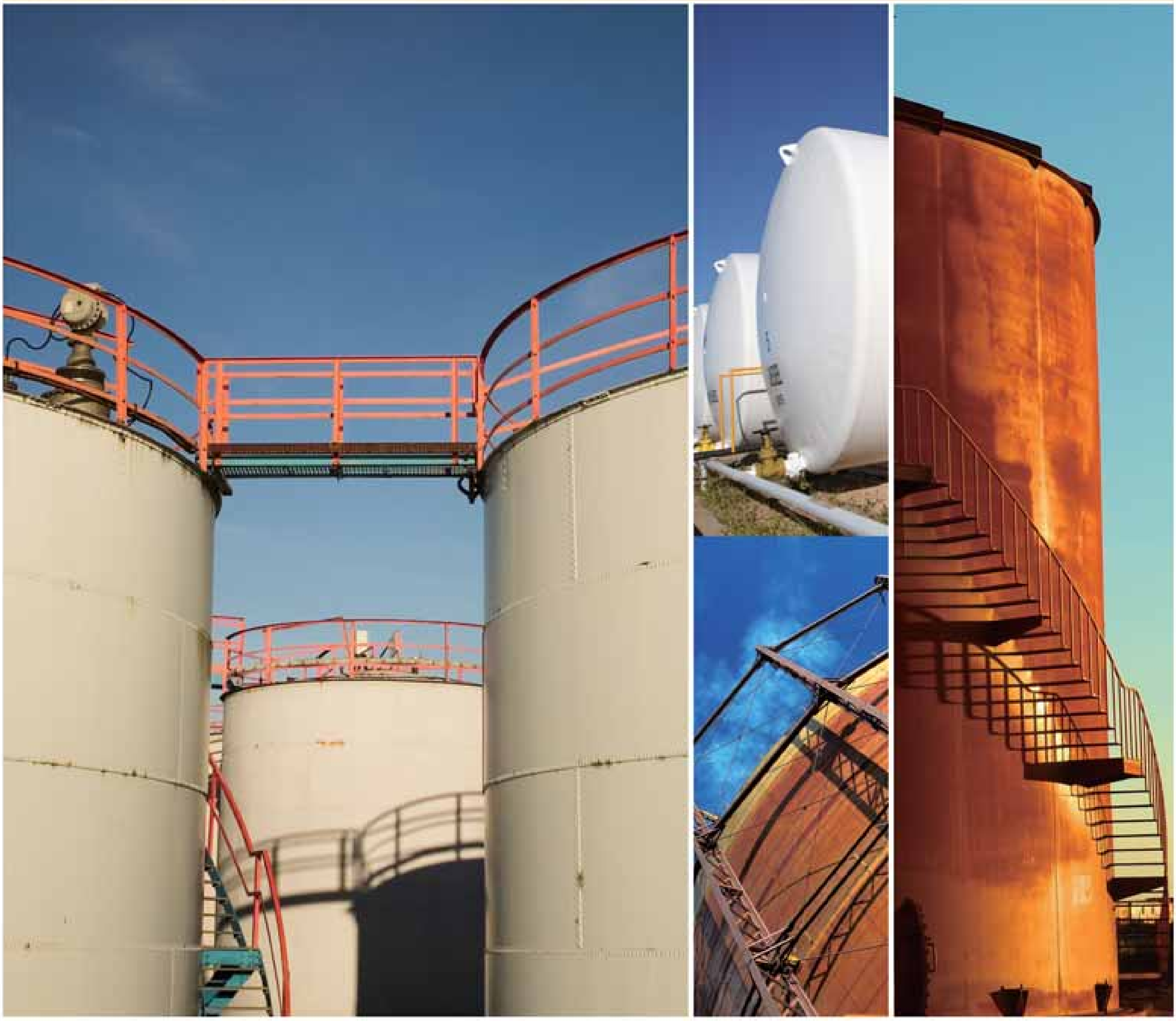
SOUTH SEA

PETROLEUM HOLDINGS LIMITED

Stock Code : 76

SSP 南海石油

ANNUAL REPORT 2006



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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

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

SHARE REGISTRAR

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

PRINCIPAL BANKERS

Standard Chartered Bank

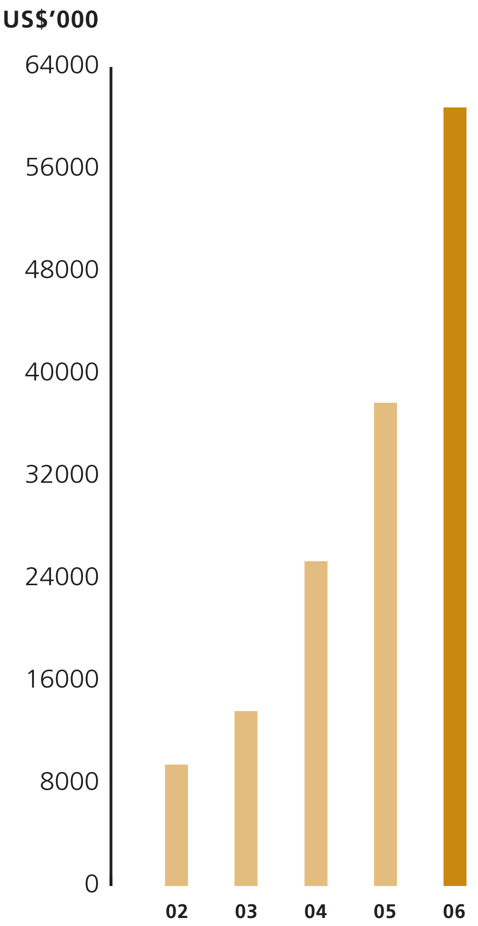
AUDITORS

K.M. Choi & Au Yeung Limited

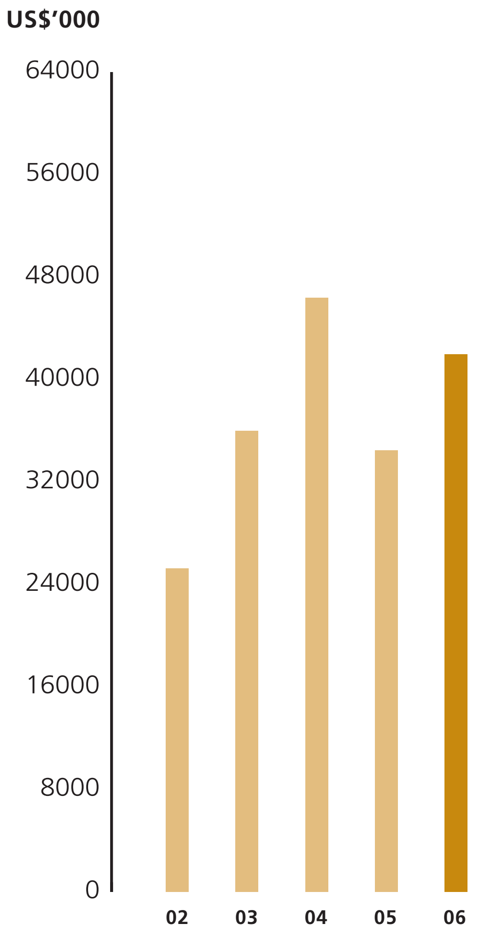
Financial Highlights

	2006 US$'000	2005 US$'000
Turnover	**41,940**	34,462
Loss from Operating Activities	**(6,683)**	(4,707)
Net Loss Attributable to Shareholders	**(7,024)**	(4,687)
Funds Attributable to Equity Holders of the Company	**61,529**	37,743
Basic Loss Per Share (US Cents)	**(0.61)**	(0.83)

FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



TURNOVER



OVERVIEW

For the year ended 31 December 2006, the Group's turnover was US$41.94 million, a 21.7% increase, as compared to US$34.46 million for the same period of 2005. The net loss attributable to shareholders was US$6.97 million (of which approximately $1.94 million was due to foreign currency difference), or US$0.61 cents per share, as compared to net loss of US$4.69 million, or US$0.83 cents per share, of the prior year. On the balance sheet, the total assets of the Group increased 42% to US$77.50 million at 31 December 2006 from US$54.57 million at the end of 2005, and the net assets of the Group increased 61.46% to US$62.34 million in 2006 from US$38.61 million in 2005.

BUSINESS DEVELOPMENT

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is to provide electronic manufacturing services in the United Kingdom.

The Group owns two oilfields: Bula Block Oilfield in Indonesia, and Agusan-Davao Basin Oilfield in Davao, the Philippines. Bula Block Oilfield is operated by the Company's wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, under 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. Agusan-Davao Basin Oilfield of the Group is operated by South Sea Petroleum (Philippines) Corp., a 100% owned subsidiary of the Group. Under the Service Contract with the Department of Energy, the Republic of Philippines, the Group is granted a permission to exploit crude oil and natural gas in an area with approximately 7,478 square kilometers at Agusan-Davao Basin of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. The Group is currently conducting seismic survey and other preparation work on the oilfield.

In April 2005, the Group 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.

Since 1994, the Group had operated the crude oil business at Limau Oilfield in Indonesia under an Enhance Oil Recovery Contract with Pertamina, the Indonesia state-owned petroleum giant. The EOR Contract expired on 31 December 2004. The Group is negotiating with BPMIGAS, Department of Petroleum of Indonesia, to renew the Contract or enter into a new contract for the oil production at this Limau Oilfield we previously operated. No assurance can be given that the contract will be renewed or granted and when it will be granted.

Through Axiom Manufacturing Services Limited, the Group 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 Group provides its customers with a total solution that includes a full range of services that allow the Group's to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Group builds and services products that carry the brand names of its customers.

Substantially all of the Group's manufacturing services are provided on a turnkey basis, whereby the Group 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 Group offers its customers flexible, just-in-time delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Group also provides manufacturing services on a consignment basis, whereby the Group utilizes components supplied by customers to provide assembly and post-production testing services.

The Group plans to continue making investments in exploiting and developing crude oil and natural gas in Indonesia and the Philippines. In Bula Block Oilfield in Indonesia, the Group plans to conduct more seismic surveys and drill more oil wells, and increase daily oil production. In Agusan-Davoa Basin Oilfield in the Philippines, the Group intends to conduct more seismic surveys and drill more test wells.

For the year of 2006, the Group's electronics manufacturing services operations in UK has continued to make progress with both revenues and operating profits showing an increase on the previous year. Business in current market sectors continues to be strong while activities continue to develop opportunities within military and aerospace sectors – these have already led to approved supplier status with one major multinational defense contractor. We believe our business model in UK is suited to the contract electronics market place and that plans put in place for 2007 should result in further growth in revenues and profits over the next few years.

RESULTS OF OPERATIONS

For the year ended 31 December 2006, the Group's turnover increased by US$7.48 million, or 21.6%, to US$41.94 million from US$34.46 million in the same period of the previous year. The increase in turnover was a result of sales increase on both business lines of the Group. For the year, the turnover of the Group's crude oil operation increased by US$1.63 million, and the turnover of the Group's contract electronics manufacturing service line of business increased by US$6.06 million. For the year ended 31 December 2006, the Group's had net loss of US$7.68 million (of which approximately $1.94 million was due to foreign currency difference), or US$0.0067 per share, as compared to net loss of US$4.69 million, or US$0.0083 per share for the same period of the previous year. On the balance sheet, the total assets of the Group increased 40.7% to US$76.79 million at 31 December 2006 from US$54.57 million at the end of 2005, and the net assets of the Group increased 59.6% to US$61.64 million in 2006 from US$38.61 million in 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Group's operations are primarily funded by cash flows from its operations and to a certain extent, from issuance of convertible debentures in order to conduct more exploitation activities in Indonesian and the Philippines oilfields.

At 31 December 2006 the Group's cash and cash equivalents were US$3.87 million, as compared to US$1.87 million at 31 December 2005. For the year ended 31 December 2006, the Group's operating activities generated net cash of US$0.45 million. For the same period, the Group's investing activities used US$27.17 million of net cash, primarily attributable to additions to oil properties (US$18.82 million), project retainer (US$7.20 million), and purchase of fixed assets (US$1.30 million). For the same period, the Group's financing activities provided net cash of US$ $26.03 million, largely from proceeds of issuing convertible debenture (US$20.02 million) and from issuance of equity shares (US$8.13 million).

In March 2006, the Company contracted to issue convertible debentures for an aggregate amount of HK$200 million nil interest and due 2009. The net proceeds are used to conduct 2D/3D seismic survey and to drill wells at the oilfields of the Group.

In February 2007, the Company issued convertible debentures for an aggregate amount of HK$40 million nil interest and due 2008. The net proceeds are to be used in increasing production of crude oil in Bula Block Oilfield on the Island of Seram, Indonesia.

At 31 December 2006, the Group had no contingent liabilities. The Group believes that the cash generated from its operations, proceeds from sale of its ordinary shares, and borrowings from issuance of convertible debentures are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

There are no off-sheet balance arrangements.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2006, the Group had a total of approximately 262 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's two principal operating subsidiaries earn revenues and incur costs in US dollars and British pounds, respectively. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flows.

CHANGE IN THE COMPANY's AUDITORS

On 31 October 2006, Johnny Chan & Co. Limited resigned as auditors of the Company and its subsidiaries because it has, of its own accord, decided to cease business as certified public accountants in Hong Kong.

None of the reports of Johnny Chan & Co. Limited on the Group's financial statements for either of the year ended 31 December 2005 or subsequent interim period contained an adverse opinion or disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles. There were no disagreements between the Group and Johnny Chan & Co. Limited for the previous two fiscal years and interim period up to the date of its resignation on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Johnny Chan & Co. Limited, would have caused them to make reference to the subject matter of the disagreement in connection with its report.

On 22 November 2006, the Company appointed K.M. Choi & Au Yeung Limited as its auditors to fill the casual vacancy following the resignation of Johnny Chan & Co. Limited.

LEGAL PROCEEDINGS

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

REVIEW BY THE AUDIT COMMITTEE

The financial results of the Company and its subsidiaries for the year ended 31 December 2006 have been reviewed by the Audit Committee of the Board of the Directors.

On the date of this Report, the Audit Committee consists of the following independent non-executive directors: Mr. Ho Choi Chiu (Chairman), Mr. Lu Ren Jie, and Mr. Chai Woon Chew.

Lee Sin Pyung
Managing Director

Hong Kong, 13 April 2007

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 2006, which were approved by the Board of Directors on 13 April 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of Company and its subsidiaries 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 2006 are set out in the consolidated income statement on page 19.

For the year ended 31 December 2006, the Company has not declared or paid any dividend on its ordinary shares (2005: Nil). The Company currently intends to retain all available funds for use in the operations and expansion of its business.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 23 and note 29 to the financial statements respectively.

FIXED ASSETS

During the year the Group's fixed assets increased to US$33.75 million from US$13.03 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 14 to the financial statements.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2006 (2005: Nil).

SHARE CAPITAL

During the year, the Company issued 915,429,529 ordinary shares. Details of movements in the share capital of the Company are set out in note 27 to the financial statements.

DIRECTORS

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

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

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 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 a director of the Company since 1999 and he is a member of the audit committee. Mr. Lu has over 39 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 is currently a part-time professor at Shanghai Communication University and Petroleum University.

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

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

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. Sit Mei 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.

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 10.

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 13.

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2006, 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 hasn't entered into any transactions with any related party under the Listing Rules and applicable accounting principles.

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 23.91% and 77.17% respectively of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for 50.25% of the Group's total purchases of which approximate 27.86% 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 2006, 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 2006.

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 K.M. Choi & Au Yeung Limited as auditors of the Company and its subsidiaries is to be proposed at the forthcoming Annual General Meeting.

On Behalf of the Board

Zhou Ling
Chairman

Hong Kong, 13 April 2007

COMMITMENT TO CORPORATE GOVERNANCE

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness. The Board has adopted the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as its own Code on Corporate Governance Practices.

Throughout the year ended 31 December 2006, the Company was in compliance with the Code of Corporate Governance Practices, save for a deviation from code provision A. 4.1 of the Code in respect of the service term of independent non-executive directors.

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

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

BOARD OF DIRECTORS

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

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

The Directors are responsible for the preparation of the accounts for each financial period that gives 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 2006, 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;

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.

- 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.

The details of all Directors, including Chairman, Executive Directors and Independent Non-Executive Directors are given on page 7 of this Annual Report.

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

During the year ended 31 December 2006, the Board at all times fulfilled the requirements of the Listing Rules relating to the appointment of at least three independent Non-Executive Directors.

Directors ensure that they can give sufficient time and attention to the affairs of the Company. Directors have disclosed to the Company the number and nature of offices held in public companies or organizations and other significant commitments, with the identity of the public companies or organizations and an indication of the time involved. 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 2006:

Directors	Board Meeting	Audit Committee Meeting	AGM
Mr. Zhou Ling	5/5	N/A	1
Ms. Lee Sin Pyung	5/5	N/A	0
Ms. Sit Mei	5/5	N/A	1
Mr. Lu Ren Jie	5/5	3/3	0
Mr. Chai Woon Chew	5/5	3/3	0
Mr. Ho Choi Chiu	5/5	3/3	1

CHAIRMAN AND MANAGING DIRECTOR

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

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

The Managing Director, supported by other Board members and the senior management, is responsible for the day-to-day business of the Company. 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 expect to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent Directors and officers; adoption of a system of internal check and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that exercise of 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, reviews the size, structure and composition of the Board, and assesses the independence of its Independent Non-Executive Directors in accordance with the criteria prescribed under the Listing Rules and the Code.

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.

COMPLIANCE OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. All directors have confirmed that, following specific enquiry by the Company, they complied with the required standard as set out in the Model Code throughout the year of 2006.

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 the date of this Report, the Directors of the Company held following long position in the ordinary share of the Company:

Name	Number of Ordinary Shares held Personal Interests	Corporate Interests	Approximate % of shareholding
Zhou Ling	–	32,000,000	1.26

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

All Directors have confirmed that throughout the year ended 31 December 2006 they complied with the required standard set out in the Model Code.

REMUNERATION OF DIRECTORS

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

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

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

NON-EXECUTIVE DIRECTORS' REMUNERATION

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

Non-executive directors of the Company are paid fees in line with market practice. Executive Directors serving on the Board and Board Committee are not entitled to any Directors' fees. The fee paid by the Company to each of our non-executive directors in 2006 for their services on the Company's Board of Directors is as below:

Name of Independent Non-Executive Directors	Fees Paid in 2006 (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.

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 2006 was as below:

Name of Executive Directors	Compensation Per Annum (US$'000)
Mr. Zhou Ling	110
Ms. Lee Sin Pyung	155
Ms. Sit Mei	52

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 2006, 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 2006, the Audit Committee met two 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 2006, 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 authorized 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

Prior to 31 October 2006, the Company's independent auditors were Johnny Chan & Co. Limited, and after 22 November 2006, the Company's independent auditors are K. M. Choi & Au Yeung Limited. In order to maintain their independence, the Company's independent auditors 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 2006 and 2005:

Fee Category	**2006 (US$'000)**	2005 (US$'000)
Audit fees	**168**	124
Other services	**26**	23

The Audit Committee has resolved the re-appointment of K.M. Choi & Au Yeung Limited for statutory audits for the financial year 2007. This resolution has been approved by the Board of Directors and is subject to final approval and authorization by the shareholders at the 2007 AGM.

INTERNAL CONTROLS

The Company's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized 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 effectives 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 2006, 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 2006, 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 2006, the Company adopted some new and revised Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations which came into effect on 1 January 2006. They are set out in the Significant Accounting Policies of the Notes to the Accounts on pages 28.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on page 17 to 18.

By Order of the Board

Lam Lee Yu
Company Secretary

Hong Kong, 13 April 2007

蔡國文歐陽會計師事務所有限公司
K.M.CHOI & AU YEUNG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the consolidated financial statements of South Sea Petroleum Holdings Limited (the "Company") set out on pages 19 to 63, which comprise the consolidated and Company balance sheets as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements gives a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

K.M. Choi & Au Yeung Limited
Certified Public Accountants
Hong Kong, 13 April 2007

Choi Kwok Man
Practising certificate no.: P01777

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 US$'000	2005 US$'000
TURNOVER	*5*	**41,940**	34,462
COST OF SALES		**(33,337)**	(28,076)
		8,603	6,386
Other income	*5*	**3,732**	4,857
General and administrative expenses		**(16,241)**	(12,732)
Loss in fair value of financial assets through profit or loss		**(115)**	(1,931)
Impairment of investments		**–**	(1,287)
Impairment loss of amount due from a related company		**(2,662)**	–
LOSS FROM OPERATING ACTIVITIES	*6*	**(6,683)**	(4,707)
Finance costs	*7*	**(467)**	(478)
LOSS BEFORE TAX		**(7,150)**	(5,185)
INCOME TAX	*10*	**126**	523
LOSS FOR THE YEAR		**(7,024)**	(4,662)
ATTRIBUTABLE TO:			
Equity shareholders of the Company	*11*	**(6,971)**	(4,687)
Minority interests		**(53)**	25
		(7,024)	(4,662)
LOSS PER SHARE – Basic (US cents)	*12*	**(0.61)**	(0.83)

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 US$'000	2005 US$'000
NON-CURRENT ASSETS			
Goodwill	*13*	**2,523**	2,934
Fixed assets	*14*	**33,749**	13,033
Available-for-sale investments	*16*	**–**	–
Project advances for oil field exploration		**13,139**	5,944
Deferred tax assets	*17*	**617**	335
Other assets		**–**	288
		50,028	22,534
CURRENT ASSETS			
Cash and bank balances		**3,865**	1,996
Amount due from related companies		**15**	21
Financial assets at fair value through profit or loss	*18*	**103**	116
Trade receivables	*19*	**4,411**	8,039
Inventories	*20*	**5,477**	6,406
Prepayments, deposits and other receivables		**13,598**	15,453
		27,469	32,031
CURRENT LIABILITIES			
Trade payables	*21*	**7,743**	5,860
Other payables and accrued expenses		**3,157**	3,331
Bank loan on discounted debtors		**–**	2,294
Amount due to a director		**–**	142
Amount due to shareholders		**–**	115
Amount due to related companies		**76**	76
Bank overdraft		**–**	125
Finance lease-current portion	*22*	**193**	168
Bank loan-current portion	*23*	**18**	62
Government grant received in advance-current portion	*24*	**894**	674
Taxation		**100**	62
		12,181	12,909

	Note	2006 US$'000	2005 US$'000
NET CURRENT ASSETS		**15,288**	19,122
TOTAL ASSETS LESS CURRENT LIABILITIES		**65,316**	41,656
NON-CURRENT LIABILITIES			
Finance lease	22	**343**	183
Bank loan	23	**–**	15
Government grant received in advance	24	**865**	1,288
Provisions	25	**664**	1,560
Convertible debentures	26	**1,103**	–
		2,975	3,046
		62,341	38,610
CAPITAL AND RESERVES			
Share capital	27	**15,659**	6,505
Revaluation reserve		**3,615**	3,174
Special capital reserve		**12,037**	12,037
Share premium		**42,627**	24,764
Translation reserve		**7,138**	3,839
Accumulated losses		**(19,547)**	(12,576)
Funds attributable to equity shareholders of the Company		**61,529**	37,743
Minority interests		**812**	867
		62,341	38,610

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

Balance Sheet

31 December 2006

	Note	2006 US$'000	2005 US$'000
NON-CURRENT ASSETS			
Fixed assets	*14*	**68**	17
Interests in subsidiaries	*15*	**46,374**	25,859
		46,442	25,876
CURRENT ASSETS			
Cash and bank balances		**810**	466
Financial assets at fair value through profit or loss	*18*	**103**	1
Prepayments, deposits and other receivables		**142**	169
		1,055	636
CURRENT LIABILITIES			
Other payables and accrued expenses		**391**	69
Amount due to shareholders		**–**	114
		391	183
NET CURRENT ASSETS		**664**	453
TOTAL ASSETS LESS CURRENT LIABILITIES		**47,106**	26,329
NON CURRENT LIABILITIES			
Convertible debentures	*26*	**1,103**	–
		46,003	26,329
CAPITAL AND RESERVES			
Share capital	*27*	**15,659**	6,505
Reserves	*28*	**30,344**	19,824
		46,003	26,329

LEE SIN PYUNG
Managing Director

ZHOU LING
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	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 1.1.2006	6,505	24,764	12,037	3,839	3,174	(12,576)	37,743	867	38,610
Exchange differences	–	–	–	3,389	441	–	3,830	243	4,073
Release on dilution of equity interests in subsidiaries	–	–	–	(90)	–	–	(90)	–	(90)
Net income recognized directly in equity	–	–	–	3,299	441	–	3,740	243	3,983
Loss for the year	–	–	–	–	–	(6,971)	(6,971)	(53)	(7,024)
Total recognized income and expenses for the year	–	–	–	3,299	441	(6,971)	(3,231)	190	(3,041)
Issue of shares upon open offering	3,252	4,879	–	–	–	–	8,131	–	8,131
Issue of shares upon conversion of convertible debentures	5,902	12,984	–	–	–	–	18,886	–	18,886
Dilution of equity interests in subsidiaries	–	–	–	–	–	–	–	(245)	(245)
At 31.12.2006	**15,659**	**42,627**	**12,037**	**7,138**	**3,615**	**(19,547)**	**61,529**	**812**	**62,341**

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2006

	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 differences	–	–	–	(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 Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 US$'000	2005 US$'000
NET CASH FROM (USED IN) OPERATING ACTIVITIES	*30(a)*	**445**	(701)
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**–**	(2,046)
Payments for fixed assets		**(19,988)**	(606)
Payment for project advances for oil field exploration		**(7,195)**	(4,466)
Cash outflow on dilution of interests in subsidiaries	*30(c)*	**(31)**	–
Cash outflow on acquisition of subsidiaries	*30(b)*	**–**	(2,821)
Cash inflow on disposal of a subsidiary	*30(c)*	**–**	99
Interest received		**49**	16
Proceeds from disposal of fixed assets		**–**	843
Net cash outflow from investing activities		**(27,165)**	(8,981)
FINANCING ACTIVITIES			
Issue of convertible debentures		**20,019**	11,379
Proceeds from issue of shares		**8,131**	–
Contribution from a minority shareholder		**–**	635
Government grant received		**368**	–
Capital element of finance lease		**(144)**	65
Net proceeds from bank loan		**(59)**	(78)
Bank loan on debtors discounted		**(2,294)**	(477)
Net cash from financing activities		**26,021**	11,524
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(699)**	1,842
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,871**	2,056
EFFECT OF FOREIGN EXCHANGE RATES		**2,693**	(2,027)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,865**	1,871
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**3,865**	1,996
Bank overdraft		**–**	(125)
		3,865	1,871

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 with its subsidiaries (the "Group") has two principal lines of business. The first line of business is to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is to provide electronic manufacturing services in the United Kingdom.

The Group owns two oilfields: Bula Block Oilfield in Indonesia, and Agusan-Davao Basin Oilfield in Davao, the Philippines. Bula Block Oilfield is operated by the Group's wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, under 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.

Agusan-Davao Basin Oilfield of the Group is operated by South Sea Petroleum (Philippines) Corp., a 100% owned subsidiary of the Group. Under the Service Contract with the Department of Energy, the Republic of Philippines, the Group is granted a permission to exploit crude oil and natural gas in an area with approximately 7,478 square kilometers at Agusan-Davao Basin of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. The Group is currently conducting seismic survey and other preparation work on the oilfield.

In April 2005, the Group 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 Indonesian 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.

Since 1994, the Group had operated the crude oil business at Limau Oilfield in Indonesia under an Enhance Oil Recovery Contract with Pertamina, the Indonesia state-owned petroleum giant. The EOR Contract expired on 31 December 2004. The Group is negotiating with BPMIGAS, Department of Petroleum of Indonesia, to renew the Contract or enter into a new contract for the oil production at this Limau Oilfield we previously operated. No assurance can be given that the contract will be renewed or granted and when it will be granted.

Through Axiom Manufacturing Services Limited, the Group provides manufacturing services in the business to business or business to industry sectors and to original equipment manufacturers in the following market sectors: (1) Medical devices: (2) Industrial control equipment; (3) Domestic appliances; (4) Computer and related products; and (5) Testing and instrumentation products. The Group provides its customers with a total solution that includes a full range of services that allow the Group to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Group builds and services products that carry the brand names of its customers.

1. CORPORATE INFORMATION (Continued)

Substantially all of the Group's electronics manufacturing services are provided on a turnkey basis, whereby the Group 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 Group offers its customers flexible, "just-in-time" delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Group also provides manufacturing services on a consignment basis, whereby the Group utilizes components supplied by the customer to provide assembly and post-production testing services

In November 2006, Starlight Media & Advertising Limited, a subsidiary of the Group, issued certain number of its new shares which is equal to 85% of the total post-transaction outstanding capital shares to a third party in exchange for an aggregate consideration of HK$8.5 million. Pursuant to the agreement, the share purchaser will occupy the controlling board seats and will be solely responsible for meeting all cash and financing requirements of Starlight in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) 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 HKFRS is 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, freehold 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 3 below.

The Group adopted the following new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006.

HKAS 39 (Amendment)	The Fair Value Option
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

New standards, amendments and interpretations effective for the year ending 31 December 2007 are as follows:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instrument: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operation and financial position.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

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

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

Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold.

For the purpose of impairment testing, goodwill is allocated to cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

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 investment.

(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 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 recognized in the balance sheet at cost less impairment losses.

Investments are recognized/ derecognized on the date the Group and/ or the Company commits to purchase/ sell the investments or when they expire.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil properties

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

Depreciation, depletion and amortisation of oil properties

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

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

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 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 income statement in the year in which they arise.

Fixed assets and depreciation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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
Machinery and equipment	14% – 20%
Furniture and fittings	14% – 50%
Computers	30%
Motor vehicles	30%

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

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 income statement over the lease periods.

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

(ii) *Operating leases*

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

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 amounts 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 asset's 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets other than financial assets and goodwill (Continued)

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

Revenue recognition

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

(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) Service income is recognized when services are rendered.

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

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

Government grants

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 debentures is calculated as the present value of the future interest and principal payments, discounted at the market rate of the 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.

Trade and other receivables

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

Trade payable

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

Foreign currency transactions

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions (Continued)

(iii) Group companies

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

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

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

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

Provisions

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

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

Employee benefits

Salaries, bonus and leave entitlements

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

Retirement benefits

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash equivalents

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

3. 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.

(c) Impairment of goodwill

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

4. FINANCIAL RISK MANAGEMENT

4A Financial risk factors

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4A Financial risk factors (Continued)

(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 expose the Group to fair value interest rate risk.

(iii) *Price risk*. Global Select Ltd., a wholly owned subsidiary of the Company, sells crude oil it produces in Indonesia to BP MIGAS, the national petroleum company of Indonesia, at market prices, which exposes the Group at price risk, if the crude oil price falls significantly. During the year of 2006, 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 receivables are due for settlement no more than 60 days after issue and collectibility is reviewed on an ongoing basis.

(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 at 31 December 2006, we had no material exposure to any other market risks.

4B Fair value of financial instruments

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

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

(ii) The fair value of long term borrowings and convertible debentures are estimated by discounting the future contractual cash flows at the current market interest rates that is available to the Group for similar financial instruments.

The fair values of these financial instruments are considered approximate to their carrying amounts due to their insignificant amounts.

4. FINANCIAL RISK MANAGEMENT (Continued)

4B Fair value of financial instruments (Continued)

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

5. TURNOVER, INCOME AND SEGMENT INFORMATION

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

	2006	2005
	US$'000	US$'000
An analysis of the group's turnover and income is as follows:		
Turnover		
Crude oil sales	**5,207**	3,574
Sales of goods and services	**36,733**	30,888
	41,940	34,462
Other income		
Interest income	**49**	16
Rental income	**941**	621
Release of Government grant	**736**	676
Service income	**93**	105
Unrealised gain on financial assets at fair value through profit or loss	**102**	–
Gain on dilution of interests in subsidiaries	**1,032**	–
Provision for plug and abandonment written back	**769**	–
Gain on disposal of a subsidiary	**–**	100
Gain on disposal of fixed assets	**–**	602
Gain on revaluation of investment properties	**–**	801
Exchange gain	**–**	1,829
Sundry income	**10**	107
	3,732	4,857
	45,672	39,319

5. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	Oil		Contract electronic manufacturing		Investment properties		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Revenue from external customers	**5,207**	3,574	**36,682**	30,627	**–**	–	**51**	261	**41,940**	34,462
Other income from external customers	**9**	–	**970**	608	**–**	–	**114**	241	**1,093**	849
Unrealised gain on financial assets at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**102**	–	**102**	–
Exchange gain	**–**	–	**–**	1,829	**–**	–	**–**	–	**–**	1,829
Gain on disposal of fixed assets	**–**	–	**–**	602	**–**	–	**–**	–	**–**	602
Gain on disposal of subsidiary	**–**	–	**–**	–	**–**	–	**–**	100	**–**	100
Gain on dilution of equity interests in subsidiaries	**–**	–	**–**	–	**–**	–	**1,032**	–	**1,032**	–
Provision for plug and abandonment written back	**769**	–	**–**	–	**–**	–	**–**	–	**769**	–
Gain on revaluation of investment properties	**–**	–	**–**	–	**–**	801	**–**	–	**–**	801
Government grant released	**–**	–	**736**	676	**–**	–	**–**	–	**736**	676
Total	**5,985**	3,574	**38,388**	34,342	**–**	801	**1,299**	602	**45,672**	39,319
Segment results	**(2,379)**	(5,710)	**508**	3,777	**(50)**	388			**(1,921)**	(1,545)
Unallocated income and expenses									**(4,762)**	(3,162)
Loss from operating activities									**(6,683)**	(4,707)
Finance costs	**–**	–	**(464)**	(445)	**(3)**	–	**–**	(33)	**(467)**	(478)
Taxation	**–**	246	**126**	283	**–**	–	**–**	(6)	**126**	523
Loss after tax									**(7,024)**	(4,662)

5. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Oil		Contract electronic manufacturing		Investment properties		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Depreciation and amortisation	**198**	25	**753**	769	**6**	9	**61**	25	**1,018**	828
Significant non-cash expenses	**802**	2,644	**1,940**	318	**–**	–	**2,712**	1,287	**5,454**	4,249
Segment assets	**42,014**	15,367	**25,199**	23,684	**1,855**	1,861	**–**	–	**69,068**	40,912
Unallocated assets									**8,429**	13,653
Total assets									**77,497**	54,565
Segment liabilities	**(4,231)**	(3,791)	**(9,356)**	(11,710)	**–**	(50)	**–**	–	**(13,587)**	(15,551)
Unallocated liabilities									**(1,569)**	(404)
Total liabilities									**(15,156)**	(15,955)
Capital expenditure										
Additions	**19,018**	12	**1,014**	592	**73**	–	**213**	2	**20,318**	606
Acquisition of a subsidiary	**–**	232	**–**	–	**–**	–	**–**	44	**–**	276

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2006	2005	**2006**	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Indonesia	**5,207**	3,574	**36,854**	12,529	**19,018**	245
United Kingdom	**36,682**	30,627	**25,199**	23,684	**1,014**	591
China	**–**	106	**1,855**	12,560	**5**	46
Philippines	**–**	–	**5,159**	1,838	**–**	–
America	**–**	–	**153**	50	**–**	–
Hong Kong	**51**	155	**8,277**	3,904	**281**	–
	41,940	34,462	**77,497**	54,565	**20,318**	882

6. LOSS FROM OPERATING ACTIVITIES

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

	2006 **US$'000**	2005 US$'000
Depreciation:		
– owned fixed assets	**877**	743
– leased fixed assets	**141**	85
Operating lease rentals on		
– land and buildings	**685**	536
– plant and machinery	**261**	273
Staff costs (including directors' remuneration – *note 8*)	**8,770**	6,808
Auditors' remuneration		
– audit fee	**168**	124
– other services	**26**	23
Bad debt	**731**	–
Foreign exchange losses, net	**1,945**	–

7. FINANCE COSTS

	2006 **US$'000**	2005 US$'000
Debenture interest paid	**–**	30
Bank discounting charges	**203**	225
Bank interest paid	**233**	193
Interest on finance lease	**28**	30
Other interest	**3**	–
	467	478

8. DIRECTORS' REMUNERATION

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

Name of directors	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Pension scheme contributions US$'000	2006 Total US$'000
Executive directors				
Zhou Ling	–	108	2	**110**
Lee Sin Pyung	17	138	–	**155**
Sit Mei	–	50	2	**52**
Independent non-executive directors				
Lu Ren Jie	20	–	–	**20**
Chai Woon Chew	15	–	–	**15**
Ho Choi Chiu	15	–	–	**15**
	67	296	4	**367**

Name of directors	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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2005: one), details of whose remuneration are set out in note 8 above. The details of the remuneration of the four remaining non-directors (2005: four), highest paid employees are set out below.

	2006 US$'000	2005 US$'000
Salaries, allowances and benefits in kind	**590**	612

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

	Number of non-directors 2006	2005
US$Nil to US$129,000	**–**	–
US$129,001 to US$192,300	**4**	4
	4	4

10. INCOME TAX

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

	2006 US$'000	2005 US$'000
Overseas tax charge	**94**	58
Overseas tax prepaid in 2004 not refund	**–**	214
Deferred tax reversed – *note 17*	**–**	(460)
Deferred tax credited – *note 17*	**(220)**	(335)
Tax credit for the year	**(126)**	(523)

No provision for Hong Kong profits tax has been made as, in the opinion of the 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.

10. INCOME TAX (Continued)

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

	2006 **US$'000**	2005 US$'000
Loss before tax	**(7,150)**	(5,185)
Tax credit on loss before tax, calculated at the rates applicable to profits in the countries concerned	**(1,898)**	(983)
Tax effect of non-deductible expenses	**791**	992
Tax effect of non-taxable income	**(179)**	(806)
Tax effect of unused tax losses not recognized	**2,103**	1,238
Tax loss recognized	**(249)**	(882)
Other timing difference	**(694)**	(284)
Margin relief	**–**	(12)
Tax paid not refunded	**–**	214
Tax credit	**(126)**	(523)

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$7,610,000 (2005: US$12,364,000).

12. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of US$6,971,000 (2005: US$4,687,000), and the weighted average of 1,139,577,477 (2005: 564,365,955) ordinary shares in issue during the year.

There is no fully diluted earnings per share for the year (2005: Nil).

13. GOODWILL

Group

	2006 **US$'000**	2005 US$'000
Net carrying value		
At 1 January	**2,934**	–
Acquisition of subsidiaries	**–**	2,934
Dilution of equity interests in subsidiaries – *note 30(c)*	**(411)**	–
At 31 December	**2,523**	2,934

14. FIXED ASSETS

Group

	Oil properties US$'000	**Freehold land and buildings** US$'000	**Investment properties** US$'000	**Plant and machinery** US$'000	**Furniture, fittings and computers** US$'000	**Motor vehicles** US$'000	**Total** US$'000
Cost or valuation:							
At 1.1.2006	48,846	9,118	1,855	16,452	6,884	105	83,260
Exchange differences	–	1,264	–	2,280	865	–	4,409
Additions	19,018	–	–	858	248	194	20,318
Dilution of equity interests of subsidiaries	–	–	–	–	(63)	–	(63)
Disposal	–	–	–	–	(528)	–	(528)
At 31.12.2006	**67,864**	**10,382**	**1,855**	**19,590**	**7,406**	**299**	**107,396**
Representing:							
Cost	67,864	–	–	19,590	7,406	299	95,159
Valuation	–	10,382	1,855	–	–	–	12,237
	67,864	10,382	1,855	19,590	7,406	299	107,396
Accumulated depreciation:							
At 1.1.2006	48,627	–	–	15,080	6,422	98	70,227
Exchange differences	–	20	–	2,113	814	–	2,947
Charge for the year	198	311	–	356	129	24	1,018
Dilution of equity interests of subsidiaries	–	–	–	–	(17)	–	(17)
Written back on disposal	–	–	–	–	(528)	–	(528)
At 31.12.2006	**48,825**	**331**	**–**	**17,549**	**6,820**	**122**	**73,647**
Net book value:							
At 31.12.2006	**19,039**	**10,051**	**1,855**	**2,041**	**586**	**177**	**33,749**

14. FIXED ASSETS (Continued)

Group

	Oil properties US$'000	Freehold land and buildings US$'000	Investment properties US$'000	Plant and machinery US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost or valuation:							
At 1.1.2005	41,543	10,537	1,054	18,323	7,508	105	79,070
Exchange differences	–	(1,036)	–	(1,805)	(704)	–	(3,545)
Additions	12	–	–	567	27	–	606
Revaluation	–	–	801	–	–	–	801
Acquisition of subsidiary	7,291	–	–	–	53	–	7,344
Disposal	–	(383)	–	(633)	–	–	(1,016)
At 31.12.2005	48,846	9,118	1,855	16,452	6,884	105	83,260
Representing:							
Cost	48,846	–	–	16,452	6,884	105	72,287
Valuation	–	9,118	1,855	–	–	–	10,973
	48,846	9,118	1,855	16,452	6,884	105	83,260
Accumulated depreciation:							
At 1.1.2005	41,543	–	–	17,020	6,963	95	65,621
Exchange differences	–	–	–	(1,693)	(657)	–	(2,350)
Charge for the year	25	307	–	386	107	3	828
Revaluation adjustment	–	(307)	–	–	–	–	(307)
Acquisition of subsidiary	7,059	–	–	–	9	–	7,068
Written back on disposal	–	–	–	(633)	–	–	(633)
At 31.12.2005	48,627	–	–	15,080	6,422	98	70,227
Net book value:							
At 31.12.2005	219	9,118	1,855	1,372	462	7	13,033

14. FIXED ASSETS (Continued)

Company

	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:			
At 1.1.2005 and 1.1.2006	575	105	680
Addition	87	–	87
Disposal	(528)	–	(528)
At 31.12.2006	**134**	**105**	**239**
Accumulated depreciation:			
At 1.1.2005	551	95	646
Charge for the year	14	3	17
At 31.12.2005	565	98	663
Charge for the year	33	3	36
Written back	(528)	–	(528)
At 31.12.2006	**70**	**101**	**171**
Net book value:			
At 31.12.2006	**64**	**4**	**68**
At 31.12.2005	10	7	17

Freehold land and buildings and investment properties (held on long lease) of the Group are situated outside Hong Kong. The freehold land and buildings 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. In the opinion of the directors, the carrying amount of the freehold land and building as at 31.12.2006 is not different materially from this valuation.

Had the Group's freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$6,993,000 (2005: US$6,297,000).

The investment properties were revalued on 6 February 2007 on the basis of their open market value by Youlanda, an independent firm of chartered surveyors. The value is not different materially from the carrying amount at 31.12.2005 and no adjustment is made.

The net book value of plant and machinery held under finance leases of the Group was US$851,000 (2005: US$565,000).

15. INTERESTS IN SUBSIDIARIES

	Company 2006 US$'000	2005 US$'000
Unlisted shares, at cost	**414**	614
Amounts due from subsidiaries	**60,067**	37,248
Amount due to a subsidiary	**(50)**	(50)
	60,431	37,812
Provision for impairment in values	**(14,057)**	(11,953)
Carrying value at 31 December	**46,374**	25,859

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

Details of the subsidiaries are as follows:

Company	Place of incorporation	Place of operations	Issued/ registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Global Select Limited*	British Virgin Islands	Indonesia	3 ordinary shares of US$1 each	100	–	Investment holding and exploration of oil and gas
Seaunion Energy (Limau) Limited*	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	Investment holding and exploration of oil and gas
PT. Seaunion Energy Resources*	British Virgin Islands	Indonesia	10,000 ordinary shares of US$100 each	5	95	Dormant
PT. Global Select Indonesia*	Indonesia	Indonesia	500,000 ordinary shares of US$1 each	–	100	Exploration of oil and gas

15. 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
Kalrez Petroleum (Seram) Limited*	Mauritius	Indonesia	2 ordinary shares of US$1 each	–	100	Development and production of crude oil
Kalrez Petroleum Limited#	British Virgin Islands	Indonesia	1 ordinary share of US$ 1 each	–	100	Investment holding
South Sea Petroleum (Philippines) Corporation*	Philippines	Philippines	10,870,000 ordinary shares of Peso 1 each	–	100	Exploration of oil and gas
Great Admirer Limited	Hong Kong	Hong Kong	200 ordinary shares of HK$1 each	100	–	Investment holding and providing management services
Axiom Manufacturing Services Limited*	United Kingdom	United Kingdom	13,564,002 ordinary shares of £1 each	–	94.81	Assemble of electronic components
Comp Hotel International Limited	British Virgin Islands	PRC	1 ordinary share of US$1 each	100	–	Properties investment
Comp International Limited	British Virgin Islands	Hong Kong	64,300 ordinary shares of US$1 each	100	–	Travel agency
Comp Property International Limited	British Virgin Islands	Hong Kong	1 ordinary share of US$1 each	100	–	Dormant

15. 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 Media & Advertising Limited	Hong Hong	Kong Kong	200 ordinary shares of US$1 each	99.5	0.5	Dormant
Comp Assets International Limited	British Virgin Islands	Hong Kong	1 ordinary share of US$1 each	100	–	Investment holding
Prime Reward Group Limited	British Virgin Islands	Hong Kong	1 ordinary share of US$1 each	–	100	Dormant
Oxford Technologies Inc.*	USA	USA	18,564,002 ordinary shares of US$0.0001 each	–	94.81	Investment holding
Easton Technologies Corp.*	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
Cowley Technologies Inc.*	USA	USA	16,100,000	–	88.51	Investment holding
Greenway Technologies Inc.	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant

15. 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 share of HK$1 each	100	–	Dormant

\# acquired during the year
* not audited by K.M.Choi & Au Yeung Limited

At 1 November 2006, Starlight Media and Advertising Limited (Starlight) entered into a Share Purchase Agreement with Davenport International Corp. (Davenport) to allot shares to it so that Davenport would own 85% of the equity interests in Starlight.

Upon the execution of Share Purchase Agreement, the Group's equity interests in Starlight was diluted from 88.62% to 13.86%. The subsidiary of Starlight, Beijing Fortune World Advertising Limited, also ceased to be a subsidiary of the Group.

The above table lists the subsidiaries of the Group 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.

16. AVAILABLE-FOR-SALE INVESTMENTS

	Group 2006 US$'000	2005 US$'000
Unlisted shares, at cost		
Balance at beginning of year	**1,287**	1,287
Less: Provision for impairment	**1,287**	1,287
	–	–

17. DEFERRED TAX ASSETS

	Group	
	2006	2005
	US$'000	US$'000
At 1 January	**(335)**	460
Reversed for the year – *note 10*	**–**	(460)
Credited for the year – *note 10*	**(220)**	(335)
Exchange differences	**(62)**	–
At 31 December	**(617)**	(335)

The balance of the deferred tax assets consists of the tax effect of timing differences in respect of excess of depreciation over taxation allowances on fixed assets US$ 231,000 (2005: US$ 134,000) and tax losses available of US$386,000 (2005: US$ 201,000).

Deferred tax assets not recognized in the financial statements comprised of excess depreciation over capital allowances of US$400,000 (2005: US$119,000) and unused losses of US$7,926,000 (2005: US$ 7,437,000).

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares	**103**	1	**103**	1
Overseas unlisted shares	**–**	115	**–**	–
	103	116	**103**	1

19. TRADE RECEIVABLES

	Group 2006 US$'000	2005 US$'000
Receivable from Pertamina	–	2,331
Receivable from others	**4,411**	5,708
	4,411	8,039

The receivable from Pertamina in last year represented a trade receivable balance arising in the normal course of business and comprised 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.

At 31.12.2005, nearly all of the receivable from others are pledged to bank to secure a loan on these discounted debtors.

The ageing analysis of the trade receivables is as follows:

	Group 2006 US$'000	2005 US$'000
0 – 30 days	**3,280**	5,833
31 – 60 days	**850**	924
61 – 90 days	**263**	20
Over 90 days	**18**	1,262
	4,411	8,039

20. INVENTORIES

	Group 2006 US$'000	2005 US$'000
Production supplies and raw materials	**4,982**	5,836
Finished goods	**495**	570
	5,477	6,406

21. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2006	2005
	US$'000	US$'000
0 – 30 days	**1,839**	3,570
31 – 60 days	**2,348**	1,728
61 – 90 days	**852**	382
Over 90 days	**2,704**	180
	7,743	5,860

22. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2006, the group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**212**	195	**194**	168
After one year but within two years	**144**	117	**135**	102
After two year but within five years	**220**	95	**207**	81
	576	407	**536**	351
Less : Future finance charges	**40**	56		
Present value of finance lease	**536**	351		
Less: Amount shown under current liabilities			**193**	168
			343	183

23. BANK LOAN

	Group	
	2006	2005
	US$'000	US$'000
SECURED BANK LOAN		
Wholly repayable within five years	**18**	77
Less: current portion included in current liabilities	**(18)**	(62)
	–	15

The loan is secured by way of fixed and floating charge over the assets of the Group.

24. GOVERNMENT GRANT RECEIVED IN ADVANCE

The Government grant received during the year ended 31 December 2002 and second instalment of GBP 200,000 received during the current year relates to a regional assistance grant awarded by the Welsh Assembly Government in England to the subsidiary of the Company, Axiom Manufacturing Services Limited. The grant relates to capital expenditure and the safeguarding of jobs. The employment related element is spread over the period during which the jobs are required to be maintained by the grant. The element of the grant relating to capital expenditure is released to the income statement over the useful economic life of the assets.

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

25. PROVISIONS

	Employee benefits	**Plug and abandonment**	**Total**
	US$'000	US$'000	US$'000
At 1.1.2006	342	1,218	1,560
Provision made	146	–	146
Provision written back	–	(769)	(769)
Payment	(273)	–	(273)
At 31.12.2006	215	449	664

The provisions for employee benefits represents annual leave and severance payment provided for the employees.

The Group would review from time to time the estimate on the expenditure incurred in the abandonment of exploratory wells and the restoration of their drill sites. The provision written back arose from a recent review at the end of the year.

26. CONVERTIBLE DEBENTURES

	Group and Company	
	2006	2005
	US$'000	US$'000
Convertible debentures		
2 – 5 years	**1,103**	–

On 29 March 2006, the Company entered into a subscription agreement with Kelton Capital Group Limited for an aggregate amount of HK$200,000,000 of Nil interest unlisted convertible debentures due 2009. The net proceeds are intended to be used to conduct seismic survey and well drilling in the oilfields in the Philippines and for the operation expenses and other related activities.

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has a right to convert the fully paid portion of Debenture into the Company's shares of US$0.01 each at conversion price of HK$0.25 per share within the conversion period, from the time of Debenture issued to the Maturity Date (1 April 2009). The Debentures are redeemable at 100% of the principal amount on the Maturity Date.

During the year, the Company issued the above convertible debenture for HK$156,150,000 and conversion right was exercised to convert HK$147,550,000 of the convertible debenture for 590,200,000 shares of US$0.01 each.

The convertible debentures contain two components, liability and equity elements. The equity component is considered to be nil on the following grounds:

a. the convertible debentures bear nil interest;

b. they are redeemable in full at par value; and

c. the time gap between issue of the convertible debentures and the exercise of conversion is always short.

27. SHARE CAPITAL

	Group and Company	
	2006	2005
	US$'000	US$'000
Authorised:		
14,000,000,000 (2004: 14,000,000,000) ordinary shares of US$0.01 each	**140,000**	140,000
Issued and fully paid:		
1,565,888,588 (2005: 650,459,059) ordinary shares of US$0.01 each	**15,659**	6,505

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 upon conversion of convertible debentures	172,173,248	1,722
At 31 December 2005	650,459,059	6,505
Shares issued upon open offering	325,229,529	3,252
Allotment of shares upon conversion of convertible debentures	590,200,000	5,902
At 31 December 2006	**1,565,888,588**	**15,659**

Pursuant to an ordinary resolution passed on 10 March 2006, the company made an open offer of 325,229,529 shares of US$0.01 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.

During the year, 590,200,000 (2005: 172,173,248) ordinary shares of US$0.01 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$18,886,400 (2005: US$13,250,000).

28. SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

No share option was granted during the year.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

(b) Company

	Share premium US$'000	Special capital reserve US$'000	Exchange reserve US$'000	Accumulated losses US$'000	Total US$'000
At 1.1.2005	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)	(12,364)
At 31.12.2005	24,764	12,037	164	(17,141)	19,824
Issue of shares	17,863	–	–	–	17,863
Translation difference	–	–	267	–	267
Loss for the year	–	–	–	(7,610)	(7,610)
At 31.12.2006	**42,627**	**12,037**	**431**	**(24,751)**	**30,344**

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.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2006 US$'000	2005 US$'000
Loss before tax	(7,150)	(5,185)
Interest income	(49)	(16)
Interest expenses	467	478
Government grant released	(736)	(676)
Unrealised gain on financial assets at fair value through profit or loss	(102)	–
Gain arising on dilution in equity interest in subsidiaries	(1,032)	–
Loss in fair value of financial assets through profit or loss	115	1,931
Impairment of investments	–	1,287
Impairment loss of amount due from a related company	2,662	–
Gain on disposal of fixed assets	–	(602)
Gain on disposal of subsidiaries	–	(100)
Gain on revaluation of investment properties	–	(801)
Depreciation of fixed assets	1,018	828
Amortisation of other asset	4	24
Operating loss before working capital	(4,803)	(2,832)
Increase in trade receivables	3,513	9,252
Decrease (increase) in inventories	929	(172)
Decrease (increase) in prepayments, deposits and other receivables	1	(3,614)
Increase (decrease) in trade payables and notes payable	1,883	(8,249)
(Decrease) increase in other payables and accrued expenses	(144)	2,090
(Decrease) increase in provision	(896)	1,560
Increase (decrease) in amount due to a director	635	(1,706)
Increase in amount due to shareholders	2,547	3,354
Changes in amount due to/from related companies	(2,657)	71
Cash from (used in) operating activities	1,008	(246)
Overseas tax paid	(66)	(6)
Interest paid	(497)	(449)
Net cash from (used in) operating activities	455	(701)

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

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

	2006	2005
	US$'000	US$'000
Net assets acquired		
Fixed assets	–	276
Other assets	–	312
Cash and bank balances	–	24
Accounts receivable	–	115
Inventories	–	48
Deposits, prepayments and other receivable	–	750
Amount due to a director	–	(1,848)
Minorities	–	234
Net liabilities acquired	–	(89)
Purchase consideration	–	2,845
Goodwill arising on consolidation	–	2,934
Satisfied by		
Cash	–	2,845

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

	2006	2005
	US$'000	US$'000
Cash consideration	–	(2,845)
Bank balances and cash acquired	–	24
Outflow of cash and cash equivalents	–	(2,821)

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

(c) During the year, the equity interests in Starlight Media and Advertising Limited and its subsidiary, Beijing Fortune World Advertising Ltd. held by the Group were diluted so that they ceased to be subsidiaries of the Group. The following is the net liabilities deemed disposed of upon the dilution (2005: disposal of a subsidiary).

	2006	2005
	US$'000	US$'000
Fixed assets	**46**	–
Other assets	**284**	–
Goodwill	**411**	–
Amount due from a related company	**1**	–
Accounts receivable	**115**	–
Bank balances and cash	**31**	1
Other receivable	**1,854**	5
Amount due to a director	**(777)**	–
Amount due to shareholders	**(2,662)**	–
Other payable	**–**	(6)
Exchange reserve	**(90)**	–
Minority interest	**(245)**	–
Gain on dilution/disposal	**(1,032)**	(100)
Disposal of a subsidiary		
Cash consideration received	**–**	100
Bank balances and cash disposed of	**(31)**	(1)
	(31)	99

(d) Major non-cash transaction

(i) The convertible debenture holders converted HK$147,550,000 (2005: HK103,840,000) convertible debentures into the Company's shares during the year.

31. JOINTLY CONTROLLED ASSETS

At 31 December 2006, the aggregate amounts of assets and liabilities recognized in the consolidated financial statements relating to the Group's interests in the jointly controlled assets are as follows:

	2006	2005
	US$'000	US$'000
Income	**–**	2,133
Expenses	**–**	(1,924)
Profit for the year	**–**	209
Current assets	**–**	1,142

32. COMMITMENTS

Commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
(a) Capital commitments contracted but not provided for in respect of:				
Purchase of subsidiaries	**2,620**	2,620	**–**	–
Acting as contractor for exploration of petroleum with expected minimum expenditure	**9,941**	38,000	**–**	1,622
	12,561	40,620	**–**	1,622
(b) Total future minimum lease payments under non-cancellable operating leases:				
(i) on land and buildings expiring:				
Within one year	**296**	313	**276**	293
In the second to fifth years, inclusive	**116**	131	**74**	89
	412	444	**350**	382
(ii) on other fixed assets expiring:				
Within one year	**45**	56	**–**	–
In the second to fifth years, inclusive	**125**	146	**–**	–
	170	202	**–**	–

33. 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 2006, fixed assets and current assets of this subsidiary pledged were US$12,611,000 (2005: US$10,899,000) and US$12,588,000 (2005: US$ 12,795,000) respectively.

34. RELATED PARTIES TRANSACTIONS

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

	2006 **US$'000**	2005 US$'000
Consultancy fee paid to shareholders	–	538

35. EVENTS AFTER THE BALANCE SHEET DATE

On 2 February 2007, the Company entered into a subscription agreement with Avant Capital Inc. for an aggregate amount of HK$40,000,000 of Nil interest unlisted convertible debentures due 2010. The net proceeds are intended to be used in increasing production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia.

On 28 February 2007, the Company entered into a subscription agreement with CFI Financial Corp. for an aggregate amount of US$100,000,000 of Nil interest unlisted convertible debentures due 2012. The Company intends to use the net proceeds of around US$55 million in the exploration of crude oil and gas at Agusan-Davao Basin in Davao province, the Philippines and the other related operation expense and the remaining proceeds of around US$45 million in increasing production of crude oil at Bula Block Oilfields in Indonesia and the other related operation expense.

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 13 April 2007.

Five-year Financial Summary

31 December 2006

RESULTS

For the years ended 31 December

	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Turnover	**41,940**	34,462	46,379	35,970	25,239
Profit (loss) before tax	**(7,150)**	(5,185)	1,558	(5,853)	(4,933)
Income tax	**126**	523	(542)	(228)	(760)
Profit (loss) for the year	**(7,024)**	(4,662)	1,016	(6,081)	(5,693)
Minority interests	**53**	25	128	143	–
Net profit (loss) attributable to shareholders	**(6,971)**	(4,687)	1,144	(5,938)	(5,693)

ASSETS, LIABILITIES AND MINORITY INTERESTS

As at 31 December

	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000	2002 US$'000
Goodwill	**2,523**	2,934	(6,549)	(6,920)	(8,108)
Fixed assets	**33,749**	13,033	13,449	12,995	15,962
Unlisted investment	**–**	–	1,287	987	–
Project advance for oil field exploration	**13,139**	5,944	1,478	–	–
Deferred tax assets	**617**	335	–	–	–
Other assets	**–**	288	–	–	–
Trade mark	**–**	–	–	6	–
Current assets	**27,469**	32,031	40,169	26,946	18,823
Total assets	**77,497**	54,565	49,834	34,014	26,677
Total liabilities	**(15,156)**	(15,955)	(23,873)	(19,346)	(17,212)
Minority interests	**(812)**	(867)	(588)	(1,032)	–
	61,529	37,743	25,373	13,636	9,465