Techpacific Capital Limited

Stock Code: 8088

2006 Annual Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors of Techpacific Capital Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Techpacific Capital Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Expressed in United States dollars ("US$")

The Chinese version of this annual report is provided for reference only.
In the event of any inconsistency between the Chinese and English versions, the English version shall prevail.

ABOUT TECHPACIFIC CAPITAL LIMITED

Techpacific Capital Limited ("Techpacific" or the "Company" and, together with its subsidiaries, the "Group") is an independent merchant banking and asset management group listed on the Hong Kong Stock Exchange's GEM board (HK GEM 8088), with offices in China, Singapore, the United Kingdom and representation in other parts of Asia.

The Group is engaged in the businesses of merchant banking, asset management, venture capital fund management and direct investment. Its subsidiary, Crosby Capital Partners Inc. ("Crosby"), which carries out the Group's merchant banking and asset management activities, is quoted on the AIM Market of the London Stock Exchange (CSB LN).

A more in detailed discussion of the Group's business is contained in the Chairman's Report and in the Management Discussion and Analysis section of this report.

HIGHLIGHTS

- Loss attributable to shareholders – US$60.7 million
  (2005: Profit of US$84.0 million)

- Shareholders' equity – US$121.8 million
  (2005: US$127.7 million)

- Assets under management – US$1.2 billion up from
  US$1.1 billion

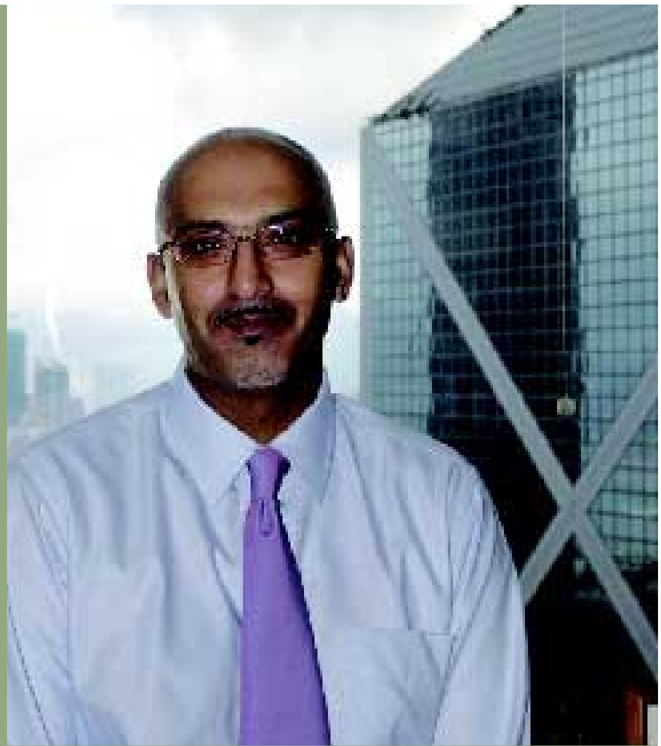
- Asset management revenue – US$7.6 million up from
  US$5.9 million

CHAIRMAN'S REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN'S REPORT



2006 was a volatile year for the Group. Even though we reported continuing profitability at the interim stage, the second half of 2006 saw a dramatic reversal in the value of the Group's investment portfolio which resulted in a full year loss attributable to shareholders of US$60.7 million. The loss for 2006 can be traced to a fall in the share price of JASDAQ listed IB Daiwa Corporation ("IB Daiwa") from ¥184 to ¥76. This resulted in an unrealized mark to market book loss for the year of US$29.5 million within the Group's 81.24% subsidiary, Crosby Capital Partners Inc. ("Crosby"). It should be noted, however, that the fall in the price of IB Daiwa reflects neither the continuous build up of IB Daiwa's oil and gas reserve base, some of which has yet to be brought into production, nor the improvements in its corporate governance and regulatory reporting regime. Crosby continues to own 24.02% of IB Daiwa.

Within the Group's Merchant Banking business, two new takeover deals were announced in 2006: Orchard Petroleum Ltd., an Australian Stock Exchange ("ASX") listed oil and gas exploration and production company with assets in the US, and Marathon Resources Ltd., an ASX-listed uranium mining company with assets in Australia.

Since the end of the reporting period both deals have shown substantial progress. On 13 March 2007, Crosby's bid vehicle, Eskdale Petroleum Pty Ltd., announced that it had achieved over 90% acceptances from shareholders of Orchard Petroleum Ltd. and was moving swiftly to completing this acquisition. On 9 March 2007, Buttermere Australia Pty Ltd., the bid vehicle for the Marathon Resources Ltd. deal, increased its offer to A$3.52 per share (a premium of 6.7% to the previous day's close). The ability of the Group to launch two public take-overs of listed companies in the space of the past twelve months is an important milestone for your Group, and we have already witnessed an increase in the profile and credibility of the Group's Merchant Banking business as it becomes a recognised player in the buy out market place.

During 2006, the assets under management ("AUM") of the Group's Asset Management business increased to approximately US$1.2 billion. Crosby Wealth Management ("CWM") continued its growth of AUM and further improved its capacity for growth with the addition of three new relationship managers. In December 2006, Crosby Asset Management launched its first hedge fund, the Crosby Active Opportunities Fund ("CAOF"). Having successfully raised the seed funding, the focus of CAOF is now on investing the capital to enable CAOF to develop a track record and market presence ahead of a broader capital-raising in the second half of the year. The continued progress of CWM and the launch of CAOF are important components of the Group's strategy of building a portfolio of mutually supportive businesses that balance cashflow generation with the potential for significant capital gains.

There was also solid progress during 2006 towards monetising the value of the Group's investment portfolio. I was particularly pleased with the developments in March 2007 (after this reporting period) at AIM quoted Indago Petroleum Limited ("Indago"), in which the Group has an effective 6% stake. On 14 March 2007, Indago announced that, subject to shareholder approval, it was selling 100% of its operating and production assets and approximately 50% of its exploration assets. Following the sale, Indago propose to issue a special dividend. This will result in a significant net cash inflow to the Group. In addition to the cash, Crosby will retain its shareholding in Indago, which will keep its quotation on AIM and continue as a pure oil and gas exploration company focussed on Oman and the UAE.

In March 2006, Techpacific issued a US$75 million five year zero coupon convertible-exchangeable bond which allowed the Group to explore and take advantage of investments that would diversify its balance sheet. As of 31 December 2006, US$55 million of the bond had been exchanged for new shares of the Company, the maximum available under the terms of the convertible bond. The balance of the US$20 million convertible bond still outstanding can be exchanged by bondholders for Crosby shares up to March 2011. The Group's Direct Investment Portfolio adopts a passive, medium to long-term approach to investing that is complementary to the activist approach adopted in both Crosby's Investment Portfolio and CAOF.

The Group invested US$42.5 million of the proceeds of the bond issue in a 35% working interest in a portfolio three high-impact/high-risk deep oil and gas prospects in Louisiana, USA – Big Mouth Bayou, Endeavor and North West Kaplan. The Big Mouth Bayou prospect has been drilled to a depth of 19,490 feet. Gas was encountered in several zones and the operator of the well, Pel-Tex Petroleum, is currently examining ways in which to commence commercial production. It is expected to take several months to finalise these plans. At the Endeavor prospect, drilling is in progress, having reached a depth of 14,370 feet at the date of this report, and is expected to be completed by mid-2007. Planning and preparation for drilling at North West Kaplan will only begin after operations at Endeavor have been completed.

The drilling programme is behind the schedule agreed at the time of the investment, but the Group's interests in these oil and gas exploration prospects remains an important first step in the strategic diversification of our activities. I would, however, like to reiterate the caution I expressed last year: as with any oil and gas exploration project there is a risk that no gas will be discovered, or at least not in commercial quantities, and despite the very large quantities of unrisked reserves that have been estimated in relation to the assets we own, it is correct to temper enthusiasm with prudence. I also remain of the opinion that the success of the Group's portfolio should only be judged when the three well drilling programme is completed rather than prospect by prospect.

More information on the Group's interests in the oil and gas exploration prospects and an overview of the Group's merchant banking and asset management businesses can be found in the Management Discussion and Analysis section of this report.

Corporate governance and risk management remain high priorities at Techpacific. During 2006 we commissioned external consultants to review our activities against the corporate governance requirements and recommendations contained within the GEM Listing Rules. I am pleased to say that the review concluded that Techpacific had a robust regime that allowed it to meet the mandatory disclosures required under the GEM rules, and where appropriate Techpacific implemented recommendations from the review.

During 2006, the Company partially utilised its share repurchase mandate, approved by shareholders at the Company's last Annual General Meeting, and purchased through the Stock Exchange 8,862,000 ordinary shares at prices between HK$0.31 and HK$0.455 which were then cancelled in accordance with the GEM Listing Rules.

I am also very pleased to note that in January 2007 the Listing (Review) Committee of the Stock Exchange overturned the earlier decision of the Listing Committee to reject the Company's listing application on the Main Board. However, our original application for listing expired prior to the latest ruling. Therefore, the Company would need to make a new application to the Stock Exchange if it decides to proceed with the migration to the Main Board. The Company continues to review this and other options to broaden its shareholder base and enhance its financial flexibility.

In spite of the financial results for 2006, I believe that the developments in the Group's businesses during 2006 indicate that the Group is well placed to make further progress and deliver exceptional financial returns, as we hoped would occur in 2002 when we radically changed our business model. Indeed, I believe that in order to appreciate the Group's achievement since it undertook that radical restructuring, the results for 2006 should be considered alongside the Group's stated long-term business strategy and it's profitability over the last few years. Since I became your Chairman, I have always been focused on the Group's objective of generating exceptional returns for shareholders over the medium term and I have always been clear that our earnings might be volatile. Consequently, I do not believe that the disappointing financial results for 2006 indicate any fundamental flaw in the Group's business model or long term business plan, and I look forward to delivering on our core objective.

I would like, finally, to express my thanks to all the staff of the Group for their continued loyalty, hard work, commitment and professionalism. I believe we are able to meet the challenges that lie ahead and hope to be able to report a successful 2007. I would also like to thank our shareholders and directors for their loyalty, patience and continued support.

Ilyas Khan
Chairman
14 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Technology Venture Capital Management

The Group manages the Hong Kong SAR Government's Applied Research Fund ("ARF") through the Softech Investment Management Company Limited ("Softech"). Softech is a 50:50 joint venture with Softbank China Venture Investments Limited. The ARF is a HK$750 million fund with the objective of providing funding support to Hong Kong based technology ventures and research and development projects that have commercial potential. The long-term objective of the fund is to increase Hong Kong's technological capability and enhance the competitiveness of local industries with the aim of promoting higher value-added economic development in Hong Kong. Softech was allocated HK$250 million of the fund for management.

Direct Investments – Oil and Gas Investments

In April 2006, shareholders approved the commitment of US$42.5 million to acquire a 35% working interest in three high impact/high risk deep gas exploration prospects, Big Mouth Bayou, Endeavor and North West Kaplan, on-shore in Louisiana USA.

As noted in the Chairman's Report, the Big Mouth Bayou well has been drilled to a target depth of 19,490 feet. Gas was encountered in several zones and the operator of the well, Pel-Tex Petroleum, is currently examining ways in which to commence commercial production. It is expected to take several months to finalise these plans. At the Endeavor prospect, drilling is in progress, having reached a depth of 14,370 feet at the date of this report, and is expected to be completed by mid-2007. Planning and preparation for drilling at North West Kaplan will only begin after operations at Endeavor have been completed.

Direct Investments – Legacy Investments

The Group continues to hold some legacy technology direct investments, the investment cost of which was fully written off at the end of 2002. During the year, there has been substantial progress in two of these investments.

The Group owns 523,528 shares of White Energy Company Limited ("White Energy", WEC AU) arising from a legacy investment in Spike Energy. The Group's merchant banking team has been actively involved with White Energy during 2006 and as a result has increased its holdings in White Energy as detailed below.

In October 2006, the Group sold its interest in Upstream Asia Limited to AIM quoted Raven Capital Inc. (which was simultaneously renamed as Upstream Marketing and Communications Inc.) in consideration for 20,276,384 shares of Upstream Marketing and Communications Inc. ("Upstream", UPS LN) which valued its interest on completion at £2,635,930. Upstream is a leading Asia Pacific-focused corporate and marketing communications services network firm. Upstream is well positioned to meet Asia's growing demand for branding and communication services with offices in Bejing, Shanghai, Hong Kong, Singapore and Taipei.

Merchant Banking

During the year Crosby's initiated two new take-over deals: Orchard Petroleum Limited ("Orchard", OPL AU) and Marathon Resources Limited ("Marathon", MTN AU).

Orchard

In October 2006, Crosby initiated a cash take-over bid for the Australian Stock Exchange ("ASX") listed Orchard at A$0.68 per share. In November 2006, the offer was increased to A$0.81 per share and Orchard's management recommended that shareholders accept the offer. In March 2007, the remaining bid conditions were waived and the offer became unconditional. At the offer price, Orchard has a market capitalisation of approximately US$130 million.

Orchard owns a portfolio of 11 oil and gas production and development assets located onshore in the prolific San Joaquin and Sacramento petroleum basin. Since recommending Crosby's offer, Orchard has successfully drilled 12 wells of a 20 well drilling programme at South Belridge. All the wells drilled to date have so far recorded good oil and gas shows and two of the wells are now producing. Orchard's management has so far been able to complete its drilling programme at a lower cost than originally forecast due to the utilisation of an improved drilling rig.

Marathon

In July 2006, Crosby led a cash offer for ASX listed uranium miner Marathon at A$0.68 per share, a premium of 23.6% to the previous day's close. By the end of 2006, the Marathon stock price had risen by 236% to A$1.85 per share. On March 9 2007, the offer was increased to AS$3.52 per share, a 6.7% premium to the previous day's closing price. At A$3.52, Marathon has a market capitalisation of approximately US$161 million.

Marathon has prospects in South Australia of which the most advanced project is the Mt. Gee uranium deposit which, based on current resource estimates, is one of the 25 largest known uranium deposits in the world.

Asset Management

Crosby's Asset Management business increased its assets under management ("AUM") to approximately US$1.2 billion. The business is divided into two main operating areas: fund management and wealth management.

Fund Management

In addition to the Asian funds managed by Crosby, December 2006 saw the launch of Crosby's first hedge fund, the Crosby Active Opportunities Fund ("CAOF") – an Asian and Australasian event-driven hedge fund. CAOF aims to produce absolute unleveraged returns in excess of 25% per annum. Although CAOF utilizes a similar approach to identifying and extracting value as the Group's merchant banking team, its business is both complementary, and additional to, that of the merchant banking team as CAOF commits its own capital to initiate a deal. CAOF also benefits from having the first right of refusal (but no obligation) to commit capital to support a merchant banking team led deal.

Wealth Management

During 2006, Crosby Wealth Management has continued its growth and further improved its capacity for future growth with the addition of three new relationship managers.

Investment Portfolio

The Group's investment portfolio largely consists of its equity participations derived from merchant banking deals. Its two largest positions at 31 December 2006 are an approximately 20% effective equity interest in JASDAQ listed IB Daiwa Corporation ("IB Daiwa") and an approximately 6% effective equity interest in AIM quoted Indago Petroleum Inc. ("Indago").

Indago

In 2004, the Group obtained an economic interest in the oil and gas assets previously owned by Novus Petroleum Limited located in the Middle East. These assets were ultimately transferred to Indago (IPL LN) and floated on AIM in December 2005. Indago has continued to develop these assets and in March 2007 announced that it had agreed, subject to shareholder approval, to dispose of 100% of its production and development assets and of approximately 50% of its exploration assets. Following the completion of the sale, Indago also announced that, subject to shareholder approval, they will declare a special dividend of £0.6 per share.

The net effect of this is that the Group will receive approximately US$16.8 million of cash in April 2007, whilst still retaining further upside through the still listed Indago entity that holds the remaining exploration assets plus sufficient cash to undertake its exploration programme.

IB Daiwa

IB Daiwa is a JASDAQ listed oil and gas exploration, development and production company with assets onshore and offshore in Texas and Louisiana, USA. IB Daiwa's two operating subsidiaries Lodore US Holdings Inc. ("Lodore") and Darcy Energy ("Darcy") balance high impact/ high risk deep gas exploration (Lodore) and low risk exploration and development (Darcy).

Darcy

Despite delays to production enhancements at existing wells and in bringing new wells onstream, there was considerable progress at Darcy in 2006. The acquisition, in April 2006, of two lease blocks at Grand Isle in the Gulf of Mexico resulted in a 167% increase in independently audited 2P reserves to 64.2 bcfe, and a 299% increase in 3P reserves to 163.8 bcfe.

In July 2006, Darcy installed a new platform at the East Cameron Block 318. The B3 well was successfully hooked up to the platform in December 2006. The B4 well at East Cameron Block 318, which completed drilling at the end of the year, discovered commercial quantities of gas and commenced production after the year end in February 2007.

During 2006, it was decided to restructure the Darcy group to facilitate fundraising in the international capital markets. The benefits of this restructuring were realised after the year end. In February 2007, Darcy raised US$18 million by issuing new shares that represent 13.4% of the enlarged share capital, valuing Darcy at an enterprise value of US$215 million. This fundraising will provide the capital to develop the Grand Isle acquisition and to pursue further growth opportunities.

Lodore

In January 2006, Lodore announced the discovery of commercial quantities of gas at the Kami Prospect (onshore Louisiana). Production from the Kami Well commenced in May 2006. Kami has independently audited 2P reserves of 5.2 bcfe. In December 2006, the well encountered problems and was shut-in for repair work. The repair work was completed in late February 2007.

Details of the status of Big Mouth Bayou, Endeavor and NW Kaplan are provided above in the context of Techpacific's own direct investment.

At Padre Island, drilling at the first well, Plum Deep, started in August 2006. Drilling and testing of the three deepest zones has been completed and it has been determined that the zones are non-commercial. The operator of the well, Golden Gate Petroleum, estimates that testing of the shallowest zone will be completed in late March 2007 at the earliest.

Corporate Governance and the Kanri Post

During 2006, IB Daiwa made substantial progress in enhancing its corporate governance, risk management and regulatory reporting regime, and hence, towards securing its return to JASDAQ's "main" list from the restrictions of the Kanri Post.

In September 2006, IB Daiwa recruited an experienced, senior executive officer to oversee relations with JASDAQ and a new auditor was hired with experience of the international oil and gas industry. In November 2006, Japan Asia Securities was appointed as its Shukanji (the equivalent of a nominated advisor for AIM companies). The Shukanji plays an important role in a company's corporate governance and can be seen as a major step for IB Daiwa to return to the normal post of JASDAQ.

White Energy

In August 2006, the Group's merchant banking team successfully completed a cash placement for Australian listed White Energy raising approximately A$23 million from a small group of financial investors based in Australia, Asia, Europe and North America. This placement was in addition to A$5 million the Group's merchant banking team raised in April 2006. As a result of arranging these placements, the Group's merchant banking team earned an interest in warrants with a five year life exercisable into 2,036,296 shares of White Energy at an exercise price of A$0.01 each. The Group also subscribed for 100,000 shares in the aforementioned placement at A$0.90 per share. At 31 December 2006, the quoted market price of White Energy was A$1.75 per share. White Energy is entering a very exciting growth phase. It owns the worldwide license to a coal briquetting process that increases the energy efficiency of low quality coal. The result is emissions savings, and reduced transportation and operational costs. White Energy has already entered into two joint ventures to develop processing facilities in Indonesia and is currently in discussions about further joint venture agreements.

SBI Crosby

SBI Crosby (Holdings) Limited ("SBI Crosby") is a corporate finance boutique that acts as originator of small-to-mid cap listing opportunities in China. SBI Crosby was initially a 50/50 joint venture with Softbank E2 Capital. During the year, the Group's stake in SBI Crosby was reduced to 26.72%. The joint venture remains a source of Merchant Banking and Asset Management opportunities for the Group.

FINANCIAL REVIEW

FINANCIAL RESULTS

The consolidated financial results are summarised below:

	2006	2005
	US$'000	US$'000
(Loss)/Profit from operations	(68,073)	116,004
(Loss)/Profit after taxation	(69,289)	116,068
(Loss)/Profit attributable to equity holders of the Company	(60,700)	83,956
(Loss)/Earnings per share – basic	(1.93) cents	3.00 cents

Total income

An analysis of total income between turnover, gains on financial assets and other income is provided in the consolidated income statement on page 40 of the financial statements.

A breakdown of turnover/revenue between advisory fees from corporate finance activities, fee income from fund management activities and service fees from wealth management activities is provided in Note 6 to the financial statements. The increase in turnover/revenue to US$9.2 million from US$7.7 million in 2005 is mainly due to the increase in the service fees from wealth management activities to US$6.4 million in 2006 from US$4.4 million in 2005 to reflect the growth of its business during the year.

The Group incurred a loss on financial assets and liabilities at fair value through profit or loss totaling US$18.8 million during the year ended 31 December 2006. This loss is partially attributable to a fall during 2006 in the share price of IB Daiwa ("IB Daiwa") from ¥184 to ¥76, which resulted in an unrealized mark-to-market loss of US$29.5 million in the income statement. This represented a partial reversal of the significant unrealised gain recorded on the Group's investment in IB Daiwa Corporation during 2005. An unrealised mark-to-market loss of US$2.1 million was also recorded in the income statement in respect of the Group's investment in Indago. These unrealised mark-to-market losses offset gains during 2006 in respect of the Group's investments in Orchard of US$3.9 million, Upstream of US$2.9 million and White Energy of US$1.9 million and a revaluation gain of US$4.1 million as a result of the decrease in the value of the derivative financial instrument classified as a financial liability through profit and loss representing the option for the remaining convertible bondholders to exchange the balance of the convertible bond into 11,453,287 shares of Crosby Capital Partners Inc.

A breakdown of other income of US$4.7 million is provided in Note 7 to the financial statements. The increase in other income from US$1.1 million in 2005 is mainly attributable to an increase in bank and other interest income of US$2.4 million and a non-recurring fees of US$1.4 million on redemption and arrangement of specific loans during the year.

Operating Expenses

In 2006, administrative expenses increased to US$57.6 million from US$29.2 million for 2005. The majority of these expenses is made up of directors' remuneration and employee emoluments of US$52.8 million, an increase of US$26.1 million when compared to US$26.7 million for 2005. The main constituents of the increase in the expense in 2006 are:

- An increase of US$3.7 million in salaries, allowances and benefits to US$10.2 million. The majority of the increase relates to the expansion of the Group's Asset Management business, in particular, the launch of the Crosby Active Opportunities Fund and the continued growth of Crosby Wealth Management, and to an increase in directors' salaries and allowances as detailed in Note 13(a) to the consolidated financial statements.

- An increase of US$1.0 million in commission paid and payable to US$2.8 million. This is directly attributable to an increase in business volumes at Crosby Wealth Management.

- An increase of US$17.4 million in bonus paid and payable to US$34.2 million. The total bonus award 2006 was US$8.7 million all of which was charged as an expense during the year ended 31 December 2006. The remaining charge of US$25.5 million was made up of US$23.7 million and US$1.8 million deferred charges in respect of bonuses awarded for the years ended 31 December 2005 and 2004 respectively which became an obligation and liability of the Group in 2006. Thus, the charge for bonus paid and payable for the year ended 31 December 2006 was US$34.2 million. However, given the liability of the Group relative to the business opportunities available, it was determined prudent to defer actual payment of a portion of these charges. Accordingly , US$15.7 million of bonus remains unpaid at 31 December 2006, of which US$8.1 million is in respect of the bonus awarded for the year ended 31 December 2006 and US$7.6 million is in respect of the bonus awarded for the year ended 31 December 2005. The timing of the payment of deferred bonus amounts is dependent upon the liquidity status of the Group and payment is contingent on the continued employment status of the awardees of the bonus. Note 13(c) to the financial statements provides further details of this expense.

- An increase of US$4.1 million for share options to US$5.2 million. The increase in this expense is largely due to the 60 million options with an exercise price of HK$0.77

per share granted to each of the Chairman and Chief Executive Officer of the Company and the Chief Executive Officer of Crosby following shareholder approval on 26 April 2006. In addition to the aforementioned grant of 180 million options, a further 40 million options were granted in total to other senior management and Non-executive Directors of the Company at an exercise price of HK$0.77 per share. Further details on the Group's Share Option Schemes are provided in Note 31 to the financial statements.

Apart from directors' remuneration and employee emoluments, the balance of administrative expenses amounted to US$4.8 million in 2006, an increase of US$$2.3 million from US$2.5 million for 2005. The main constituents of this increase were the professional fees associated with the issuance of the convertible bond in March 2006, the acquisition of the oil and gas properties in May 2006 and the proposed migration to the Main Board which were all of a non-recurring in nature.

Other operating expenses of US$5.5 million for 2006 has reduced from US$6.2 million in 2005. The main variable element of these expenses represents the expenses incurred on specific merchant banking projects and asset management initiatives.

Finance Costs

Finance costs, further details of which are provided in Note 8 on the financial statements, have increased by US$2.0 million to US$2.1 million in 2006. The main constituents of finance costs in 2006 are US$1.6 million of notional effective interest on the convertible bond issued during 2006.

Minority Interests

The credit to minority interests in the income statement for 2006 of US$8.6 million is mainly made up of the 18.76% minority shareholders share of the of the losses of Crosby of US$10.7 million and in the Crosby Group the minority shareholders of Silk Route Petroleum Limited 43.4% interest in the revaluation loss of Indago of US$1.0 million. These losses are partially offset by the preference shareholders of ESK Limited 70% interest in the gain in the revaluation of Orchard of US$3.0 million.

FINANCIAL POSITION AND RESOURCES

The consolidated balance sheet is summarised below:

BALANCE SHEET	2006 US$'000	2005 US$'000	Increase/ (Decrease) %
Total assets	**214,245**	196,012	9.30
Net current assets	**140,713**	172,003	(18.19)
Equity attributable to equity holders	**121,824**	127,663	(4.57)
Total equity	**168,122**	174,158	(3.47)

Liquidity

The Group has a strong focus on maintaining a healthy liquidity position to enable it to take advantage of investment opportunities, to facilitate business development objectives, to support operational and corporate requirements, and to fulfill the regulatory capital requirements of its operating subsidiaries. Cash flow forecasts are continually maintained, and reviewed at each fortnightly meeting of the Operations Committee to ensure that the Group maintains adequate liquidity.

At the end of 2006, the Group had cash and bank and receivable balances of US$25.6 million increased from US$15.2 million and net current assets of US$140.7 million decreased from US$172.0 million.

Significant investments

As discussed in the Business Review above, during 2006 the Group invested US$42.5 million to acquire a 35% interest in the Oil and Gas Exploration Prospects.

At the end of 2006, the Group also had available-for-sale financial assets at fair value of US$0.5 million and financial assets at fair value through profit or loss of US$131.2 million as compared with those of US$0.4 million and US$157.5 million respectively at the end of 2005. Details of these investments are set out in Notes 18 and 22 to the financial statements respectively.

Gearing

On 8 March 2006, Techpacific announced that it had sold the US$75 million zero coupon convertible bond to Goldman Sachs International, raising net proceeds of US$72.8 million for the Group after expenses. The convertible bond has a five-year term and provides bondholders with a premium on redemption in March 2011 at 116.1% of its principal, or the ability, at their choice to either convert into newly issued shares of Techpacific at HK$0.7665 per share or exchange for existing shares of Crosby owned by Techpacific at £0.9975 per share. As of 31 December 2006, US$55 million of the convertible bond had been converted into shares in Techpacific. This resulted in the issuance of 556,666,011 new Techpacific shares, equivalent to 16.55% of the Group's enlarged issued share capital at the date of conversion. No further Techpacific shares can be issued under the terms of the convertible bond. The maximum amount by which the Group's stake in Crosby could now be reduced if all remaining bondholders elect to exchange for Crosby shares is 4.72%, or 11,453,287 shares, leaving the Group with a majority stake of at least 76.32% at the date of this report.

Charge on assets

Included in financial assets in net current assets at the end of 2006 are 35 million shares of Indago, with a fair value of US$39.1 million, that were pledged to a third party, further details of which are set out in Notes 22(a)(4) and 26(iii) to the financial statements. This charge was released subsequent to 31 December 2006, as set out in Note 41(b) to the financial statements.

Commitments

At the end of 2006, the Group also had no significant commitments, other than under operating leases for the rental of its office premises, and no contingent liabilities, including pension obligations, as set out in Note 33 to the financial statements.

Equity Structure

Total equity and equity attributable to shareholders decreased by 3.47% and 4.57% respectively. An analysis of the movements in equity during the year is provided in the consolidated statement of changes in equity on page 44 of the financial statements.

During the year ended 31 December 2006, the issued ordinary share capital of the Company increased from 2,510,077,245 to 3,066,381,256 shares as a result of the following:

i) The Company issued 556,666,011 ordinary shares on conversion of US$55.0 million of the convertible bond. Details of the convertible bond are set out in Note 28 to the financial statements.

ii) The Company issued 8,500,000 ordinary shares on exercise of share options under the Company's employee share option scheme. Details of the Company's share option scheme are set out in Note 31(a) to the financial statements.

iii) The Company repurchased on the Stock Exchange a total of 8,862,000 of its own ordinary shares at a price of HK$0.31 to HK$0.455 per share for a total consideration, before expenses, of HK$3.6 million (equivalent to approximately US$0.5 million). The repurchased shares were duly cancelled. Details of the Company's share repurchases during the year are set out in Note 29(e) to the financial statements.

At 31 December 2006, the number of deferred shares issued by the Company was 292,500,000 shares which remained unchanged during the year. The non-voting convertible deferred shares have the following rights and restrictions:

(i) The holder of a deferred share is not entitled to vote at any general meetings of the Company.

(ii) The deferred shares rank pari passu with ordinary shares in respect of all distributions.

(iii) Each deferred share can be converted into one ordinary share upon 14 days prior written notice to the Company and there is no expiration date for the right of conversion.

(iv) The deferred shares have no redemption rights.

Minority interests in the balance sheet decreased to US$46.3 million at the end of 2006 from US$46.5 million at the end of 2005. The balance at the end of 2006 is made up of US$18.1 million relating to the minority shareholders of Crosby representing 18.76% of its issued share capital and, within the Crosby Group, the minority shareholders of Silk Route Petroleum Limited 43.4% interest in the fair value of its holdings in Indago of US$13.0 million, the preference shareholders of ESK Limited representing the redeemable value of the preference shares plus 70% of the gain in the revaluation of Orchard amounting to US$13.4 million and US$1.7 million in respect of the Group's wealth management operating subsidiaries.

EMPLOYEE INFORMATION

As at 31 December 2006, the Group had 57 full-time employees (2005: 50). Details of the Directors' remuneration and employees' emoluments during the year are provided in Note 13 to the financial statements.

The remuneration packages of the Group's directors and employees are kept at a competitive level to attract, retain and motivate directors and employees of the quality required to run the Group successfully. In general, remuneration consists of a combination of a fixed salary paid in cash and a performance linked bonus paid in cash and options. A portion of the bonus may be deferred subject to the achievement of certain pre-determined targets and conditions. Options are either struck at or out-of the money.

The Group's remuneration policies and practices are reviewed annually and benchmarked against a peer group of international financial institutions. When determining the size of the bonus pool consideration is given, amongst other things, to a multi-year average ratio of total staff expenses to total revenue (i.e. income before operating expenses) and to the ratio of total staff expenses to profit available for distribution to shareholders (before staff compensation). A multi-year average is used to reflect the volatility in the Group's income and the Group's stated objective of providing exceptional returns over the medium term. When determining the deferral policy particular consideration is given to the cash position of the Group and the balance between realised and unrealised profits.

PENSION SCHEMES

Hong Kong

Commencing from 1 December 2000, all Hong Kong employees have to participate in the Mandatory Provident Fund Scheme ("MPF Scheme"). Under the MPF Scheme, both the employee and employer have to contribute at least 5% of the employee's monthly salary to the MPF Scheme (limited to HK$1,000 per contribution if no special agreement is made between the employees and employer).

All employees have participated in the Hong Kong and Shanghai Banking Corporation ("HSBC") MPF Scheme except for those who are exempted from this requirement. Under the HSBC MPF Scheme, both the Group and employees contribute 5% of salary (limited to HK$1,000) to the scheme each month. There is no voluntary contribution from the Group nor any of the employees. The Group's contribution to the HSBC MPF Scheme amounted to approximately US$69,000 for the year (2005: US$57,000).

Singapore

All employees based in Singapore have to participate in the Central Provident Fund Scheme in Singapore if they meet certain defined residency criteria. Both the employer and the employee must make contributions at the applicable rates. The Group's contribution to the Central Provident Fund Scheme amounted to approximately US$20,000 for the year (2005: US$19,000).

FOREIGN CURRENCY EXPOSURE

The Group's exposure to foreign currencies is limited to its investments in foreign subsidiaries, which are financed internally and to financial assets at fair value held through profit or loss where the foreign currency risk is managed as an integral part of the investment return.

Profiles of Directors

● Ilyas Tariq Khan

Chairman

Ilyas, aged 44, founded Techpacific in December 1998 and is also responsible for the Merchant Banking activities of the Crosby Group. Prior to December 1998, Ilyas was a senior member of the management team and a Managing Director of Nomura, responsible for a regional (non-Japan Asia) investment banking and fixed income business, where he worked closely with Simon Fry (the CEO of Crosby).

Ilyas has worked at financial institutions such as Citicorp, UBS, Nomura and Schroders. At Citicorp and UBS, Ilyas initiated, built, and then managed regional corporate finance and capital market businesses in Asia and was responsible for a number of landmark transactions and "deals of the year" across Asia.

Ilyas is an independent non-executive director of Speymill Group PLC, listed in London, and also an independent non-executive director of Australian listed White Energy Company Limited.

● Johnny Chan Kok Chung

Chief Executive Officer

Johnny, aged 47, co-founded Techpacific with Ilyas and directs the strategic development of Techpacific's and Crosby's asset management businesses. He also oversees the development of Crosby Wealth Management. He is Chairman and CEO of Crosby Asset Management (Hong Kong), a vehicle which is licensed by the SFC in Hong Kong. Johnny is a Representative Director of IB Daiwa Corporation.

Johnny has over 20 years of experience of corporate finance and investment banking experience in leading global financial institutions. In 1999, he was Managing Director of Bear Stearns Asia Limited. Prior to that, he was an Executive Director at UBS and Director at Citicorp, where he worked with Ilyas. At UBS and Bear Stearns Johnny was responsible for a number of innovative capital market and corporate finance transactions, including several landmark deals for Chinese and Asian issuers.

Johnny is the principal portfolio manager for the Hong Kong SAR Government's Applied Research Fund as well as the Coro Voltin fund sponsored b y the Small Business Corporation of the Korean Government.

● Ahmad S. Al-Khaled

Ahmad, aged 40, is the Chief Operating Officer of TBV Holdings Limited, a global Venture Capital firm that invests in private and publicly held companies in high growth sectors. Ahmad is also the Assistant Deputy Director and Head of Investment Funds Division at the Kuwait Fund for Arab Economic Development which he joined in 1995. His responsibility is to lead a team of investment professionals in strategizing, analysing, investing and monitoring a portfolio of investment funds that include hedge funds, long only equity, fixed income, private equity and real estate funds.

- *Executive Director*
- *Non-executive Directors*
- *Independent Non-executive Directors*

- **Daniel Yen Tzu Chen**

Daniel, aged 51, joined the Board in December 2002. He currently serves on the board of Hudson Holding Pte Ltd., a property and investment holding company based in Singapore. He is also Managing Director and Founder of P.T. Universal Sejati, an Indonesian trading company that deals in commodity metals, chemicals, machinery and mining products.

Daniel has an accounting and business background and has over 20 years experience throughout the Southeast Asian region particularly in Indonesia and Singapore.

- **Peter McIntyre Koenig**

Peter, aged 62, joined the Board in May 2004 with a financial and business background having over 30 years experience in journalism, including senior editorial positions for respected financial publications including the Institutional Investor, Euromoney, the Independent on Sunday and Bloomberg News. Peter is currently a contract business correspondent for the Sunday Times and is a director of the Elfida Charitable Trust based in London and established for the benefit of the disabled.

- **Joseph Tong Tze Kay**

Joseph, aged 44, joined the Board in August 2004 with a financial and business background including senior positions with Universal Music Limited, Softbank China Venture Investments Limited and Nomura China Investments Limited. Joseph is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and has degree in Accounting and Statistics from the University of Southampton, England. Joseph has been an Independent Non-Executive Director of Netease, Inc., listed on NASDAQ, since March 2003.

Profile of Senior Management

Simon Jeremy Fry

Chief Executive Officer of Crosby
Simon, aged 47, has over 20 years experience in the investment banking industry prior to joining Crosby as CEO in 2003, most recently within the Nomura Group where he was a Managing Director and European Board member, as well as a member of Nomura's Risk Committee and Credit Committee. Simon is a Director of IB Daiwa Corporation.

DIRECTORS' REPORT

CORPORATE GOVERNANCE REPORT

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as the holding company of the Group. The principal activities of the Company's principal subsidiaries and associates as at 31 December 2006 are set out in Notes 40 and 16 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 40 to 110.

The Directors do not recommend the payment of a dividend for the year.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 29 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the financial statements on pages 43 to 44 and 92 respectively.

DISTRIBUTABLE RESERVE

Distributable reserve of the Company at 31 December 2006 amounted to US$81,143,000 (2005: US$43,074,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 111.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Details of the Company's purchase of its securities during the year are set out in Note 29(e) to the financial statements. Save as disclosed therein, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

DIRECTORS' REPORT

SHARE OPTION SCHEMES

Details of the Share Option Schemes are set out in Note 31 to the financial statements.

DONATIONS

The Group made charitable and other donations during the year amounting to approximately US$46,000 (2005: US$25,000).

DIRECTORS

The Directors of the Company during the year were as follows:

Executive director:

Johnny Chan Kok Chung *(Chief Executive Officer)*

Non-executive Directors:

Ilyas Tariq Khan *(Chairman)*
Ahmad S. Al-Khaled

Independent non-executive Directors:

Daniel Yen Tzu Chen
Peter McIntyre Koenig
Joseph Tong Tze Kay

In accordance with article 87 of the Company's Articles of Association, Messrs. Daniel Yen Tzu Chen and Peter McIntyre Koenig retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the Company's Directors' remuneration are set out in Note 13(a) to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the Directors or any chief executive of the Company in the shares and underlying shares (within the meaning of the Securities and Futures Ordinance ("SFO")) of the Company and any of its associated corporations (within the meaning of SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of a listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) Interests in the ordinary shares of the Company

Name of Director	Personal interests	Family interests	Corporate interests	Aggregate long position in ordinary shares of the Company	Percentage which the aggregate long position in ordinary shares represents to the total ordinary shares of the Company in issue %
Ilyas Tariq Khan (Notes 1 & 2)	82,494,076	–	413,091,794	495,585,870	16.16
Johnny Chan Kok Chung (Note 3)	175,712,205	16,097,387	–	191,809,592	6.26
Joseph Tong Tze Kay	3,000,000	–	–	3,000,000	0.10
Daniel Yen Tzu Chen	2,000,000	–	–	2,000,000	0.07
Peter McIntyre Koenig	1,500,000	–	–	1,500,000	0.05

Note 1: TW Indus Limited held 188,208,147 ordinary shares. TW Indus Limited was beneficially wholly-owned by Ilyas Tariq Khan.

Note 2: ECK & Partners Limited held 224,883,647 ordinary shares. ECK & Partners Limited was beneficially owned as 88.86% by Ilyas Tariq Khan. Since Ilyas Tariq Khan is entitled to exercise more than one third of the voting power at general meetings of ECK & Partners Limited, he is deemed to be interested in 224,883,647 ordinary shares owned by ECK & Partners Limited.

Note 3: Yuda Udomritthiruj held 16,097,387 ordinary shares. Yuda Udomritthiruj, an employee of a subsidiary of the Company, is the wife of Johnny Chan Kok Chung and, accordingly, he is deemed to have interests in her shares.

(ii) Interests in the non-voting convertible deferred shares of the Company

None of the Directors held interests in the non-voting convertible deferred shares of the Company.

DIRECTORS' INTERESTS IN SECURITIES (continued)

(iii) Interests in the underlying shares of the Company

The interests in the underlying shares of the Company arise from unlisted share options (physically settled equity derivatives) granted to the Directors of the Company under the Company's Share Option Scheme, details of which are provided below:

Name of Director	Date of grant	Subscription price	Aggregate long position in underlying shares of the Company	Percentage which the aggregate long position in underlying shares of the Company represents to the total ordinary share capital of the Company in issue %
Ilyas Tariq Khan	26 April 2006	HK$0.770	60,000,000	1.96
Johnny Chan Kok Chung	26 April 2006	HK$0.770	60,000,000	1.96
Ahmad S. Al-Khaled (Notes 1 & 5)	24 March 2006	HK$0.770	5,000,000	0.16
Daniel Yen Tzu Chen (Notes 2 & 5)	24 March 2006	HK$0.770	5,000,000	0.16
Peter McIntyre Koenig	20 August 2004	HK$0.035	2,000,000	
(Notes 3 & 5)	24 March 2006	HK$0.770	5,000,000	
			7,000,000	0.23
Joseph Tong Tze Kay	20 August 2004	HK$0.035	2,000,000	
(Notes 4 & 5)	24 March 2006	HK$0.770	5,000,000	
			7,000,000	0.23

Note 1: Ahmad S. Al-Khaled exercised 3,500,000 share options on 9 March 2006.

Note 2: Daniel Yen Tzu Chen exercised 2,000,000 share options on 14 November 2006.

Note 3: Peter McIntyre Koenig exercised 1,500,000 share options on 4 September 2006.

Note 4: Joseph Tong Tze Kay exercised 1,500,000 share options on 25 August 2006.

Note 5: Ahmad S. Al-Khaled, Daniel Yen Tzu Chen, Peter McIntyre Koenig and Joseph Tong Tze Kay were each granted 2,500,000 options to subscribe for shares in the Company at an exercise price of HK$0.365 on 29 January 2007.

(iv) Short positions

None of the Directors held short positions in the shares and underlying shares of the Company or any Associated Corporation.

DIRECTORS' INTERESTS IN SECURITIES (continued)

(v) Interests in the shares of an Associated Corporation

Name of Director	Associated Corporation	Personal interest	Corporate interest	Aggregate long position in shares of the Associated Corporation	Percentage which the aggregate long position in shares of the Associated Corporation represents to the issued share capital of the Associated Corporation %
Ilyas Tariq Khan (Note)	Crosby Capital Partners (Hong Kong) Limited	1	110,001	110,002	0.04
Johnny Chan Kok Chung	Crosby Capital Partners (Hong Kong) Limited	30,000	–	30,000	0.01

Note: TW Indus Limited held 110,001 shares in Crosby Capital Partners (Hong Kong) Limited. TW Indus Limited was beneficially wholly-owned by Ilyas Tariq Khan.

Save as disclosed above, as at 31 December 2006, none of the Directors of the Company had interests and short positions in the shares and underlying shares of the Company and any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of a listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

As at 31 December 2006, the Company had not issued any debentures.

Save as disclosed herein, as at 31 December 2006, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO) or which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by Directors.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2006, the following persons, other than the Directors of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

(i) Interests in the ordinary shares of the Company

Name	Number or approximate attributable number of ordinary shares	Aggregate long position in underlying shares of the Company	Approximate percentage or approximate attributable percentage holding of ordinary shares currently in issue and/or percentage which the aggregate long position in underlying shares of the Company represents to the total ordinary share capital of the Company in issue
Deutsche Bank Aktiengesellschaft	1,278,000	412,422,007	13.49%
PMA Capital Management Limited (Note 1)	372,948,005	–	12.16%
TBV Holdings Limited (Note 2)	302,055,000	–	9.85%
PMA Prospect Fund (Note 1)	281,295,520	–	9.17%
ECK & Partners Limited (Note 3)	224,883,647	–	7.33%
TW Indus Limited (Note 4)	188,208,147	–	6.14%

Note 1: PMA Capital Management Limited is the investment advisor of PMA Prospect Fund, both of which are Independent Third Parties. The interest of PMA Prospect Fund in 281,295,520 ordinary shares is included in the interest of PMA Capital Management Limited in 372,948,005 ordinary shares.

Note 2: TBV Holdings Limited is a company wholly-owned by the Kuwait Fund for Arab Economic Development, a development finance agency owned by the government of Kuwait.

Note 3: Since Ilyas Tariq Khan is entitled to exercise more than one third of the voting power at general meetings of ECK & Partners Limited, the interest of ECK & Partners Limited in 224,883,647 ordinary shares is duplicated in the 495,585,870 ordinary shares in which Ilyas Tariq Khan is interested as a Director.

Note 4: TW Indus Limited held a direct interest in 188,208,147 ordinary shares. Ilyas Tariq Khan was beneficially interested in 100% of the share capital of TW Indus Limited and, therefore, Ilyas Tariq Khan was also interested in these 188,208,147 ordinary shares which are duplicated within the 495,585,870 ordinary shares in which Ilyas Tariq Khan was interested as a Director.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS (continued)

(ii) Interests in the non-voting convertible deferred shares of the Company

Name	Number or approximate attributable number of non-voting convertible deferred shares	Percentage which the aggregate long position in non-voting convertible deferred shares represents to the total non-voting convertible deferred shares currently in issue
Simon Jeremy Fry (Note)	292,500,000	100%

Note: Simon Jeremy Fry is the Chief Executive Officer of Crosby Capital Partners Inc., which is a 81.24% subsidiary of the Company as at 31 December 2006. Further to the Company's announcement dated 31 March 2004, 292,500,000 non-voting convertible deferred shares were allotted to Simon Jeremy Fry. Simon Jeremy Fry has also held a direct interest in 110,186,587 ordinary shares. Simon Jeremy Fry was also granted 60 million options to subscribe for ordinary shares in the Company at an exercise price of HK$0.77 per share on 26 April 2006.

(iii) Short positions

No person held short positions in the Shares and Underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, as at 31 December 2006, the Directors of the Company were not aware of any other person who had an interest or short position in the Shares and Underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Save as disclosed above, as at 31 December 2006, no other person had interests which were recorded in the register required to be kept under section 336 of the SFO.

MAJOR CLIENTS AND SUPPLIERS

The Group is mainly engaged in the business of merchant banking and asset management and its income is primarily derived from the return on investments and the disclosure of information regarding customers and suppliers would not be meaningful.

CONNECTED TRANSACTIONS

On 29 May 2006, Eskdale Petroleum Pty Limited, a wholly owned subsidiary of the Group's 81.24% subsidiary Crosby Capital Partners Inc., incorporated in Australia, acquired 84.94% of the issued share capital of the Crosby Orchard Fund Inc. ("COF") for a total consideration of US$8,494 and 1,573,500 shares of Orchard Petroleum Inc. ("Orchard"), representing 0.79% of the issued share capital of Orchard for a total consideration of AS$935,630. COF was a special purpose fund set up to acquire shares in Orchard. The vendors included TW Indus Limited, Shake & Twist Limited and certain Directors of the Company and directors of its subsidiaries which were connected parties under the GEM Listing Rules. TW Indus Limited owned 188,208,147 ordinary shares of the Company, representing 6.80% of the issued share capital of the Company. TW Indus Limited is beneficially 100% owned by Ilyas Tariq Khan, who was a Director and substantial shareholder of the Company. Accordingly, TW Indus Limited was a connected person under the GEM Listing Rules. Shake & Twist Limited was interested in 10.6% and 11.3% of Sunov Petroleum (Pakistan) Limited and Silk Route Petroleum Limited, respectively, both of which were subsidiaries of the Group. Shake & Twist Limited is 100% owned by Dr. Robert Charles Williams who was also a director of Sunov Petroleum (Pakistan) Limited and Silk Route Petroleum Limited. Accordingly, Shake & Twist Limited was a connected person of the Company under the GEM Listing Rules. The Company's announcement dated 29 May 2006 sets out further details of the above connected transaction.

Save as disclosed above, the Group had no other connected party transactions during the year that require disclosure under the GEM Listing Rules.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

As at 31 December 2006, the Group had no advances outstanding which were non-trading in nature and exceeded 8% of the total assets of the Group as at 31 December 2006 which was required to be disclosed under Rule 17.22 of the GEM Listing Rules.

COMPETING INTERESTS

The Directors are not aware of any business or interest, as at 31 December 2006, of the Directors, initial management shareholders of the Company or their respective associates which was required to be disclosed under Rule 11.04 of the GEM Listing Rules.

FULL NAME AND QUALIFICATIONS OF COMPANY SECRETARY, QUALIFIED ACCOUNTANT AND THE COMPLIANCE OFFICER

The Company Secretary and Qualified Accountant of the Company is Martin Angus. He is a member of the Institute of Chartered Accountants in England and Wales and is also a member of the Hong Kong Institute of Certified Public Accountants.

The Compliance Officer of the Company is Johnny Chan Kok Chung. He holds a post-graduate diploma from the Securities Institute of Australia and is an Associate of the Securities Institute of Australia. He also has an MBA in International Business and a BA degree in Economics.

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of these financial statements.

AUDITORS

The financial statements have been audited by Messrs. Grant Thornton who will retire from office and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

For and on behalf of the Board

Ilyas Tariq Khan
Chairman

14 March 2007

CORPORATE GOVERNANCE REPORT

(a) Corporate Governance Practices

(i) The Company is committed to achieving high standards of Corporate Governance and follows the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (the "Code").

(ii) The Company meets the code provisions set out in the Code.

(b) Directors' Securities Transactions

(i) The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules.

(ii) Having made specific enquiries of all Directors of the Company, the Company is satisfied that the Directors of the Company have complied with the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules, and with the Company's code of conduct regarding Directors' securities transactions.

(c) Board of Directors

(i) The Board is comprised of six Directors, of which three are Independent Non-Executive Directors, as follows:

Chairman and Non-Executive Director:	Ilyas Tariq Khan
Chief Executive Officer and Executive Director:	Johnny Chan Kok Chung
Non-Executive Director:	Ahmad S. Al-Khaled
Independent Non-Executive Director:	Daniel Yen Tzu Chen
Independent Non-Executive Director:	Peter McIntyre Koenig
Independent Non-Executive Director:	Joseph Tong Tze Kay

The biographies of the Directors are set out under the "Profiles of Directors and Senior Management" on pages 20 and 21, and are posted on the Company's website (www.techpacific.com).

(ii) There have been eight meetings of the Board during the financial year.

(iii) Attendance of individual Directors at meetings of the Board held during the year was as follows:

Name of Director	No. of Board Meetings Attended
Ilyas Tariq Khan	8
Johnny Chan Kok Chung	8
Ahmad S. Al-Khaled	7
Daniel Yen Tzu Chen	6
Peter McIntyre Koenig	7
Joseph Tong Tze Kay	7

(c) Board of Directors (continued)

(iv) The principal role of the Board is to provide strategic leadership to the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Group's strategic aims, oversees the allocation of financial and human resources and reviews management performance. The Board sets the Group's values and standards and ensures that its obligations to shareholders and others are met and understood. The Board meets at least quarterly to review and discuss the Group's performance, strategy and business opportunities available. The Board also reviews and approves the Quarterly, Interim and Annual Reports of the Company. The Board has delegated the day-to-day running of the Group to the Chief Executive Officer and the Group's management team. However, the Board retains responsibility for:

- Approving annual operating and capital expenditure budgets and any material changes to them;
- Approving the remuneration of the Directors (based on the recommendations of the Remuneration Committee);
- Approving the appointment of Directors (based on recommendations of the Nomination Committee);
- Approving the Interim and Annual Reports (based on recommendations of the Audit Committee);
- Approving any decision to cease to operate all or any material part of the business;
- Approving any changes relating to the Group's capital structure, including the reduction of capital, share issues and share buy backs; and
- Approval of dividend policy and declaration of interim and final dividends.

(v) The Company has complied with Rules 5.05(1) and (2) relating to the appointment of sufficient number of Independent Non-Executive Directors. An Independent Non-Executive Director has appropriate professional qualifications, or accounting or related financial management expertise.

(vi) The Company considers that each of its Independent Non-Executive Directors are independent in accordance with the guidelines for assessing independence set out in Rule 5.09 of the Listing Rules.

(vii) The Company considers that there is no relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

(viii) During the year, the Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

(d) Chairman and Chief Executive Officer

(i) The Chairman of the Board is Ilyas Tariq Khan and the Company's Chief Executive Officer is Johnny Chan Kok Chung.

(ii) The Company has segregated the roles of Chairman and Chief Executive Officer and there is a clear division of responsibilities between them. The Chairman of the Board is a non-executive, and is responsible for the leadership and effective running of the Board. The Chief Executive Officer has the authority and responsibility of running the Group's business, and implementing the Group's strategy to achieve its overall commercial objectives.

(e) Non-Executive Directors

The Non-Executive Directors are appointed for a term of one year. This term is subject to curtailment upon that Director's retirement by rotation and re-election by shareholders. Every Director is subject to retirement by rotation at least once every three years. All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.

(f) Remuneration of Directors

(i) The Company established a Remuneration Committee on 11 August 2005. The Committee meets at least once a year. The terms of reference of the Remuneration Committee are posted on the Company's website (www.techpacific.com). The principal functions of the Remuneration Committee include: recommending to the Board the policy and structure for the remuneration of the Chairman, Executive Director and senior management (as determined by the Board), determining the specific remuneration packages of the Chairman, Executive Directors and senior management, reviewing and approving performance-based remuneration and compensation for loss or termination of office payable to Chairman, Executive Directors and senior management, ensuring no Director is involved in deciding his or her own remuneration, and approving the service contracts of Directors. The Remuneration Committee also fulfils the role of an Options Committee for the Employee Share Option Scheme and its main duty in this context is to approve the grant of options to relevant employees.

(ii) The Remuneration Committee, comprised of a majority of Independent Non-Executive Directors, is chaired by Peter McIntyre Koenig, an Independent Non-Executive Director, and its membership includes Johnny Chan Kok Chung and Daniel Yen Tzu Chen. However, Johnny Chan Kok Chung takes no part in setting his own remuneration and is not present when the Remuneration Committee discusses his remuneration.

(iii) The Remuneration Committee has met three times during the year and all members attended each meeting.

(iv) The Remuneration Committee determined the specific remuneration packages of all the Executive Directors and senior management, and approved their performance-based remuneration paid during the year.

(g) Nomination of Directors

(i) The Company established a Nomination Committee on 11 August 2005. The terms of reference of the Nomination Committee are posted on the Company's website (www.techpacific.com). The principal function of the Nomination Committee is the consideration and nomination of candidates to fill casual vacancies to the Board.

(ii) The Nomination Committee comprised a majority of Independent Non-Executive Directors, is chaired by Daniel Yen Tzu Chen, and its membership includes Ilyas Tariq Khan and Joseph Tong Tze Kay.

(iii) There have been no vacancies or appointments to the Board since the establishment of the Nomination Committee and accordingly the Nomination Committee did not meet during the year.

(h) Auditors' Remuneration

Auditors' remuneration for the year ended 31 December 2006 was US$161,000 (2005: US$162,000). During the year, the Group has paid in aggregate to its external auditors fees of US$247,000 (2005: US$23,000) for non-audit related activities in respect of the review of the Quarterly and Interim Reports for 2006 of the Company and its 81.24% subsidiary, Crosby Capital Partners Inc., for taxation services of certain subsidiaries and corporate governance review of the Group.

(i) Audit Committee

(i) The Company established an Audit Committee on 31 March 2000 with the written terms of reference. The terms of reference are available on the Company's website (www.techpacific.com). The Audit Committee comprises three Independent Non-Executive Directors, Joseph Tong Tze Kay (Chairman), Daniel Yen Tzu Chen and Peter McIntyre Koenig. The duties of the Audit Committee include: managing the relationship with the Group's external auditors, reviewing the financial information of the Company, and overseeing the Company's financial reporting process and internal control systems. The Audit Committee reports its work, findings and recommendations to the Board after each meeting.

(ii) The Audit Committee met five times during the year ended 31 December 2006. The following table details the number of meetings attended by the members:

Name of Director	No. of Committee Meetings Attended
Joseph Tong Tze Kay	5
Daniel Yen Tzu Chen	5
Peter McIntyre Koenig	5

(iii) The Audit Committee has met with the Auditors and the Chief Financial Officer during the year to review the 2005 Annual Report and the Quarterly Report for the quarters ended 31 March 2006 and 30 September 2006, and the Interim Report for the six months ended 30 June 2006. The Audit Committee has also met to review these annual figures and was satisfied with the outcome of its review.

(iv) The composition of the Audit Committee meets the requirements of Rule 5.28 of the Listing Rules.

(j) Internal Control

The Board is responsible for maintaining a strong system of internal control and risk management to safeguard shareholders' investments and the Group's assets. The definition of internal control applied by the Board is that, stated in "Internal Control – Integrated Framework", issued by the Committee of Sponsoring Organisations of the Treadway Commission ("COSCO") in the United States in 1992 as recommended by the Hong Kong Institute of Certified Public Accountants, of a process designed to provide reasonable assurance regarding the achievement of objectives in relation to the following:

(i) Effectiveness and efficiency of operations;

(ii) Reliability of financial reporting; and

(iii) Compliance with applicable laws and regulations.

The Group's system of internal control is designed to manage, rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable, but not an absolute, assurance in this respect. In addition, it cannot guarantee against material misstatement or loss.

Through the Group's risk management framework, there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group, including business, financial, compliance, legal and operating risks. As part of this process, the Company conducted a review of the effectiveness of its system of internal control during the year ended 31 December 2006. The Board, based on recommendations of the Audit Committee, has concluded that the internal control systems are effective and adequate, and that there are no significant areas of concern which may affect shareholders. The review covered all material controls including financial, operational and compliance controls, and risk management. The criteria the Board use to assess the effectiveness of the system of internal control included:

(i) The nature and extent of the risks facing the Group;

(ii) The extent and categories of risk that the Board regards as acceptable for the Group to bear;

(iii) The likelihood of the risks materialising and the financial impact of the risks;

(iv) The Group's ability to reduce the incidence and impact on the business of risks that do materialise; and

(v) The costs of operating particular controls relative to the benefit thereby obtained.

The Board will review the risk management framework and the effectiveness of internal control on at least an annual basis.

The Board, based on the recommendations of the Audit Committee, has considered the need for an Internal Audit function during the year and has decided, after taking into account of the size of the Group, the scale, diversity and complexity of its activities, the number of employees, the level of external oversight that companies within the Group receive from regulatory bodies, as well as cost/benefit considerations, has decided that an Internal Audit function is not yet justified. This decision will be reviewed annually.

(j) Internal Control (continued)

Price-Sensitive Information

With regard to procedures and internal controls for the handling and dissemination of price sensitive information, the Company:

(i) is aware of its obligations under the GEM Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately;

(ii) conducts it s affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" issued by the Hong Kong Stock Exchange;

(iii) has implemented its own share dealing procedures that imposes a strict prohibition on the unauthorised use of confidential or insider information; and

(iv) has established and implemented procedures for responding to external enquiries about the Group's affairs.

(k) Share interests of senior management

The number of shares held by senior management are set out in the Directors' Report on pages 23 to 31.

(l) Shareholders

The Board recognises its responsibility to represent the interest of all shareholders and to maximise shareholder value and this section of the Corporate Governance Report details the Group's policies and actions in this respect.

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholders holding not less than one-tenth of the paid up share capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an Extraordinary General Meeting (EGM) to be convened, stating the objects of the meeting, and deposited with our Company Secretary at 2701 Citibank Tower, 3 Garden Road, Central, Hong Kong. The meeting shall be held within two months after the deposit of such requisition.

The procedures for shareholders to put forward proposals at an Annual General Meeting (AGM) or EGM require that a written notice of those proposals be submitted by the shareholders to the Company Secretary at 2701 Citibank Tower, 3 Garden Road, Hong Kong. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution.

Enquiries to be put to the Board should be made in writing and directed to the Company Secretary at 2701 Citibank Tower, 3 Garden Road, Central, Hong Kong.

The most recent shareholders meetings were as follows:–

EGM held at 9.30 a.m. on 26 April 2006 at 2701, Citibank Tower, 3 Garden Road, Central, Hong Kong. The major items discussed were:

(i) Authorisation to transfer 9,449,829 ordinary shares in the capital of Crosby Capital Partners Inc. in accordance with the terms of a purchase agreement dated 6 March 2006 between the Company and Goldman Sachs International relating to the issue by the Company of a US$75 million zero coupon convertible or exchangeable bonds due 2011.

(I) Shareholders (continued)

(ii) Authorisation to be given to any one of the Directors of the Company to implement, and give effect to, the above matter, and to execute all documents relating to the matter for and on behalf of the Company.

All the above resolutions received sufficient votes to be duly carried.

EGM held at 9.45 a.m. on 26 April 2006 at 2701, Citibank Tower, 3 Garden Road, Central, Hong Kong. The major items discussed were:

(i) Confirmation and ratification of the Exploration Funding Agreement dated 9 March 2006 entered into between the Company's wholly owned subsidiary Coniston International Capital Limited and Lodore Resources Inc. in connection with the acquisition of a 35% working interest in three oil and gas prospects in the United States.

(ii) Authorisation to be given to the Board of Directors of the Company to take all such actions necessary or desirable to implement, and give effect to, the Exploration Funding Agreement and the transactions contemplated thereunder.

All the above resolutions received sufficient votes to be duly carried.

AGM held at 10.00 a.m. on 26 April 2006 at 2701, Citibank Tower, 3 Garden Road, Central, Hong Kong. The major items discussed were:

(i) Consider and adoption of the audited financial statements for the year ended 31 December 2005.

(ii) Re-election of Ilyas Tariq Khan, Johnny Chan Kok Chung and Ahmad S. Al-Khaled as Directors, and authorise the Directors to fix the Directors' remuneration.

(iii) Re-appointment of Grant Thornton as the Auditors of the Company, and authorise the Directors to fix their remuneration.

(iv) Authorisation to be given for grant of options to Ilyas Tariq Khan, Johnny Chan Kok Chung and Simon Jeremy Fry for each of them to subscribe for 60,000,000 ordinary shares of the Company.

(v) Approval of the existing scheme mandate limit be refreshed and renewed, and authorise the grant of options under the Share Option Scheme up to the Renewed Scheme Mandate.

All the above resolutions received sufficient votes to be duly carried. The vote of the resolution for approval of the grant of options to Ilyas Tariq Khan was taken on a poll.

The dates and prospective dates that are important to shareholders in the coming financial year are summarised as follows:–

27 April 2007	2006 Annual General Meeting
11 May 2007	1st Quarterly Result Announcement
9 August 2007	Interim Result Announcement
8 November 2007	3rd Quarterly Result Announcement

Details of dates that are important to shareholders can be found on the Company's website www.techpacific.com.

As at 31 December 2006, the public float capitalisation was approximately US$83,367,000, representing 57.3% of the outstanding issued ordinary share capital of the Company.

INDEPENDENT AUDITORS' REPORT

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

To the members of Techpacific Capital Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Techpacific Capital Limited (the "Company") set out on pages 40 to 110, which comprise the consolidated and Company balance sheets as at 31 December 2006, and 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 International Financial Reporting Standards and the disclosure requirements of 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the 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 auditors' judgement, 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 auditors consider 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 give 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 International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

14 March 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 US$'000	2005 US$'000 Restated (Note 22(a)(4))
Turnover/Revenue	6	**9,169**	7,700
(Loss)/Gain on financial assets at fair value through profit or loss	22(b)	**(22,101)**	151,177
Gain/(Loss) on financial liabilities at fair value through profit or loss	26(i)	**3,254**	(8,340)
Other income	7	**4,696**	1,072
Administrative expenses		**(57,582)**	(29,241)
Distribution expenses		**(49)**	(154)
Other operating expenses		**(5,460)**	(6,210)
(Loss)/Profit from operations		**(68,073)**	116,004
Finance costs	8	**(2,052)**	(49)
Excess over the cost of acquisition of a subsidiary	37	**959**	–
Share of profits of associates	16	**78**	237
Share of (loss)/profit of a jointly controlled entity	17	**(25)**	25
(Loss)/Profit before taxation	9	**(69,113)**	116,217
Taxation	10(a)	**(176)**	(149)
(Loss)/Profit for the year		**(69,289)**	116,068
Attributable to:			
Equity holders of the Company	11	**(60,700)**	83,956
Minority interests		**(8,589)**	32,112
		(69,289)	116,068
Dividend		**–**	–
(Loss)/Earnings per share attributable to equity holders of the Company	12		
– Basic (US cents)		**(1.93)**	3.00
– Diluted (US cents)		**N/A**	2.99

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	**2006**	2005
		US$'000	US$'000 Restated (Note 22(a)(4))
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**520**	630
Interests in associates	16	**653**	520
Interest in a jointly controlled entity	17	**135**	59
Available-for-sale investments	18	**516**	389
Interest in oil and gas exploration prospects	19	**42,500**	–
Intangible assets	20	**488**	562
		44,812	2,160
Current assets			
Loan to and amounts due from investee companies	32(c)	**7,989**	10,358
Trade and other receivables	21	**4,588**	10,790
Financial assets at fair value through profit or loss	22	**131,245**	157,464
Cash and cash equivalents	23	**25,611**	15,240
		169,433	193,852
Current liabilities			
Other payables and accrued charges	24	**17,210**	4,873
Provision for taxation		**99**	82
Current portion of obligations under a finance lease	25	**5**	5
Financial liabilities at fair value through profit or loss	26	**11,406**	8,340
Other loans (secured)	27	**–**	8,549
		28,720	21,849
Net current assets		**140,713**	172,003
Total assets less current liabilities		**185,525**	174,163
Non-current liabilities			
Obligations under a finance lease	25	**–**	5
Convertible bond	28	**17,403**	–
		17,403	5
Net assets		**168,122**	174,158
EQUITY			
Share capital	29	**3,359**	2,803
Reserves	30	**118,465**	124,860
Equity attributable to equity holders of the Company		**121,824**	127,663
Minority interests		**46,298**	46,495
Total equity		**168,122**	174,158

Johnny Chan Kok Chung
Director

Ilyas Tariq Khan
Director

BALANCE SHEET

As at 31 December 2006

	Notes	2006 US$'000	2005 US$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	15	**217,152**	279,146
Current assets			
Other receivables		**1,624**	448
Cash and cash equivalents	23	**15,360**	2,717
		16,984	3,165
Current liabilities			
Other payables		**365**	57
Financial liabilities at fair value through profit or loss	26	**2,220**	–
		2,585	57
Net current assets		**14,399**	3,108
Total assets less current liabilities		**231,551**	282,254
Non-current liabilities			
Convertible bond	28	**17,403**	–
Net assets		**214,148**	282,254
EQUITY			
Share capital	29	**3,359**	2,803
Reserves	30	**210,789**	279,451
Equity attributable to equity holders of the Company		**214,148**	282,254

Johnny Chan Kok Chung
Director

Ilyas Tariq Khan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Equity attributable to equity holders of the Company									Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Foreign exchange reserve	Convertible bond reserve	(Accumulated losses)/ Retained profits		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2005	2,795	52,817	9,228	11	–	165	(280)	–	(21,827)	13,892	56,801
Deficit on revaluation	–	–	–	–	–	(129)	–	–	–	–	(129)
Exchange differences on consolidation	–	–	–	–	–	–	93	–	–	17	110
Net (expense)/income recognised directly in equity	–	–	–	–	–	(129)	93	–	–	17	(19)
Profit for the year	–	–	–	–	–	–	–	–	83,956	32,112	116,068
Total recognised income and expenses for the year	–	–	–	–	–	(129)	93	–	83,956	32,129	116,049
Issue of new shares upon exercise of share options	8	35	–	–	(9)	–	–	–	–	–	34
Effect on exercising share options of a subsidiary	–	–	–	–	(132)	–	–	–	–	85	(47)
Employee share-based compensation	–	–	–	–	920	–	–	–	–	162	1,082
Disposal of partial interest in a subsidiary	–	–	–	–	–	–	–	–	–	775	775
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	1,562	1,562
Strike off of a subsidiary	–	–	12	–	–	–	–	–	–	–	12
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(2,110)	(2,110)
At 31 December 2005	2,803	52,852	9,240	11	779	36	(187)	–	62,129	46,495	174,158

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006 (continued)

	Equity attributable to equity holders of the Company									Minority interests	Total equity
	Share capital	**Share premium**	**Capital reserve**	**Capital redemption reserve**	**Employee share-based compensation reserve**	**Investment revaluation reserve**	**Foreign exchange reserve**	**Convertible bond reserve**	**Retained profits**		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2006	2,803	52,852	9,240	11	779	36	(187)	–	62,129	46,495	174,158
Surplus on revaluation	–	–	–	–	–	137	–	–	–	–	137
Exchange differences on consolidation	–	–	–	–	–	–	217	–	–	114	331
Net income recognised directly in equity	–	–	–	–	–	137	217	–	–	114	468
Loss for the year	–	–	–	–	–	–	–	–	(60,700)	(8,589)	(69,289)
Total recognised income and expenses for the year	–	–	–	–	–	137	217	–	(60,700)	(8,475)	(68,821)
Issue of convertible bond	–	–	–	–	–	–	–	4,793	–	–	4,793
Issue of new shares upon conversion of convertible bond	557	54,443	(4,368)	–	–	–	–	(4,793)	–	–	45,839
Issue of new shares upon exercise of share options	8	41	–	–	(12)	–	–	–	–	–	37
Effect on issue of redeemable preference shares of a subsidiary	–	–	–	–	–	–	–	–	–	10,461	10,461
Effect on exercising share options of a subsidiary	–	–	–	–	(313)	–	–	–	–	233	(80)
Effect on disposal of shares of a subsidiary to staff	–	–	–	–	(228)	–	–	–	–	230	2
Repurchase of own shares for cancellation	(9)	(461)	–	9	–	–	–	–	(9)	–	(470)
Repurchase of subsidiary's own shares by a subsidiary	–	–	–	–	–	–	–	–	–	(125)	(125)
Employee share-based compensation	–	–	–	–	4,849	–	–	–	–	323	5,172
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	1,704	1,704
Transfer to financial assets at fair value through profit or loss (Note 22(b))	–	–	–	–	–	–	–	–	–	(5,141)	(5,141)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	437	437
Deemed contribution from minority shareholders	–	–	–	–	–	–	–	–	–	156	156
At 31 December 2006	**3,359**	**106,875**	**4,872**	**20**	**5,075**	**173**	**30**	**–**	**1,420**	**46,298**	**168,122**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 US$'000	2005 US$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	35	**(21,296)**	9,963
Tax paid		**(174)**	(106)
Tax refund		**13**	–
Interest paid		**(497)**	–
Net cash (outflow)/inflow from operating activities		**(21,954)**	9,857
Cash flows from investing activities			
Acquisition of available-for-sale investments		**(17)**	(185)
Acquisition of a subsidiary, net of cash acquired	37	**(8)**	–
Acquisition of trademark		**(7)**	(3)
Interest received		**2,470**	364
Loan to an investee company, net		**(6,733)**	(9,500)
Net repayment from/(advance to) other receivables		**74**	(485)
Payments for interest in oil and gas exploration prospects	19	**(42,500)**	–
Proceeds from disposal of available-for-sale investments		**7**	396
Proceeds from disposal of partial interests in subsidiaries		**22**	1,651
Proceeds from disposal of property, plant and equipment		**2**	35
Purchase of property, plant and equipment		**(197)**	(423)
Repayment from/(advance to) investee companies		**9,500**	(28)
Net cash outflow from investing activities		**(37,387)**	(8,178)
Cash flows from financing activities			
Advanced payment received in respect of share sale		**–**	650
Capital contributions from minority shareholders		**130**	–
Dividend paid to minority shareholders		**–**	(2,110)
Drawdowns of other loans (secured)		**5,000**	8,500
Issue of new shares upon exercise of share options		**38**	34
Net proceeds from convertible bond issued		**72,750**	–
Proceeds from exercise of share options of a subsidiary		**1,242**	404
Proceeds from issue of redeemable preference shares of a subsidiary		**10,790**	–
Repayment of finance lease obligations		**(5)**	(5)
Repayment of other loans		**(19,460)**	–
Repurchase of own shares		**(470)**	–
Repurchase of subsidiary's own shares by a subsidiary		**(294)**	–
Net cash inflow from financing activities		**69,721**	7,473
Net increase in cash and cash equivalents		**10,380**	9,152
Effect of exchange rate fluctuations, net		**(9)**	(8)
Cash and cash equivalents as at 1 January		**15,240**	6,096
Cash and cash equivalents as at 31 December		**25,611**	15,240

For the year ended 31 December 2006

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 February 2000 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and, its principal place of business is 2701, Citibank Tower, 3 Garden Road, Central, Hong Kong. The Company's shares have been listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 April 2000.

The Company acts as the holding company of the Group. The Group is principally engaged in the business of merchant banking, asset management, venture capital fund management and direct investment. Details of principal activities of its principal subsidiaries are set out in Note 40 to the financial statements.

The financial statements on pages 40 to 110 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

The financial statements for the year ended 31 December 2006 were approved by the Board of Directors on 14 March 2007.

2. ADOPTION OF NEW OR AMENDED IFRS

During the year, there were a number of revised, amended and new IFRS effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. They did not result in significant change to the Group's accounting policies.

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective. Except for IFRS 7 and IFRS 8 which may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented, the directors of the Company anticipate that the adoption of these other standards will not result in significant changes to the Group's accounting policies. The Group has commenced its assessment of the impact of IFRS 7 and IFRS 8 but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

IAS 1 (Amendment)	Capital Disclosures[1]
IFRS 7	Financial Instruments: Disclosures[1]
IFRS 8	Operating Segments[8]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[2]
IFRIC 8	Scope of IFRS 2[3]
IFRIC 9	Reassessment of Embedded Derivatives[4]
IFRIC 10	Interim Financial Reporting and Impairment[5]
IFRIC 11	Group and Treasury Share Transactions[6]
IFRIC 12	Service Concession Arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008
8 Effective for annual periods beginning on or after 1 January 2009

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared under historical cost basis except for certain financial instruments, which are measured at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out in Note 4 to the financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Material intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

(c) Subsidiaries

Subsidiaries are entities over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries (other than for combining entities under common control) are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets in the consolidated balance sheet. If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

In the Company's balance sheet, investments in subsidiaries are classified as available-for-sale investments under IAS 39 "Financial Instruments: Recognition and Measurement" and are stated at fair value. For investments in subsidiaries that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are stated at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Details of the accounting policies on subsequent measurement of available-for-sale investments are set out in Note 3(h)(i) to the financial statements.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates and jointly controlled entities

An associate is an entity over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which is neither a subsidiary nor jointly controlled entity. Where the Group has a shareholding of between 20% and 50% but the holding is in an entity which arises from a merchant banking transaction, the Group takes advantage of the exemption in IAS 28 'Investments in Associates' available for venture capital or similar organizations and accounts for the holdings in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' as detailed in Note 3(h)(i) to the financial statements below. Except for the above, all the other associates are recognised on the basis as described in this note below.

A jointly controlled entity is an entity which operates under a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control and exists only when the strategic financial and operating decision relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, the Group's interests in associates or jointly controlled entities are initially recognised at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the results and movements of reserves of the associates or jointly controlled entities. The consolidated financial statements include the Group's share of the post-acquisition, post-tax results for the year, including any impairment loss on goodwill relating to the interests in associates or jointly controlled entities and movements of reserves of the associates or jointly controlled entities on an equity accounting basis. Any goodwill or fair value adjustment attributable to the share in the associates or jointly controlled entities is included in the amount recognised as interests in associates or jointly controlled entities.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the interests. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's interests in its associates or jointly controlled entities. At each balance sheet date, the Group determines whether there is any objective evidence that the interests in associates or jointly controlled entities are impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates or jointly controlled entities and its carrying amount.

Unrealised gains arising from transactions with associates or jointly controlled entities are eliminated to the extent of the Group's interests in the associates or jointly controlled entities. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

When the Group's share of losses in the associates or jointly controlled entities equals or exceeds its interests in the associates or jointly controlled entities, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associates or jointly controlled entities. For this purpose, the Group's interests in associates or jointly controlled entities are the carrying amounts of the investments under the equity method together with the Group's long-term interests that in substance form part of the Group's net investments in the associates or jointly controlled entities.

In the Company's balance sheet, the investments in associates or jointly controlled entities are stated at cost less any impairment losses. The results of associates or jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

(i) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the period in which they are incurred.

When assets are sold, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(ii) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Computer hardware and software	25% – 50%
Furniture and fixtures	20% – 25%
Leasehold improvements	20% or over the terms of the leases, whichever is shorter
Motor vehicles	25%
Office equipment	20% – 33$^1/_3$%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred

(ii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(g) Foreign currencies

The financial statements are presented in United States Dollars, which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currencies (continued)

In the consolidated financial statements, all individual financial statements of subsidiaries, associates and a jointly controlled entity, originally presented in a currency different from the Group's presentation currency, have been converted into United States Dollars. Assets and liabilities have been translated into United States dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the United States dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in foreign exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into United States dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(h) Financial instruments

Financial assets and financial liabilities are recognised when and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

(i) Financial assets

The Group classifies its financial assets into one of the following categories: financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date. The accounting policies adopted for each category are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

Available-for-sale investments

Available-for-sale investments include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in fair value is recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

When a decline in the fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised. Impairment losses previously recognised on equity instruments will not be reversed to the income statement in subsequent periods. Impairment losses previously recognised in the income statement on debt securities are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse in subsequent periods.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(i) Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Impairment losses on loans and receivables are provided for when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include embedded derivatives which have been separated from their host contracts and financial liabilities that are designated by the Group to be carried at fair value through profit or loss upon initial recognition.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(ii) Financial liabilities and equity (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

– the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

– the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial liabilities included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial liabilities originally designated as financial liabilities at fair value through profit or loss may not subsequently be reclassified.

Convertible bond

Convertible bond is regarded as a compound instrument, consisting of a liability component and an equity component, or in the case that the conversion options are not settled by the exchange of a fixed amount for a fixed number of equity instrument of the issuer (i.e. the Company), the issuer recognises the compound financial instrument in the form of a financial liability with an embedded derivative. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. At the date of issue, both the conversion option derivative and liability component are recognised at fair value and the difference between the proceeds of the bond issue and the total fair value assigned to the financial liability with embedded derivatives, representing the embedded call option for the bond holder to convert the bond into equity, is included in convertible bond reserve in equity.

In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Any notional non-cash interest charged on the liability component, calculated by applying the original effective interest rate, is added to the carrying amount of the liability component. The conversion option derivative is subsequently measured at fair value at each balance sheet date. The equity component will remain in convertible bond reserve until the embedded call option is exercised (in which case the balance stated in convertible bond reserve will be transferred to other reserves). Where the option remains unexercised at the expiry date, the balance stated in convertible bond reserve will be released to accumulated losses or retained profits. No gain or loss is recognised in the income statement upon conversion or expiration of the option.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(ii) Financial liabilities and equity (continued)

Convertible bond (continued)

Transaction costs that relate to the issue of the bond are allocated amongst the liability and equity components and the conversion option derivative in proportion to the allocation of the proceeds. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the bond using the effective interest method. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the conversion option derivative are expensed as incurred.

Other financial liabilities

Other financial liabilities include other payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

For financial liabilities, they are removed from the balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and amounts repayable on demand with banks and short-term highly liquid investments which are readily convertible into known amounts of cash without notice and are subject to an insignificant risk of changes in value and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance if the advances form part of the Group's cash management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets

(i) Goodwill

Goodwill arising on acquisition prior to 31 March 2004

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 31 March 2004 represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Such goodwill is stated after any accumulated amortisation and impairment and is amortised using the straight-line method over a period of three years. Under the transitional provisions in IFRS 3 "Business Combinations", the goodwill can only be amortised up to 31 December 2004 and the accumulated amortisation and impairment as at 1 January 2005 has been eliminated with a corresponding decrease in the cost of respective goodwill and, since then, any carrying amount of the goodwill is tested at each balance sheet date for impairment as well as when there are indications of impairment.

Goodwill arising on acquisition on or after 31 March 2004

Goodwill arising on acquisition of a subsidiary for which the agreement date is on or after 31 March 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Such goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

On subsequent disposal of the subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

Excess of an acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with IFRS 3, any excess of an acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement in the period in which the acquisition takes place.

(ii) Trademarks

Expenditure on acquired trademarks, which is principally over the Crosby name, is capitalised and is not amortised over the useful life, which is indefinite for the following reasons:

– it is capable of being renewed indefinitely at insignificant cost; and

– there is no foreseeable limit to the period over which the asset is expected to generate net cashflows, based on an analysis of all of the relevant factors.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets

Property, plant and equipment, interests in subsidiaries, associates and a jointly controlled entity, goodwill and other intangible assets are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(l) Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Taxation (continued)

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and a jointly controlled entity, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

(m) Revenue recognition

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

– Fees from corporate finance and other advisory services are recognised when the services have been rendered, which is either on completion of the transactions for contingent arrangements or as the services are provided for other services.

– Fund management fee income is recognised in accordance with the substance of the relevant agreements.

– Wealth management service fee income is recognised when the wealth management services have been rendered, which is normally as the services are provided.

– Management fee income, included in other income, is recognised as the services are provided.

– Interest income is recognised as it accrues, taking into account the effective yield on the asset.

The policies on financial assets at fair value through profit or loss are dealt with in Note 3(h)(i) to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefit schemes

The Group participates in the following retirement benefit schemes and pays contributions to independently administered funds on a mandatory or contractual basis. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant group companies. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense (Note 13(c)) when they fall due.

Hong Kong

All eligible employees have participated in the Mandatory Provident Fund Scheme ("MPF Scheme"). Under the MPF Scheme, the eligible employees are required to contribute 5% of their monthly basic salaries with a maximum monthly contribution of HK$1,000 whereas the Group's contribution will be 5% of the relevant income with a maximum monthly contribution of HK$1,000. There is no voluntary contribution from the Group nor the employees and there are no other legal or constructive obligations to the Group.

Singapore

All employees based in Singapore have to participate in the Central Provident Fund Scheme in Singapore if they meet certain defined residency criteria. Both the employer and employee must make contributions at the applicable rates.

(iii) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 that had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans to remunerate its employees and directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(iii) Share-based employee compensation (continued)

All share-based compensation is ultimately recognised as an expense in the income statement with a corresponding credit to employee share-based compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital and the amount previously recognised in employee share-based compensation reserve will be transferred out with any excess being recorded as share premium.

When the share options vested and then lapsed, the amount previously recognised in the employee share-based compensation reserve is transferred to the retained profits or accumulated losses.

(iv) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(o) Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

– controls, is controlled by, or is under common control with, the Group;

– has an interest in the Group that gives it significant influence over the Group;

– has joint control over the Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in a particular business (business segment), or conducting business in a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other economic environments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are discussed below:

Fair values of financial instruments

Financial instruments such as financial assets and liabilities at fair value through profit or loss, available-for-sale investments and convertible bond are initially measured at fair value. Certain financial instruments as described in Note 3(h) to the financial statements are remeasured at fair value at subsequent reporting dates. The best evidence of fair value is quoted prices in an active market. Where quoted prices are not available for a particular financial instrument, the Group uses the values determined by the internal or external valuation techniques to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities requires varying degrees of judgement by management, which may result in different fair values and results. The assumptions with regard to the fair value of financial assets and liabilities at fair value through profit or loss and convertible bond, detailed in Notes 22, 26 and 28 to the financial statements respectively, are those that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year.

The only significant financial assets at fair value through profit or loss not valued at quoted market prices are as follows:

– Investment in Sunov Petroleum (Pakistan) Limited (US$5,107,000), which was valued on the basis of the conversion value of a convertible note issued by that company in the year; and

– Options to subscribe for shares in White Energy Company Limited (US$2,800,000), which were valued based on 31 December 2006 share price by that company less the option exercise price.

Valuations of share options granted

The fair value of share options granted was calculated using the Binomial option pricing model which requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the Directors of the Company, the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in Note 31 to the financial statements.

For the year ended 31 December 2006

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) Critical accounting estimates and assumptions (continued)

Valuation of Oil and Gas Exploration Prospects

The Oil and Gas Exploration Prospects are subject to significant risk and uncertainty which may adversely affect the value of the investment made by the Group. If any of the Oil and Gas Exploration Prospects fails to commence commercial production after completion of the exploratory drilling and subsequent evaluation of the well then the Group will need to make a provision for impairment against the relevant investments which would negatively impact the Group's financial performance.

Impairment of assets

The Group conducts impairment reviews of assets when events of changes in circumstances indicate that their carrying amounts may not be recoverable annually in accordance with relevant accounting standards. An impairment loss is recognised when the carrying amount of an asset is lower than the greater of its net selling price or the value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate.

Impairment of receivables

Management determines impairment of receivables on a regular basis. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Current taxation and deferred taxation

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which the final tax outcome is determined.

Deferred tax assets relating to certain tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact, where applicable and appropriate, the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

(ii) Critical judgements in applying the Group's accounting policies

Management in applying the accounting policies, which are described in Note 3 to the financial statements, considers that the most significant judgement they have had to make is the designation of financial assets at fair value through profit or loss which affect the amount recognised in the financial statements.

For the year ended 31 December 2006

5. SEGMENTAL INFORMATION

(a) Primary reporting format – business segment:

	Merchant banking		Asset management		Direct investment		Unallocated		Consolidated	
	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
Turnover/Revenue	**1,545**	1,850	**7,624**	5,850	**–**	–	**–**	–	**9,169**	7,700
Segment results	**(44,803)**	129,345	**(1,512)**	(599)	**5,146**	45	**–**	–	**(41,169)**	128,791
Unallocated operating loss	**–**	–	**–**	–	**–**	–	**(26,904)**	(12,787)	**(26,904)**	(12,787)
(Loss)/Profit from operations									**(68,073)**	116,004
Finance costs									**(2,052)**	(49)
Excess over the cost of acquisition of a subsidiary									**959**	–
Share of profits of associates									**78**	237
Share of (loss)/profit of a jointly controlled entity									**(25)**	25
(Loss)/Profit before taxation									**(69,113)**	116,217
Taxation									**(176)**	(149)
(Loss)/Profit for the year									**(69,289)**	116,068
Segment assets	**137,325**	170,434	**5,056**	3,886	**68,438**	9,919	**–**	–	**210,819**	184,239
Unallocated assets	**–**	–	**–**	–	**–**	–	**3,426**	11,773	**3,426**	11,773
Total assets	**137,325**	170,434	**5,056**	3,886	**68,438**	9,919	**3,426**	11,773	**214,245**	196,012
Segment liabilities	**16,488**	10,037	**593**	360	**19,988**	8,549	**–**	–	**37,069**	18,946
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**9,054**	2,908	**9,054**	2,908
Total liabilities	**16,488**	10,037	**593**	360	**19,988**	8,549	**9,054**	2,908	**46,123**	21,854
Other information										
Capital expenditure	**11**	181	**46**	127	**–**	–	**140**	115	**197**	423
Depreciation	**66**	58	**61**	55	**–**	–	**186**	201	**313**	314
Impairment of goodwill	**–**	–	**237**	–	**–**	–	**–**	–	**237**	–
Impairment of receivables	**221**	617	**–**	–	**–**	5	**–**	–	**221**	622

For the year ended 31 December 2006

5. SEGMENTAL INFORMATION (continued)

(a) Primary reporting format – business segment: (continued)

Notes:

- Merchant banking – provision of corporate finance and other advisory services and the changes in fair value of financial assets and liabilities through profit or loss arising from the Group's merchant banking activities.
- Asset management – provision of venture capital fund management, asset management and wealth management services.
- Direct investment – investments in the exploration prospects and technology related companies.
- Unallocated – primarily items related to corporate offices.

(b) Secondary reporting format – geographical segment:

The Group's activities are mainly operated or carried out in Asia.

6. TURNOVER/REVENUE

	2006	2005
	US$'000	US$'000
Corporate finance and other advisory fees (Note 22(b)(1) and Note 36(d))	**1,545**	1,850
Fund management fee income	**1,186**	1,420
Wealth management services fee	**6,438**	4,430
	9,169	7,700

7. OTHER INCOME

	2006	2005
	US$'000	US$'000
Bad debts recovery	**22**	149
Bank interest income	**1,836**	305
Fee on redemption and arrangement of loans	**1,430**	–
Gain on deemed disposal of a subsidiary	**329**	–
Gain on deemed disposal of an associate	**75**	–
Gain on disposal of available-for-sale investments	**–**	124
Gain on disposal of property, plant and equipment	**–**	5
Management fee income	**234**	208
Other interest income	**608**	127
Others	**162**	154
	4,696	1,072

For the year ended 31 December 2006

8. FINANCE COSTS

	2006	2005
	US$'000	US$'000
Effective interest expense on the convertible bond		
– wholly repayable within five years (Note 28)	**1,604**	–
Other interest expense – wholly repayable within five years	**448**	49
	2,052	49

9. (LOSS)/PROFIT BEFORE TAXATION

	2006	2005
	US$'000	US$'000
(Loss)/Profit before taxation is arrived at after charging:		
Auditors' remuneration:		
– audit services	**161**	162
– corporate governance review	**104**	–
– other services	**143**	23
Depreciation:		
– owned assets	**299**	300
– assets held under finance leases	**14**	14
Employee benefit expense (Note 13(c))	**52,758**	26,710
Exchange loss, net	**318**	255
Impairment of goodwill (Note 20)	**237**	–
Impairment of receivables	**221**	622
Loss on deemed disposal of a subsidiary	**382**	247
Loss on disposal of available-for-sale investments	**8**	–
Operating leases charges in respect of rented land and buildings	**737**	460

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10(a). TAXATION

	2006	2005
	US$'000	US$'000
Current tax		
– Hong Kong	**80**	6
– Overseas	**96**	143
	176	149

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2006. Taxes on profits assessable elsewhere have been calculated at the rates prevailing in the relevant jurisdictions during the year.

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

	2006		2005	
	US$'000	**%**	US$'000	%
(Loss)/Profit before taxation	**(69,113)**		116,217	
Less: Adjustments:				
– Share of profits of associates	**(78)**		(237)	
– Share of loss/(profit) of a jointly controlled entity	**25**		(25)	
Adjusted (loss)/profit before taxation	**(69,166)**		115,955	
Tax at statutory tax rates	**(12,104)**	**17.50**	20,292	17.50
Effect of overseas tax rate differences	**(42)**	**0.06**	58	0.05
Tax effect of non-taxable income	**(681)**	**0.98**	(23,177)	(19.99)
Tax effect of non-deductible expenses	**12,734**	**(18.41)**	1,531	1.32
Tax effect of unrecognised temporary differences	**15**	**(0.02)**	14	0.01
Tax effect of unrecognised tax losses	**432**	**(0.62)**	1,615	1.40
Utilisation of previously unrecognised tax losses	**(178)**	**0.26**	(184)	(0.16)
Tax charge at the Group's effective tax rate	**176**	**(0.25)**	149	0.13

For the year ended 31 December 2006

10(b). DEFERRED TAXATION

Group

The following are the major deferred tax assets not recognised in the consolidated balance sheet:

	Decelerated tax depreciation	**Unutilised tax losses***	**Total**
	US$'000	US$'000	US$'000
At 31 December 2006	**86**	**4,364**	**4,450**
At 31 December 2005	58	5,173	5,231

* The tax losses can be carried forward indefinitely if certain criteria can be met under the respective tax jurisdictions.

No recognition of potential deferred tax assets of the Group has been made as the recoverability of the potential assets is uncertain.

Company

No deferred tax has been provided in the financial statements of the Company as there are no temporary differences.

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated (loss)/profit attributable to the equity holders of the Company, a loss of US$11,577,000 (2005: a profit of US$3,108,000) has been dealt with in the financial statements of the Company.

For the year ended 31 December 2006

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(a) Basic

Basic (loss)/earnings per share is calculated by dividing consolidated (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
(US$'000)		
Consolidated (loss)/profit attributable to equity holders of the Company	**(60,700)**	83,956
(Number)		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share (Note)	**3,147,679,739**	2,798,101,903
Basic (loss)/earnings per share (US cents per share)	**(1.93)**	3.00

Note:

The calculation of weighted average number of ordinary shares in issue includes the non-voting convertible deferred shares as it ranks pari passu with ordinary shares in respect of all distributions.

(b) Diluted

No diluted loss per share is shown for 2006 as the outstanding share options were anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity holders of the Company of US$83,956,000 and the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares granted under the Company's share option scheme of 2,810,173,934. None of the dilutive shares relate to interest or similar expense recognisable in the consolidated income statement for 2005.

For the year ended 31 December 2006

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

	Fees	Salaries and allowances	Discretionary bonuses	Retirement fund contributions	Benefits in kind	Share-based compensation expense (Note)	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2006							
Executive Director:							
Johnny Chan Kok Chung	–	900	6,039	3	20	905	7,867
Non-executive Directors:							
Ilyas Tariq Khan	–	1,050	9,829	3	17	905	11,804
Ahmad S. Al-Khaled	28	–	–	–	–	93	121
Independent Non-executive Directors:							
Daniel Yen Tzu Chen	28	–	–	–	–	92	120
Peter McIntyre Koenig	28	–	–	–	–	92	120
Joseph Tong Tze Kay	28	–	–	–	–	92	120
	112	1,950	15,868	6	37	2,179	20,152
2005							
Executive Director:							
Johnny Chan Kok Chung	–	500	2,200	3	21	–	2,724
Non-executive Directors:							
Ilyas Tariq Khan	–	385	4,650	3	17	–	5,055
Ahmad S. Al-Khaled	20	–	–	–	–	4	24
Independent Non-executive Directors:							
Daniel Yen Tzu Chen	20	–	–	–	–	10	30
Peter McIntyre Koenig	20	–	–	–	–	3	23
Joseph Tong Tze Kay	20	–	–	–	–	3	23
	80	885	6,850	6	38	20	7,879

Note: The amount of equity-settled share-based compensation expenses is measured according to the Group's accounting policies for share-based employee compensation transactions as set out in Note 3(n)(iii) to the financial statements. Particulars of share options granted to the Directors under the Company's share option scheme are set out in Note 31 to the financial statements.

For the year ended 31 December 2006

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

	2006	2005
	US$'000	US$'000
Salaries, allowances and benefits in kind	**1,717**	896
Commission paid and payable	**1,757**	1,606
Bonus paid and payable	**11,056**	5,530
Retirement fund contributions	**1**	9
Share-based compensation expense	**1,253**	128
Social security costs	**40**	225
	15,824	8,394

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
US$1,153,001 to US$1,217,000	**–**	1
US$1,601,001 to US$1,665,000	**1**	–
US$1,857,001 to US$1,921,000	**–**	1
US$2,305,001 to US$2,369,000	**1**	–
US$5,249,001 to US$5,313,000	**–**	1
US$11,841,001 to US$11,905,000	**1**	–

During the year ended 31 December 2006, no emoluments were paid by the Group to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived or agreed to waive any emoluments during each of the two years ended 31 December 2006 and 2005.

For the year ended 31 December 2006

13. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (continued)

(c) Employee benefit expense (including directors' remuneration)

	2006	2005
	US$'000	US$'000
Fees	**112**	80
Salaries, allowances and benefits in kind	**10,218**	6,557
Commission paid and payable	**2,758**	1,786
Bonus paid and payable *	**34,216**	16,854
Retirement fund contributions **	**89**	76
Share-based compensation expense	**5,172**	1,082
Social security costs	**193**	275
	52,758	26,710

* The bonus award attributable to the year ended 31 December 2006 was US$8,704,000 which was charged as an expense during the year ended 31 December 2006. Included in the bonus paid and payable charged to the income statement during the year ended 31 December 2006 was US$23,750,000 and US$1,762,000 of deferred charges in respect of bonuses awarded for the years ended 31 December 2005 and 2004 respectively which only became an obligation and liability of the Group during the year ended 31 December 2006. Accordingly, the total charge for bonus paid and payable for the year ended 31 December 2006 was US$34,216,000 .

** There was no significant amount of forfeited contributions available to reduce future contributions payable by the Group as at 31 December 2006 and 2005.

For the year ended 31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Computer hardware and software	Furniture and fixtures	Leasehold improvements	Motor vehicles	Office equipment	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2005						
Cost	220	135	626	117	198	1,296
Accumulated depreciation	(168)	(101)	(243)	(65)	(166)	(743)
Net book amount	52	34	383	52	32	553
Year ended 31 December 2005						
Opening net book amount	52	34	383	52	32	553
Additions	155	103	139	–	26	423
Disposals	(13)	(13)	(2)	–	(2)	(30)
Exchange differences	–	(1)	(1)	–	–	(2)
Depreciation	(51)	(36)	(196)	(13)	(18)	(314)
Closing net book amount	143	87	323	39	38	630
At 31 December 2005						
Cost	342	201	714	55	205	1,517
Accumulated depreciation	(199)	(114)	(391)	(16)	(167)	(887)
Net book amount	143	87	323	39	38	630
Year ended 31 December 2006						
Opening net book amount	143	87	323	39	38	630
Additions	140	40	12	–	5	197
Disposals	(2)	–	–	–	–	(2)
Exchange differences	2	3	3	–	–	8
Depreciation	(96)	(37)	(144)	(14)	(22)	(313)
Closing net book amount	187	93	194	25	21	520
At 31 December 2006						
Cost	472	246	732	55	210	1,715
Accumulated depreciation	(285)	(153)	(538)	(30)	(189)	(1,195)
Net book amount	187	93	194	25	21	520

Included in motor vehicles above is a motor vehicle held under a finance lease with a net book value of US$25,000 (2005: US$39,000) as at 31 December 2006.

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15. INTERESTS IN SUBSIDIARIES

Company

		2006	2005
	Notes	**US$'000**	US$'000
Investments at fair value			
– Listed shares, outside Hong Kong		**168,148**	278,326
Investments at cost			
– Unlisted shares, outside Hong Kong	(i)	**110,044**	–
Less: Impairment losses	(i)	**(60,983)**	–
		49,061	–
Amounts due from subsidiaries	(ii)	**128**	50,371
Less: Impairment losses		**–**	(49,365)
		128	1,006
Amounts due to subsidiaries	(ii)	**(185)**	(186)
		217,152	279,146

Notes:

(i) During the year ended 31 December 2006, US$60,983,000 of the amounts due from subsidiaries was deemed to be repaid by way of capitalisation into the share premium of a subsidiary. The corresponding investment in the subsidiary was fully impaired at 31 December 2006.

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

(iii) Details of principal subsidiaries are set out in Note 40 to the financial statements.

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16. INTERESTS IN ASSOCIATES

Group

	2006	2005
	US$'000	US$'000
Share of net assets other than goodwill	**631**	500
Goodwill	**68**	68
	699	568
Less: Impairment losses	**(54)**	(54)
	645	514
Amounts due from associates	**10**	8
Amounts due to associates	**(2)**	(2)
	653	520

Amounts due from/(to) associates are interest-free, unsecured and have no fixed repayment terms.

Particulars of principal associates as at 31 December 2006 are as follows:

Name	**Place of incorporation**	**Issued/Paid-up share capital**	**Percentage of interest held by the Company indirectly**		**Principal activities and places of operation**	**Notes**
			2006	2005		
Crosby Asset Management South Asia Limited ("CAMSAL")	British Virgin Islands	1,000 ordinary shares at US$1 each	**100%**	100%	Investment holding in British Virgin Islands	(i)
Crosby Asset Management (Pakistan) Limited ("CAMPL")	Pakistan	3,000,000 ordinary shares at Rupee 10 each	**100%**	100%	Provision of investment advisory and asset management services in Pakistan	(ii)
Crosby Securities Pakistan (Private) Limited ("CSPL")	Pakistan	500 ordinary shares at Rupee 10 each	**100%**	100%	Securities dealing in Pakistan	(ii)
SBI CROSBY (Holdings) Limited ("SCHL")	British Virgin Islands	22,455 ordinary shares at US$1 each	**26.72%**	50%	Investment holding in British Virgin Islands	(iii)
SBI CROSBY Limited ("SCL")	Hong Kong	10,000,000 ordinary shares at HK$1 each	**26.72%**	50%	Provision of corporate finance advisory services in Hong Kong	(iii)

All of the above associates are limited liability companies.

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16. INTERESTS IN ASSOCIATES (continued)

Notes:

(i) CAMSAL is considered as an associate of the Group because under an investment agreement signed on 20 March 2003, a third party agreed to invest US$456,000 into CAMSAL by way of a convertible loan note which gives the holder an option to convert the loan note into ordinary shares of CAMSAL at any time and the right to participate in any dividend or other distributions made by CAMSAL on the basis that the loan has been converted into shares immediately prior to the distribution. As at 31 December 2006, the third party is considered to hold an effective 80% equity interest in CAMSAL.

(ii) CAMPL and CSPL are wholly owned subsidiaries of CAMSAL. As a result of the above investment arrangement, CAMPL and CSPL are considered as associates of the Group and that third party is also considered to hold effective 80% equity interests in CAMPL and CSPL as at 31 December 2006.

(iii) SCL is a wholly owned subsidiary of SCHL. In May 2006, the Group's equity interests in SCHL was reduced from 50% to 26.72% following a placement in which the Group did not participate. Accordingly, the Group's interest in SCL was reduced to 26.72%

Summarised financial information in respect of the Group's associates is set out below:

	Assets	**Liabilities**	**Equity**	**Revenue**	**Profit**
	US$'000	US$'000	US$'000	US$'000	US$'000
2006					
100 per cent	**3,470**	**(882)**	**2,588**	**3,973**	**650**
Group's effective interest	**841**	**(210)**	**631**	**984**	**78**
2005					
100 per cent	2,386	(983)	1,403	3,390	643
Group's effective interest	650	(150)	500	1,344	237

The financial information above is based on the unaudited management accounts for each of the two years ended 31 December 2006 and 2005.

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17. INTEREST IN A JOINTLY CONTROLLED ENTITY

Group

	2006	2005
	US$'000	US$'000
Share of net assets	**–**	25
Amount due from a jointly controlled entity	**135**	34
	135	59

Amount due from a jointly controlled entity is interest-free, unsecured and has no fixed repayment terms.

Particulars of the jointly controlled entity as at 31 December 2006 are as follows:

Name	**Place of incorporation**	**Issued/Paid-up share capital**	**Percentage of interest held by the Company indirectly**		**Principal activities and place of operation**
			2006	2005	
JAIC-CROSBY Investment Management Company Limited	Cayman Islands	100 ordinary shares at US$1 each	50%	50%	Provision of fund management services in Cayman Islands

The jointly controlled entity is a limited liability company.

Summarised financial information in respect of the Group's jointly controlled entity is set out below:

	Assets	**Liabilities**	**Equity**	**Revenue**	**(Loss)/ Profit**
	US$'000	US$'000	US$'000	US$'000	US$'000
2006					
100 per cent	**221**	**(221)**	**–**	**136**	**(51)**
Group's effective interest	**111**	**(111)**	**–**	**68**	**(25)**
2005					
100 per cent	85	(34)	51	77	51
Group's effective interest	42	(17)	25	38	25

The financial information above is based on the unaudited management accounts for each of the two years ended 31 December 2006 and 2005.

18. AVAILABLE-FOR-SALE INVESTMENTS

Group

	2006	2005
	US$'000	US$'000
Unlisted investments, at cost		
Equity securities	**1,812**	1,920
Less: Impairment losses	**(1,614)**	(1,712)
	198	208
Listed investments, at fair value		
Equity securities, listed in Hong Kong	**50**	–
Equity securities, listed outside Hong Kong	**268**	181
	318	181
	516	389

19. INTEREST IN OIL AND GAS EXPLORATION PROSPECTS

On 9 March 2006, Coniston International Capital Limited ("Coniston", a wholly-owned subsidiary of the Company) entered into the Exploration Funding Agreement with Lodore Delaware Petroleum LLC ("Lodore"), which was the surviving entity following a merger with Lodore Resources Inc. in August 2006, to acquire a 35% working interest in three oil and gas prospects, namely Big Mouth Bayou, Endeavor and North West Kaplan, located in Cameron Parish and Vermilion Parish in Louisiana in the United States (the "Exploration Prospects"), for total cash consideration of US$42,500,000.

Lodore has a 75% working interest in the Exploration Prospects pursuant to agreements with Pel-Tex Oil Company L.L.C. ("Pel-Tex"), the operator of the Exploration Prospects. Lodore bears 100% of the drilling costs in relation to the Exploration Prospects up to the proposed total depth of the respective wells drilled on the Exploration Prospects and 75% of the costs in respect of the activities associated with completing a drilled well in order to establish the flow of hydrocarbons and the construction of any surface facilities that may be required to enable any such hydrocarbons to be sold. Pel-Tex is responsible for all operational functions relating to the Exploration Prospects. Lodore is responsible for obtaining financing and providing technical expertise in relation to the exploration of the Exploration Prospects.

The relevant terms under the Exploration Funding Agreement are as follows:

1. Lodore will apply the consideration towards the funding of the drilling and completion costs of the Exploration Prospects.

2. If drilling operations of any of the Exploration Prospects have not commenced within 12 months after the date of signing of the Exploration Funding Agreement, Lodore has agreed to repay the proportion of the consideration in respect of the relevant Exploration Prospect to Coniston in full.

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19. INTEREST IN OIL AND GAS EXPLORATION PROSPECTS (continued)

3. Coniston will only be assigned a working interest in the operating agreement in respect of any of the Exploration Prospects if commercial sales of hydrocarbons commences.

4. Lodore will bear 100% of the rights, title and interests, obligations and liabilities of the Exploration Prospects and accordingly Lodore is solely responsible for all costs incurred for the drilling and completion of the Exploration Prospects in excess of the total amount of the consideration.

5. Coniston is under no obligation whatsoever to contribute any further funding over and above the consideration until the working interest has been assigned.

6. If the Exploration Prospects are successful and put to commercial production, Coniston, Lodore and Pel-Tex will hold direct interests in the underlying oil and gas wells and the revenue, net of operating and capital costs, royalty payments and taxes, associated with them, in the proportions 35:40:25.

Further details of the Exploration Prospects and their drilling status at 31 December 2006 are described in the Chairman's Report and Management Discussion and Analysis section of this report.

20. INTANGIBLE ASSETS

Group

	Trademark	**Goodwill**	**Total**
	US$'000	US$'000	US$'000
Carrying amount at 1 January 2005	478	81	559
Acquisition of trademark in 2005	3	–	3
Carrying amount at 31 December 2005 and 1 January 2006	481	81	562
Acquisition of trademark in 2006	7	–	7
Additional investment in a subsidiary	–	156	156
Impairment (Note 9)	–	(237)	(237)
Carrying amount at 31 December 2006	488	–	488

At 31 December 2006, the trademark represents the "Crosby" brand name for the provision of financial services in Europe and the above goodwill relates to the Group's capital injection in its subsidiary, Crosby Wealth Management (Asia) Limited ("CWMA"), at 1 October 2004 together with the goodwill arising in 2006 of US$156,000 on the capitalisation of an amount due from CWMA.

The goodwill has been fully impaired in the year ended 31 December 2006. Based on the impairment testing of trademark at 31 December 2006, in the opinion of Directors of the Company, no further impairment is considered necessary for the balance of the Group's trademark.

The reasons for non-amortisation of trademark is given in Note 3(j)(ii) to the financial statements.

For the year ended 31 December 2006

21. TRADE AND OTHER RECEIVABLES

Group

		2006	2005
	Notes	**US$'000**	US$'000
Trade receivables – gross		**930**	651
Less: Impairment losses		**(221)**	(22)
Trade receivables – net	(i)	**709**	629
Other receivables – gross		**3,164**	9,537
Less: Impairment losses		**(594)**	(618)
	(ii)	**2,570**	8,919
Deposits and prepayments		**1,309**	1,242
		4,588	10,790

Notes:

(i) At 31 December 2006, the ageing analysis of trade receivables based on invoice date and net of provisions, is as follows:

	2006	2005
	US$'000	US$'000
0 – 30 days	**630**	220
31 – 60 days	**79**	205
61 – 90 days	**–**	204
	709	629

The Group allows a credit period ranging from 15 to 45 days (2005: 15 to 45 days) to its asset management clients.

(ii) Included in other receivables are staff loans and advances of US$154,000 (2005: US$59,000). Such loans and advances were granted at the discretion of the management and were for the purpose of assisting employees to buy the Company's shares prior to the Company's initial public offering and for other purposes. The loans and advances are partially or wholly secured by the borrowers' shares in the Company and repayable by instalment as agreed with the borrowers.

For the year ended 31 December 2006

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Group

	Notes	**2006** US$'000	2005 US$'000 Restated (Note 22(a)(4))
Held for trading			
Listed securities:			
– Equity securities – Australia	(1) & (2)	**15,786**	1,007
– Equity securities – Japan	(3)	**65,388**	91,861
– Equity securities – United Kingdom	(4) & (9)	**42,064**	40,381
Fair value of listed securities		**123,238**	133,249
Unlisted securities:			
– Equity securities – Australia	(5)	**2,800**	–
– Equity securities – British Virgin Islands	(6)	**5,107**	–
– Equity securities – Japan	(7)	**–**	13,273
– Equity securities – Mauritius	(8)	**–**	10,842
Fair value of unlisted securities		**7,907**	24,115
Sub-total		**131,145**	157,364
Designated as financial assets at fair value through profit or loss on initial recognition			
Unlisted securities:			
– Equity securities – United Kingdom		**100**	100
Total		**131,245**	157,464

For the year ended 31 December 2006

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes:

(1) At 31 December 2006, the Group held a total of 23,785,039 shares in Orchard Petroleum Limited ("Orchard"), listed on the Australian Stock Exchange and representing 11.86% of its issued share capital, through its subsidiaries, Crosby Orchard Fund Inc. ("COF") and Eskdale Petroleum Pty Limited ("Eskdale"), which are valued at US$14,925,000, arrived at on the basis of their quoted market price at 31 December 2006 of A$0.795 per share. As explained in the list of principal subsidiaries in Note 40(i) to the financial statements, COF and Eskdale are 100% owned subsidiaries of ESK Limited ("ESK"). As at 31 December 2006, the investments of ESK had been financed through the issue of redeemable preference shares, which did not carry voting rights and had no rights to appoint directors, whilst the Group through an 81.24% subsidiary held 100% of the ordinary voting share capital of ESK which represented 30% of its total issued share capital. Accordingly, ESK has been consolidated as a subsidiary at 31 December 2006. On 1 December 2006, Eskdale made a cash offer to Orchard's shareholders to purchase their shares in Orchard for A$0.81 each. The capital structure of ESK will change subsequent to the balance sheet date. Further details are set out in Note 41(a) to the financial statements.

(2) At 31 December 2006, the Group held a total of 623,528 shares in White Energy Company Limited ("White Energy"), listed on the Australian Stock Exchange and representing 0.52% of its issued share capital, of which 100,000 shares were held through its 81.24% owned subsidiary, Crosby Investment Holdings Limited ("CIH") and 523,528 shares were held through a 100% subsidiary techpacific.com Digital Limited, which are valued in total at US$861,000, arrived at on the basis of their quoted market price at 31 December 2006 of A$1.75 per share.

(3) At 31 December 2006, the Group held a total of 102,425,000 shares of IB Daiwa Corporation ("IB Daiwa"), a JASDAQ listed Japanese company and representing 24.02% of its issued share capital, through its 81.24% owned subsidiaries, Crosby Capital Partners Limited and Sunov Crosby (Holdings) Limited ("SCH"), which are valued at US$65,388,000, arrived at on the basis of their quoted market price at 31 December 2006 of ¥76 per share. At 31 December 2005, the Group held a total of 58,803,781 shares of IB Daiwa which were valued in the consolidated balance sheet at a total valuation of US$91,861,000, arrived at on the basis of their quoted market price at 31 December 2005 of ¥184 per share. The Group, as detailed in (7) below, acquired 64,600,000 shares from the exercise of warrants during 2006. The Group disposed of 20,978,781 shares of IB Daiwa during the year realising proceeds of US$25,238,000.

(4) At 31 December 2006, the Group held 35,000,000 shares of Indago Petroleum Limited ("Indago"), a company listed on the AIM market of the London Stock Exchange and representing 13.12% of its issued share capital, through its 45.98% subsidiary Silk Route Petroleum Limited ("Silk Route"). The shares held by the Group are valued at US$39,084,000 arrived at on the basis of their quoted market price at 31 December 2006 of £0.57 per share. Silk Route, together with the other founding shareholders of Indago, has pledged its shares in Indago as security against the repayment of its 21% pro rata share of the loan advanced by a group company of one of the other founding shareholders of Indago. The proceeds of the loan were used to finance the acquisition of the business and assets of Indago prior to its listing in December 2005. Silk Route also guaranteed the repayment of its pro rata share of the aforementioned loan up to the value of its Indago shares. The lender has the right to seek Silk Route's repayment of its 21% pro rata share of the loan advanced. The balance of the pro rata share of Silk Route of the loan was US$9,186,000 (including accrued interest) at 31 December 2006. This has been separately presented as a financial liability at fair value through profit or loss as detailed in Note 26(iii) to the financial statements. In the year ended 31 December 2005, as detailed below, this financial liability amounted to US$8,340,000 and was treated as part of the discount against the financial asset. Accordingly, the balance sheet at 31 December 2005 has been restated to present this financial liability separately. This reclassification has no overall impact on the results or cashflow for the year ended 31 December 2005 other than presenting the change in the value of the financial liability separately. At 31 December 2005, the Group owned 35,000,000 shares of Indago which were valued at US$32,041,000 (before reclassification) using the closing price per Indago share as quoted on AIM on 31 December 2005 of £0.76 per share, discounted by 30% to reflect both the formal restriction on the disposal of those shares under a lock-in which expired on 1 December 2006 and its obligations with regard to the loan. The Indago shares were issued to Silk Route during 2005 in consideration for it surrendering an option to acquire 49% of Novus Middle East Limited (which owns interests in, and is the operator of, six petroleum exploration and production concessions located in the Sultanate of Oman and Ras Al Khaimah, United Arab Emirates) and arranging for Indago to acquire 100% of Novus Middle East Limited. The developments since 31 December 2006 in respect of this financial asset are disclosed in Note 41(b) to the financial statements.

For the year ended 31 December 2006

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes: (continued)

(4) (continued)

Details of the reclassification are now summarised below:

	Before reclassification	Reclassification	After reclassification
	US$'000	US$'000	US$'000
Consolidated Balance Sheet:			
Financial assets at fair value through profit or loss	149,124	8,340	157,464
Financial liabilities at fair value through profit or loss	–	(8,340)	(8,340)
Consolidated Income Statement:			
Gain on financial assets at fair value through profit or loss	142,837	8,340	151,177
Loss on financial liabilities at fair value through profit or loss	–	(8,340)	(8,340)

(5) At 31 December 2006, the Group held a total of 2,036,296 options to subscribe for shares in White Energy with an exercise price of A$0.01 per share and expiring in 2011, through its 100% owned subsidiary, CIH which once exercised would represent 1.3% of its enlarged share capital. The options were valued in the consolidated balance sheet at a total valuation of US$2,800,000 which represented the difference between the quoted market price of A$1.75 per share as at 31 December 2006 and the exercise price of the options of A$0.01 per share. The options were received during the year in consideration for arranging a placement for White Energy and were valued on initial recognition at US$1,545,000.

(6) At 31 December 2006, the Group, through its 81.24% owned subsidiary SCH, owns 38.98% of Sunov Petroleum (Pakistan) Limited ("SPP"), a company incorporated in British Virgin Islands, which in turn owns 100% of Eastern Petroleum Limited ("EP"), a company incorporated in Mauritius. The shares in SPP are classified as a financial asset at fair value through profit or loss. EP in turn owns 100% of the issued share capital of Spud Energy Pty Limited ("Spud"), a company registered in Australia, which owns a 40% interest in the Bolan Concession and a 7.9% interest in the Badar Mining Lease, both gas fields located onshore in Pakistan. At 31 December 2006, the investment in SPP is valued at US$5,107,000 based on the conversion value of a US$2,500,000 convertible note issued by SPP during the year which is convertible into equity at SPP's option. The conversion value is based on a pre-money valuation of Spud of US$13,100,000. This valuation has been supported by an independent valuation of the Group's expected discounted cashflows from the gas fields located onshore in Pakistan. As part of this refinancing, SPP issued new shares to the convertible note holder and SCH sold part of its shareholding resulting in its shareholding in SPP being reduced from 52.9% at 31 December 2005 to 38.98% at 31 December 2006. On conversion of the US$2,500,000 convertible note, the shareholding of SCH in SPP will be further reduced to 32.7%. The treatment of this asset at 31 December 2005 is detailed in (8) below.

(7) At 31 December 2005, the Group held warrants to subscribe for 64,600,000 shares in IB Daiwa, at an exercise price of ¥31, which expired in July 2006 through its 82.37% subsidiary Crosby Capital Partners Limited. As there was no readily available quoted market price for these unlisted instruments, and no recent market transactions on an arms length basis for them, the Directors calculated the total fair value of the warrants to be US$13,273,000 using the IB Daiwa quoted share price at 31 December 2005 and applying a 33% discount, to reflect market and non-market factors such as share price volatility, and the number of warrants the Group had the financial ability to exercise. The warrants were exercised during the year at an exercise price of ¥31 per share for total consideration of US$17,110,000.

For the year ended 31 December 2006

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes: (continued)

(8) At 31 December 2005, the Group through its 82.37% subsidiary SCH was beneficially interested in EP 52.9% of SPP which was then treated as a subsidiary. SPP was beneficially interested in 100% of the equity of EP. EP in turn owned 100% of the issued share capital of Spud, a company registered in Australia, which owns a 40% interest in the Bolan Concession and a 7.9% interest in the Badar Mining Lease both located onshore in Pakistan. At 31 December 2005, the investment in EP was valued at US$10,842,000, based on the valuation used for a third party investment which was the only recent market transaction in that asset and was classified as a financial asset held for trading. As a consequence of the restructuring during the year described in (6) above, the shares in SPP have been classified as a financial asset held for trading at 31 December 2006.

(9) At 31 December 2006, the Group held 20,276,384 shares of Upstream Marketing and Communications Inc. ("Upstream"), a company listed on the AIM of the London Stock Exchange, representing 15.2% of its issued share capital, through a 100% subsidiary. The shares of Upstream held by the Group are valued at US$2,980,000 arrived at the basis of their quoted market price at 31 December 2006 of £0.10 per share, discounted by 25% to reflect the fact that there is a formal restriction on the disposal of those shares under a lock-in agreement which expires on 15 October 2007.

(b) The movements in financial assets at fair value through profit or loss during the year are as follows:

		2006	2005
	Notes	**US$'000**	US$'000 Restated (Note 22(a)(4))
At 1 January		**157,464**	49,228
Additions	(1)	**31,038**	16,971
Disposals	(2)	**(30,015)**	(59,912)
Transfer from minority interest		**(5,141)**	–
(Loss)/Gain on financial assets at fair value through profit or loss		**(22,101)**	151,177
At 31 December		**131,245**	157,464

For the year ended 31 December 2006

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes:

(1) The additions to financial assets at fair value through profit or loss are analysed as follows:

	2006	2005
	US$'000	US$'000
Acquisition by cash (Note 35)	**21,613**	16,971
Acquired as part of the acquisition of COF (Note 37)	**7,861**	–
Received in settlement of corporate finance fee in 2006 (Note 6)	**1,545**	–
Transfer from associate	**19**	–
	31,308	16,971

(2) The disposals of financial assets at fair value through profit or loss are analysed as follows:

	2006	2005
	US$'000	US$'000
Disposals for cash	**26,015**	51,206
Disposals included in receivables	**2,145**	8,706
Offset against creditors due	**1,855**	–
	30,015	59,912

(3) The proceeds from sale of financial assets at fair value through profit or loss in cashflow (Note 35) are analysed as follows:

	2006	2005
	US$'000	US$'000
Disposals for cash, as above	**26,015**	51,206
Receipt from receivables	**8,716**	–
	34,731	51,206

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23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Bank and cash balances	**5,433**	7,971	**269**	1,012
Short-term bank deposits	**20,178**	7,269	**15,091**	1,705
	25,611	15,240	**15,360**	2,717
Average effective interest rates of short-term bank deposits	**3.70% – 5.2625%**	0.31% – 4.01%	**2.75% – 4.88%**	2.6% – 4.1%

The short-term bank deposits have maturity periods ranging from 1 to 33 days (2005: 1 to 61 days) and are eligible for immediate cancellation without receiving any interest for the last deposit period.

24. OTHER PAYABLES AND ACCRUED CHARGES

Included in the Group's other payables and accrued charges are provisions for bonus of US$15,494,000 (2005: US$3,150,000) to directors and staff.

25. OBLIGATIONS UNDER A FINANCE LEASE

Group

(a) Finance lease liabilities – minimum lease payments:

	2006	2005
	US$'000	US$'000
Due within one year	**5**	6
Due in the second to fifth years	**–**	5
	5	11
Future finance charges on a finance lease	**–**	(1)
Present value of finance lease liabilities	**5**	10

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25. OBLIGATIONS UNDER A FINANCE LEASE (continued)

(b) The present value a finance lease liabilities is as follows:

	2006	2005
	US$'000	US$'000
Due within one year	**5**	5
Due in the second to fifth years	**–**	5
	5	10
Less: Portion due within one year included under current liabilities	**(5)**	(5)
Non-current portion included under non-current liabilities	**–**	5

26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000 Restated (Note 22(a)(4))	**US$'000**	US$'000
Derivative embedded in the convertible bond issued in 2006:				
Initial recognition (Note 28)	**6,320**	–	**6,320**	–
Change in fair value (Note (i))	**(4,100)**	–	**(4,100)**	–
Balance at 31 December (Note (ii))	**2,220**	–	**2,220**	–
Share of a loan by the Group:				
Balance at 1 January	**8,340**	–	**–**	–
Initial recognition (Note 22(a)(4))	**–**	8,340	**–**	–
Change in fair value (Note (i))	**846**	–	**–**	–
Balance at 31 December (Note (iii))	**9,186**	8,340	**–**	–
	11,406	8,340	**2,220**	–

For the year ended 31 December 2006

26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes:

(i) Net gain on fair value change recognised in the 2006 consolidated financial statements was US$3,254,000 (2005: net loss of US$8,340,000) (Restated, Note 22(a)(4)).

(ii) The fair value was calculated using the Binomial model. The inputs into the model were as follows:

	2006
Share price	US$9.76 million
Exercise price	US$20 million
Expected volatility	59%
Expected life	4.19 years
Risk-free rate	5.04%
Expected dividend yield	5%

Because the Binomial model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(iii) This financial liability at fair value through profit or loss represents the Group's share of a loan payable by the founder shareholders of Indago as detailed in Note 22(a)(4) to the financial statements. It is deemed a financial liability at fair value through profit or loss as the Group's share of the loan is limited to the value of the shares it holds in Indago and is therefore a derivative financial liability. The fair value of this derivative financial liability at 31 December 2006, is in the Directors' opinion, and as supported by an external valuation, the Group's share of the original loan plus accrued interest, as the fair value of the equity interest in Indago at 31 December 2006 is US$39,084,000, which exceeds the fair value of the loan. This financial liability at 31 December 2005 was, as described in Note 22(a)(4) to the financial statements, treated as part of the discount against the financial asset and the comparative figures have been restated to present this financial liability separately.

27. OTHER LOANS (SECURED)

Group

The carrying amount of other loans is as follows:

	2006	2005
	US$'000	US$'000
Other loans (secured) – wholly repayable within five years	–	8,549

As at 31 December 2005, other loans of US$8,549,000 were interest bearing at 8% per annum and were repaid in full in June 2006. The security against this other loan of 11,900,000 shares of Crosby Capital Partners Inc., a subsidiary of the Company, was released upon its repayment.

During the year ended 31 December 2006, the Group acquired a loan of US$5,960,000, as part of the net assets of Crosby Orchard Fund Inc., which was repaid immediately after the acquisition. Other new loans of US$5,000,000 bearing interest at 6.5% per annum were drawndown in June 2006 and repaid in full in October 2006.

For the year ended 31 December 2006

28. CONVERTIBLE BOND

Group and Company

In March 2006, the Company issued US$75,000,000 Zero Coupon 5 year Convertible Bond (the "Convertible Bond"). The cash proceeds from the issue were received on 8 March 2006 and the net proceeds of approximately US$72,750,000 are used by the Group for general working capital and investment purposes. In particular, US$42,500,000 of the proceeds are used by the Group for the Oil and Gas Exploration Prospects, which are further described in Note 19 to the financial statements.

The Convertible Bond is unlisted and was convertible at the option of the bondholder(s), at any time on or after 13 March 2006 and up to and including 4 February 2011, into either new shares of the Company at a price of HK$0.7665 per share or existing shares of Crosby Capital Partners Inc. ("Crosby"), a 81.24% subsidiary of the Company at 31 December 2006, owned by the Company at a price of £0.9975 per share. The bondholder(s) were not able to exercise their conversion rights in respect of new shares of the Company once 556,666,011 new shares of the Company had been issued. The Convertible Bond that remains outstanding on 4 February 2011 is redeemable at 116.1% of its principal amount.

The Company has provided a negative pledge to the bondholder(s), that so long as any of the Convertible Bond remains outstanding and except in certain limited circumstances, that the Group will not secure any of its assets or future revenues against any indebtedness of the Group unless the outstanding Convertible Bond is also secured.

The Company has also undertaken, that so long as any of the Convertible Bond remains outstanding, that it will not sell any shares of Crosby, any substantial line of its business or the interests in the Oil and Gas Exploration Prospects without the approval of the bondholder(s). However, at any time after 8 December 2006, the Company may dispose of shares of Crosby and the equity interests in the Oil and Gas Exploration Prospects, provided that: the Company shall, immediately after such disposal, set aside such money equal to the aggregate principal amount of the Convertible Bond then outstanding, multiplied by 116.1% and as long as the Company's shareholding in Crosby shall not fall below 50% after such disposal.

The Convertible Bond recognised in the balance sheet is calculated as follows:

	US$'000
Face value of Convertible Bond issued	75,000
Discount	(2,250)
Financial liabilities at fair value through profit or loss (Note 26)	(6,320)
Equity component	(4,793)
Liability component on initial recognition upon issuance of Convertible Bond on 8 March 2006	61,637
Effective interest expense (Note 8)	1,604
Conversion of Convertible Bond *	(45,838)
Liability component at 31 December 2006	17,403

For the year ended 31 December 2006

28. CONVERTIBLE BOND (continued)

* Up to 2 June 2006, US$55,000,000 of the Convertible Bond had been converted into 556,666,011 new shares of the Company, representing 16.55% of the Company's enlarged issued share capital of 3,362,743,256 shares (including 292,500,000 non-voting convertible deferred shares) at that time. The balance of the Convertible Bond of US$20,000,000 is therefore only exchangeable into a maximum of 11,453,287 existing shares of Crosby owned by the Company, but no exchange had occurred up to 31 December 2006. On the basis that the balance of the Convertible Bond of US$20,000,000 is fully exchanged into existing shares of Crosby, the holding of the Company in Crosby would be reduced from 81.24% to 76.52% as at 31 December 2006.

The interest expense of Convertible Bond for the year ended 31 December 2006 is calculated by applying an effective interest rate of 7.15% to the liability component.

The Directors of the Company estimate the fair value of the liability component of the Convertible Bond at 31 December 2006 to be approximately US$17,403,000. The fair value has been calculated by discounting the future cash flows at the prevailing market rate of 6.5%, increased to 7.15% to adjust for the amortisation of the discount of US$2,250,000. The aforementioned discount rate of 6.5% has been determined by reference to the yield on non-callable bonds issued in US dollars by a corporate with a credit rating of BB, with maturity of 5 years.

29. SHARE CAPITAL

	Number of ordinary shares	Number of convertible redeemable preference shares	Number of non-voting convertible deferred shares	Value
				US$'000
Authorised (par value of US$0.001 each)				
At 1 January 2005, 31 December 2005 and 31 December 2006	20,000,000,000	1,000,000	(Note (a)) –	20,001
Issued and fully paid (par value of US$0.001 each)			*(Note (b))*	
At 1 January 2005	2,502,577,245	–	292,500,000	2,795
Issue of new shares upon exercise of share options (Note (c))	7,500,000	–	–	8
At 31 December 2005 and 1 January 2006	2,510,077,245	–	292,500,000	2,803
Issue of new shares upon conversion on convertible bond (Note (d))	556,666,011	–	–	557
Issue of new shares upon exercise of share options (Note (c))	8,500,000	–	–	8
Repurchase of own shares for cancellation (Note (e))	(8,862,000)	–	–	(9)
At 31 December 2006	3,066,381,256	–	292,500,000	3,359

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29. SHARE CAPITAL (continued)

Notes:

(a) No authorised share capital with respect to these non-voting convertible deferred shares is required.

(b) The non-voting convertible deferred shares have the following rights and restrictions:

(i) The holder is not entitled to vote at any general meetings of the Company.

(ii) The deferred shares rank pari passu with ordinary shares in respect of all distributions.

(iii) Each deferred share can be converted into one ordinary share commencing three months from the date of issue (i.e. 24 May 2004) and can be converted upon 14 days prior written notice to the Company. There is no expiration date for the right of conversion. The deferred shares have no redemption rights.

(c) The increase in share capital in 2006 and 2005 represented the ordinary shares issued on exercise of share options, granted under the Company's Share Option Scheme. Further details are set out in Note 31(a) to the financial statements.

(d) 556,666,011 ordinary shares were issued during the year ended 31 December 2006 upon conversion of convertible bond. Further details are set out in Note 28 to the financial statements.

(e) During the year ended 31 December 2006, the Company repurchased on the Stock Exchange a total of 8,862,000 of its own ordinary shares at a price range of HK$0.310 to HK$0.455 per share for a total consideration, before expenses, of HK$3,638,000 (equivalent to approximately US$466,000). The repurchased shares were duly cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve. Details of which are set out below:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid (before expenses)
		Highest	Lowest	
		HK$	HK$	HK$'000
September 2006	5,662,000	0.455	0.430	2,510
November 2006	750,000	0.450	0.450	338
December 2006	2,450,000	0.330	0.310	790
	8,862,000			3,638

For the year ended 31 December 2006

30. RESERVES

Group

	2006	2005
	US$'000	US$'000
Share premium	**106,875**	52,852
Capital reserve	**4,872**	9,240
Capital redemption reserve	**20**	11
Employee share-based compensation reserve	**5,075**	779
Investment revaluation reserve	**173**	36
Foreign exchange reserve	**30**	(187)
Retained profits	**1,420**	62,129
	118,465	124,860

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on page 44.

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30. RESERVES (continued)

Company

	Share premium	Capital redemption reserve	Capital reserve	Employee share-based compensation reserve	Investment revaluation reserve	Convertible bond reserve	Accumulated losses	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2005	52,817	11	4,639	–	–	–	(17,526)	39,941
Issue of new shares upon exercise of share options	36	–	–	(10)	–	–	–	26
Surplus on revaluation	–	–	–	–	236,356	–	–	236,356
Employee share-based compensation	–	–	–	20	–	–	–	20
Profit for the year	–	–	–	–	–	–	3,108	3,108
At 31 December 2005 and 1 January 2006	52,853	11	4,639	10	236,356	–	(14,418)	279,451
Issue of convertible bond	–	–	–	–	–	4,793	–	4,793
Issue of new shares upon conversion on convertible bond	54,443	–	(4,368)	–	–	(4,793)	–	45,282
Issue of new shares upon exercise of share options	41	–	–	(11)	–	–	–	30
Repurchase of own shares for cancellation	(461)	9	–	–	–	–	(9)	(461)
Deficit on revaluation	–	–	–	–	(110,179)	–	–	(110,179)
Employee share-based compensation	–	–	–	3,450	–	–	–	3,450
Loss for the year	–	–	–	–	–	–	(11,577)	(11,577)
At 31 December 2006	**106,876**	**20**	**271**	**3,449**	**126,177**	**–**	**(26,004)**	**210,789**

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31. SHARE OPTION SCHEMES

(a) Share Option Scheme of the Company

The Company adopted an employee share option scheme on 27 March 2002 (the "Company's Share Option Scheme") in order to incentivise key management and staff.

Pursuant to the Company's Share Option Scheme, a duly authorised committee of the board of directors of the Company may, at its discretion, grant options to eligible employees, including directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of grant of the particular option or (ii) the average of the closing prices of the shares of the Company for the five trading days immediately preceding the date of the grant of the options or (iii) the nominal value of the shares. On each grant of options HK$10 is payable by the grantee.

The total number of shares available for issue under options granted pursuant to the Company's Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue as at the date of the approval of the Company's Share Option Scheme (the "Scheme Mandate Limit"), unless shareholders' approval of the Company has been obtained. Options lapsed in accordance with the terms of the Company's Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of the shares issued and to be issued upon exercise of options granted (whether or not cancelled) and to be granted under the Company's Share Option Scheme to any eligible person (including both exercised and outstanding options) in any 12 month period immediately preceding the date of grant to such eligible person shall not exceed 1% of the issued shares of the Company, unless approval of shareholders of the Company has been obtained. Where any option is proposed to be granted to a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive director of the Company or any of their associates (as defined in the GEM Listing Rules) in excess of 0.1% of the issued shares of the Company and having an aggregate value in excess of HK$5,000,000 then the proposed grant must be subject to the approval of shareholders of the Company.

Share options granted under the Company's Share Option Scheme are exercisable as follows:

(i) the first 30% of the options between the first and tenth anniversary of the date of grant;

(ii) the next 30% of the options between the second and tenth anniversary of the date of grant; and

(iii) the remaining options between the third and tenth anniversary of the date of grant.

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31. SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme of the Company (continued)

Details of the share options granted under the Company's Share Option Scheme are as follows:

Share option type	Date of grant	Options granted	Options exercise price per share	Options lapsed since grant	Options exercisable as at 31.12.2006	Contractual life
2002	27 March 2002	248,244,700	HK$0.0704	(247,944,700)	300,000	10 years
2003(a)	18 March 2003	54,000,000	HK$0.0350	(54,000,000)	–	10 years
2003(b)	14 May 2003	15,000,000	HK$0.0350	(10,000,000)	–	10 years
2003(c)	18 June 2003	26,064,000	HK$0.0350	(26,064,000)	–	10 years
2003(d)	11 July 2003	312,000,000	HK$0.0350	(312,000,000)	–	10 years
2003(e)	1 December 2003	21,000,000	HK$0.0350	(21,000,000)	–	10 years
2004	20 August 2004	15,000,000	HK$0.0350	–	–	10 years
2006(a)	24 March 2006	40,000,000	HK$0.7700	–	–	10 years
2006(b)	26 April 2006	180,000,000	HK$0.7700	–	–	10 years
		911,308,700		(671,008,700)	300,000	

The following table discloses movements in the outstanding options granted under the Company's Share Option Scheme during the year:

Year	Grantees	Share option type	Number of share options: Outstanding at 1 January	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	Outstanding at 31 December	Weighted average exercise price	Notes
2006	Directors	2003 (b)	2,000,000	–	–	(2,000,000)	–	HK$0.0350	1
		2004	10,500,000	–	–	(6,500,000)	4,000,000	HK$0.0350	1
		2006 (a)	–	20,000,000	–	–	20,000,000	HK$0.7700	2
		2006 (b)	–	120,000,000	–	–	120,000,000	HK$0.7700	2
			12,500,000	140,000,000	–	(8,500,000)	144,000,000	HK$0.7496	
	Employees	2002	300,000	–	–	–	300,000	HK$0.0704	
		2006 (a)	–	20,000,000	–	–	20,000,000	HK$0.7700	2
		2006 (b)	–	60,000,000	–	–	60,000,000	HK$0.7700	2
			300,000	80,000,000	–	–	80,300,000	HK$0.7674	
		Total	**12,800,000**	**220,000,000**	**–**	**(8,500,000)**	**224,300,000**	**HK$0.7559**	

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31. SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme of the Company (continued)

			Number of share options						
Year	Grantees	Share option type	Outstanding at 1 January	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	Outstanding at 31 December	Weighted average exercise price	Notes
2005	Directors	2003 (b)	5,000,000	–	–	(3,000,000)	2,000,000	HK$0.0350	3
		2004	15,000,000	–	–	(4,500,000)	10,500,000	HK$0.0350	3
			20,000,000	–	–	(7,500,000)	12,500,000	HK$0.0350	
	Employees	2002	300,000	–	–	–	300,000	HK$0.0704	
			300,000	–	–	–	300,000	HK$0.0704	
		Total	**20,300,000**	**–**	**–**	**(7,500,000)**	**12,800,000**	**HK$0.0358**	

Notes:

1. The closing price of the shares of the Company quoted on the Stock Exchange on 8 March 2006, 24 August 2006, 1 September 2006 and 13 November 2006, being the business date immediately before the date on which share options were exercised, was HK$0.77, HK$0.69, HK$0.66 and HK$0.475, respectively.

2. The closing price of the shares of the Company quoted on the Stock Exchange on 23 March 2006 and 25 April 2006, being the business date immediately before the date on which share options were granted, was HK$0.79 and HK$0.72, respectively.

   The fair value of the options granted during the year ended 31 December 2006, measured at the dates of grant, totalled approximately US$8,880,000.

   In total, approximately US$3,450,000 (2005: US$20,000) of employee share-based compensation expense is included in the consolidated income statement for the year ended 31 December 2006 and approximately US$3,445,000 (2005: Nil) of which was in respect of the options granted during the year ended 31 December 2006.

3. The closing price of the shares of the Company quoted on the Stock Exchange on 1 July 2005, 19 August 2005 and 1 September 2005, being the business date immediately before the date on which share options were exercised, was HK$0.315, HK$0.34 and HK$0.53, respectively.

Subsequent to 31 December 2006, the Company had further granted 10,000,000 options to the directors of the Company under the Company's Share Option Scheme at an exercise price of HK$0.365.

There are 76,418,324 ordinary shares, which represent 2.49% of the issued share capital of the Company, available for issue under the Company's Share Option Scheme at the date of this annual report.

31. SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme of the Company (continued)

The following significant assumptions were used for each of the two years ended 31 December 2006 and 2005 to derive the fair value, using the Binomial option pricing model:

(i) an expected decreasing volatility, starting at 70% in the first year and trending down to 30% over a 7 year period for the share options;

(ii) nil dividend yield;

(iii) the estimated expected life of the options granted is 10 years;

(iv) the risk free rates are based on the yields on Hong Kong Exchange Fund Bills and Notes; and

(v) 20% of option holders will early exercise when the share price underlying a vested option reaches 110% of the exercise price and the remaining 80% exercise when the share price underlying a vested option reaches 150% of the exercise price, at the end of the contractual term if either of these prices is not achieved.

(b) Share Option Scheme of the Subsidiary

Crosby, a 81.24% subsidiary of the Company at 31 December 2006, adopted an employee share option scheme on 4 March 2005 ("Crosby Share Option Scheme") in order to incentivise key management and staff of Crosby. Pursuant to the Crosby Share Option Scheme, a duly authorised committee of the board of directors of Crosby may, at its discretion, grant options to eligible employees, including directors, of Crosby or any of its subsidiaries to subscribe for shares in Crosby at a price not less than the higher of (i) the closing price of the shares of Crosby quoted on AIM on the date of grant of the particular option or (ii) the average of the closing prices of the shares of Crosby quoted on AIM for the five trading days immediately preceding the date of the grant of the options or (iii) the nominal value of the shares. On each grant of options £1 is payable by the grantee.

The total number of shares available for issue under options granted pursuant to the Crosby Share Option Scheme must not in aggregate exceed 10% of the total number of Crosby's shares in issue at the date of last approval on 4 March 2005 (the "Scheme Mandate Limit"), unless approval of shareholders of the Company has been obtained. However, the overall limit must not in aggregate exceed 25% of Crosby's issued share capital (i.e. 60,668,750 options as of 31 December 2006). Options lapsed in accordance with the terms of the Crosby Share Option Scheme, prior to their exercise dates, are available for re-use.

The total number of Crosby's shares issued and to be issued upon exercise of options granted (whether or not cancelled) and to be granted under the Crosby Share Option Scheme to any eligible person (including both exercised and outstanding options) in any 12 month period immediately preceding the date of grant to such eligible person shall not exceed 1% of Crosby's shares in issue, unless approval of shareholders of the Company has been obtained. Where any option is proposed to be granted to a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive director of the Company or any of their associates (as defined in the GEM Listing Rules) in excess of 0.1% of the shares of Crosby and having an aggregate value in excess of HK$5,000,000 then the proposed grant must be subject to the approval of shareholders of the Company.

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31. SHARE OPTION SCHEMES (continued)

(b) Share Option Scheme of the Subsidiary (continued)

Share options granted under the Crosby Share Option Scheme are exercisable as follows:

(i) the first 30% of the options between the first and tenth anniversary of the date of grant;

(ii) the next 30% of the options between the second and tenth anniversary of the date of grant; and

(iii) the remaining options between the third and tenth anniversary of the date of grant.

Details of the share options granted under the Crosby Share Option Scheme are as follows:

Share option type	Date of grant	Options granted	Options exercise price per share (pence)	Options lapsed since grant	Options exercisable as at 31.12.2006	Contractual life
2005(a)	11 January 2005	14,150,000	21.15	–	920,000	10 years
2005(b)	15 September 2005	150,000	84.50	–	45,000	10 years
2005(c)	21 November 2005	1,117,318	89.50	(1,117,318)	–	10 years
2005(d)	30 December 2005	1,000,000	82.65	–	300,000	10 years
2006(a)	23 March 2006	3,650,000	95.20	(1,000,000)	–	10 years
2006(b)	19 May 2006	1,500,000	91.50	(1,500,000)	–	10 years
		21,567,318		(3,617,318)	1,265,000	

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31. SHARE OPTION SCHEMES (continued)

(b) Share Option Scheme of the Subsidiary (continued)

The following table discloses movements in the outstanding options granted under the Crosby Share Option Scheme during the year:

			Number of share options						
Year	Grantees	Share option type	Outstanding at 1 January	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	Outstanding at 31 December	Weighted average exercise price (pence)	Notes
2006	Directors of Crosby	2005 (a)	1,000,000	–	–	–	1,000,000	21.15	
		2006 (a)	–	150,000	–	–	150,000	95.20	2
			1,000,000	150,000	–	–	1,150,000	30.81	
	Employees of Crosby	2005 (a)	13,150,000	–	–	(3,325,000)	9,825,000	21.15	1
		2005 (b)	150,000	–	–	–	150,000	84.50	
		2005 (c)	1,117,318	–	(1,117,318)	–	–	89.50	
		2005 (d)	1,000,000	–	–	–	1,000,000	82.65	
		2006 (a)	–	3,500,000	(1,000,000)	–	2,500,000	95.20	2
		2006 (b)	–	1,500,000	(1,500,000)	–	–	91.50	2
			15,417,318	5,000,000	(3,617,318)	(3,325,000)	13,475,000	40.16	
		Total	**16,417,318**	**5,150,000**	**(3,617,318)**	**(3,325,000)**	**14,625,000**	**39.42**	
2005	Directors of Crosby	2005 (a)	–	1,000,000	–	–	1,000,000	21.15	3
			–	1,000,000	–	–	1,000,000	21.15	
	Employees of Crosby	2005 (a)	–	13,150,000	–	–	13,150,000	21.15	3
		2005 (b)	–	150,000	–	–	150,000	84.50	3
		2005 (c)	–	1,117,318	–	–	1,117,318	89.50	3
		2005 (d)	–	1,000,000	–	–	1,000,000	82.65	3
			–	15,417,318	–	–	15,417,318	30.71	
		Total	–	16,417,318	–	–	16,417,318	30.13	

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31. SHARE OPTION SCHEMES (continued)

(b) **Share Option Scheme of the Subsidiary** (continued)

Notes:

1. The closing price of the shares of Crosby quoted on AIM on 10 January 2006, being the business date immediately before the date on which share options were exercised, was £0.895.

2. The closing price of the shares of Crosby quoted on AIM on 22 March 2006 and 18 May 2006, being the business date immediately before the date on which share options were granted, was £0.94 and £0.87, respectively.

   The fair value of the options granted by Crosby during the year ended 31 December 2006, measured at the dates of grant, totalled approximately US$2,559,000.

   In total, approximately US$1,722,000 (2005: US$1,062,000) of employee share-based compensation expense is included in the consolidated income statement of the Group for the year ended 31 December 2006 and approximately US$564,000 (2005: US$918,000) of which was in respect of the options granted during the year ended 31 December 2006.

3. The closing price of the shares of Crosby quoted on AIM on 10 January 2005, 14 September 2005, 18 November 2005 and 29 December 2005, being the business date immediately before the date on which share options were granted, was £0.2125, £0.82, £0.89 and £0.82, respectively.

   The fair value of the options granted by Crosby during the year ended 31 December 2005, measured at the dates of grant, totalled approximately US$2,261,000.

   The following significant assumptions were used for the year ended 31 December 2006 to derive the fair value, using the Binomial option pricing model:

   (i) an expected decreasing volatility, starting at 60% (2005: 60% or 65%) in the first year and trending down over the remaining period to 20% (2005: 20% or 25%);

   (ii) 5% dividend yield;

   (iii) the estimated expected life of the options granted is 10 years;

   (iv) the risk free rates are based on the yields on United Kingdom Government Bonds; and

   (v) 20% of option holders will early exercise when the share price underlying a vested option reaches 110% of the exercise price and the remaining 80% exercise when the share price underlying a vested option reaches 150% of the exercise price. The option will be exercised at the end of the contractual term if these prices are not achieved.

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32. MATERIAL RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Save as disclosed in Notes 36 and 37 to the financial statements, details of the other significant transactions between the Group and other related parties during the year ended 31 December 2006 are disclosed as follows:

(a) Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in Note 13 to the financial statements is as follows:

	2006	2005
	US$'000	US$'000
Fees	**112**	80
Salaries, allowances and benefits in kind	**3,103**	1,341
Bonus paid and payable	**25,697**	11,500
Retirement fund contributions	**6**	6
Share-based compensation expense	**3,084**	20
Social security costs	**40**	225
	32,042	13,172

(b) During the year, the Group had the following material related party transactions with certain investee companies:

		2006	2005
	Notes	**US$'000**	US$'000
Corporate finance and other advisory fees from Lodore Delaware Petroleum LLC ("Lodore") *	(i)	**–**	350
Loan interest income received from an investee company, IB Daiwa Corporation ("IB Daiwa")	(ii)	**474**	66
Loans to an investee company, IB Daiwa	(ii)	**10,959**	9,500
Management services fee received from Lodore*	(i)	**180**	200
Payment to an investee company, IB Daiwa, in respect of exercise of warrants	(ii)	**17,110**	11,357

* Lodore Resources Inc. merged with Lodore Delaware Petroleum LLC in August 2006 and Lodore Delaware Petroleum LLC was the surviving entity.

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32. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

Notes:

(i) Lodore is a subsidiary of IB Daiwa in which the Group can exercise significant influence in accordance with Note 3(d) to the financial statements, the Group accounts for the investment in IB Daiwa in accordance with IAS 39.

These transactions are based on the terms mutually agreed by the Group and the contracting parties in the ordinary course of the business.

(ii) Details of the relationship between the Group and IB Daiwa are set out in Note 22(a)(3) to the financial statements.

Details of the terms of the loans and the loan interest income received or receivable are described in Note 32(c) to the financial statements. Details of the exercise of the warrants are described in Note 22(a)(7) to the financial statements.

(c) As at 31 December 2006, details of the loan to and amounts due from investee companies are set out below:

		2006	2005
	Notes	**US$'000**	US$'000
Loan to an investee company	(i)	**6,765**	9,566
Amounts due from investee companies	(ii)	**1,224**	792
		7,989	10,358

Notes:

(i) As at 31 December 2006, the Group had several loans to an investee company, IB Daiwa, which were unsecured and interest bearing at 5.4% per annum. These loans were repaid in full in February 2007. As at 31 December 2005, the Group had a loan to an investee company which was unsecured and interest bearing at 10% per annum. This loan was repaid in full in June 2006.

(ii) Amounts due from investee companies are unsecured, interest-free and repayable on demand. Included in the amounts due from investee companies are amounts due from IB Daiwa of US$866,000 (2005: US$434,000). The amounts due from IB Daiwa at 31 December 2006 were repaid in full in February 2007.

(d) During the year ended 31 December 2006, the Group invested US$42,500,000 (2005: Nil) in the exploration oil and gas prospects through entering into the Exploration Funding Agreement with Lodore. Further details are set out in Note 19 to the financial statements.

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33. COMMITMENTS

(a) Operating leases

Group

As at 31 December 2006, the total future minimum lease payments of the Group under non-cancellable operating are payable as follows:

	2006 Land and buildings	2005 Land and buildings	**2006 Motor vehicles**	2005 Motor vehicles	**2006 Total**	2005 Total
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Within one year	**892**	430	**27**	27	**919**	457
In the second to fifth years	**1,090**	389	**–**	–	**1,090**	389
	1,982	819	**27**	27	**2,009**	846

The Group leases a number of properties under operating leases in Hong Kong and overseas. The leases run for an initial period from 3 to 4 years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

Company

As at 31 December 2006, the Company had no commitments under non-cancellable operating leases (2005: Nil).

(b) Capital commitments

Group

At 31 December 2006, details of the Group's capital commitments are as follows:

	2006	2005
	US$'000	US$'000
Contracted but not provided for	**131**	–

Company

As at 31 December 2006, the Company had no capital commitments (2005: Nil).

34. CONTINGENCIES

As at 31 December 2006, the Group and the Company had no material contingent liabilities (2005: Nil).

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35. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO CASH (USED IN)/ GENERATED FROM OPERATIONS

	Notes	**2006**	2005
		US$'000	US$'000 Restated (Note 22(a)(4))
Cash flows from operating activities			
(Loss)/Profit before taxation		**(69,113)**	116,217
Adjustments for:			
Bad debts recovery		**(22)**	(149)
Depreciation of property, plant and equipment		**313**	314
Employee share-based compensation expense	13(c)	**5,172**	1,082
Excess over the cost of acquisition of a subsidiary	37	**(959)**	–
Exchange differences		**318**	255
Corporate finance advisory fee received in kind	22(b)(1)	**(1,545)**	–
Loss/(Gain) on disposal of available-for-sale investments		**8**	(124)
Gain on deemed disposal of an associate		**(75)**	–
Gain on deemed disposal of a subsidiary		**(329)**	–
Loss on deemed disposal of a subsidiary		**382**	247
Gain on disposal of property, plant and equipment		**–**	(5)
Impairment of receivables		**221**	622
Impairment of goodwill	20	**237**	–
Impairment of investments		**28**	–
Interest expenses		**2,052**	49
Interest income		**(2,444)**	(432)
Gain/(Loss) on financial liabilities at fair value through profit or loss		**(3,254)**	8,340
Loss/(Gain) on financial assets at fair value through profit or loss		**22,101**	(151,177)
Share of profits of associates		**(78)**	(237)
Share of loss/(profit) of a jointly controlled entity		**25**	(25)
Operating (loss)/profit before working capital changes		**(46,962)**	(25,023)
Acquisition of financial assets at fair value through profit or loss *	22(b)(1)	**(21,613)**	(16,971)
Proceeds from disposal of financial assets at fair value through profit or loss *	22(b)(3)	**34,731**	51,206
(Increase)/Decrease in amounts due from associates		**(2)**	10
Decrease in amounts due to associates		**–**	(13)
Increase in amount due from a jointly controlled entity		**(101)**	(34)
Increase in amounts due from investee companies		**(138)**	(780)
Increase in trade and other receivables		**(602)**	(385)
Increase in other payables and accrued charges		**13,391**	1,953
Cash (used in)/generated from operations		**(21,296)**	9,963

* In previous years, the Group followed the traditional way of classifying its cash flows relating to the acquisition costs and proceeds from realisation of the financial assets at fair value through profit or loss under "investing activities", because these items are investments in their own nature even though they are arising from the ordinary and usual course of business. From the current year, the Group has reconsidered this presentation and now presents these items within cashflows from operations in the cash flow statement and accordingly has restated last year's comparatives to conform with the current year's presentation.

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36. MAJOR NON-CASH TRANSACTIONS

(a) On 8 July 2005, an indirect non-wholly owned subsidiary of the Company, Silk Route Petroleum Limited ("Silk Route"), entered into a share subscription agreement and shareholders' agreement with Indago Petroleum (Holdings) Limited ("IPH") in relation to the subscription of 210,000 shares at consideration of US$210. Subsequently, IPH underwent a restructuring and repurchased of shares from the existing shareholders. The consideration for the repurchase was satisfied by the transfer of shares in its subsidiary, Indago Petroleum Limited ("Indago"). In this regard, 210,000 shares of IPH held by Silk Route was exchanged for 35,000,000 shares in Indago. On 2 December 2005, Indago was listed on AIM.

(b) On 4 November 2005, Sunov Crosby (Holdings) Limited ("SCH") entered into an agreement with IB Daiwa Corporation ("IB Daiwa") in relation to the acceptance of the offer to sell its entire 214,666,667 shares in Lodore Resources Inc. (which merged with Lodore Delaware Petroleum LLC in August 2006) to IB Daiwa in exchange for 34,325,000 new IB Daiwa Shares at a price of 225 Japanese yen per share. The transaction was completed on 15 December 2005.

(c) On 23 January 2006, SCH acquired the beneficial interest in a loan in the amount of US$8,000,000 made by a third party to IB Daiwa in consideration for the cancellation and transfer of certain other receivables. The loan was repaid in full on 31 March 2006.

(d) During the year, an indirect wholly owned subsidiary of the Company, Crosby Capital Partners (Singapore) Pte Limited, was granted of 419,000 share options and 1,616,896 share options of White Energy Company Limited ("White Energy") on 12 May 2006 and 30 August 2006 respectively, in consideration for arranging a share placement for White Energy, at a total valuation of approximately US$1,545,000 on initial recognition and were classified under financial assets at fair value through profit or loss in the consolidated balance sheet (Note 22(a)(5)).

37. ACQUISITION OF A SUBSIDIARY

On 29 May 2006, the Group acquired an 84.94% interest in COF, a special purpose fund established to subscribe for shares of Orchard Petroleum Limited from related parties.

Details of the net assets acquired and goodwill are as follows:

	2006	2005
	US$'000	US$'000
Purchase consideration:		
Cash paid	**(8)**	–
Total purchase consideration	**(8)**	–
Fair value of net assets acquired	**967**	–
Excess over the cost of acquisition of a subsidiary	**959**	–

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37. ACQUISITION OF A SUBSIDIARY (continued)

The acquirees' carrying value of assets and liabilities arising from the acquisition are as follows:

	2006	2005
	US$'000	US$'000
Fair value of net assets acquired:		
Financial assets at fair value through profit or loss (Note 22(b)(1))	**7,861**	–
Other receivables	**10**	–
Other payables	**(772)**	–
Other loan	**(5,960)**	–
Less: Minority interests	**(172)**	–
Fair value of net assets acquired	**967**	–

The Directors consider the fair values of net assets of the subsidiary acquired are not materially different from the carrying amount.

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	2006	2005
	US$'000	US$'000
Purchase consideration settled in cash/Net cash outflow from acquisition	**(8)**	–

Since the acquisition, COF has not contributed any revenue and has contributed a net profit of US$1,991,000 to the Group's profit for the year.

Had the acquisition been completed on 1 January 2006, the contributed revenue and net loss to the Group for the year would have been US$Nil and US$574,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006 nor is it intended to be a projection of future results.

On 30 May 2006, the remaining 15.06% interest in COF was repurchased by COF from an independent third party at a consideration of US$296,000, calculated based on fair value of net assets acquired.

Save as disclosed above, there were no acquisitions during the years ended 31 December 2006 and 2005.

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38. DISPOSAL OF A SUBSIDIARY

The only significant disposal of a subsidiary undertaking during the year ended 31 December 2006 was in respect of SPP which is detailed in Note 22(a)(6) to the financial statements. The disposal is a consequence of a reduction of the Group's shareholding in SPP, through a 81.24% subsidiary of the Group, from 52.9% to 38.98%. As the underlying investment of SPP was treated at 31 December 2005 as an asset held at fair value through profit or loss, and this continues to be the case at 31 December 2006, this disposal only results in a redesignation of the equity interest in SPP to that same category of assets at 31 December 2006.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks, as detailed below, which are managed through its Executive and Operations Committees in close cooperation with the Board of Directors:

(a) Price risk

The Group is exposed to equity price risk through investments in equity securities. The Group manages the exposure by closely monitoring the portfolio of equity investments and takes appropriate actions when it is required.

(b) Foreign currency risk

The Group's exposure to foreign currencies was limited to its investments in foreign subsidiaries which are financed internally and to financial assets and liabilities at fair value through profit or loss where the foreign currency risk is managed as an integral part of the investment return.

(c) Credit risk

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

The credit risk on bank balances is limited because all the Group's bank deposits are deposited with major banks located in Hong Kong, Singapore and United Kingdom.

(d) Interest rate risk

The Group does not have any significant exposure to interest rate risk, as the Group currently has no financial assets and liabilities with floating interest rates.

(e) Liquidity risk

Cash flow is monitored on a regular basis to ensure that the Group has sufficient cash and cash equivalents to support the business activities of the Group. Cash flow forecasts are continually maintained and reviewed at each fortnightly meeting of the Operations Committee to ensure that the Group maintains adequate liquidity. The Group does not commit to any major merchant banking transactions unless it has the necessary funding in place. As a matter of principle, the Group will seek to obtain funding for these merchant banking transactions first from external funding partners before considering to utilise its own capital.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(f) Fair values

The directors of the Company consider the fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments. The directors of the Company consider the fair values of non-current assets are not materially different from their carrying values and accordingly have not been separately disclosed in the notes to the financial statements.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation	Principal place of operation	Issued/Paid-up share capital	Percentage of issued/paid-up share capital held by the Company 2006	2005	Principal activities
Buttermere Australia Pty Limited	Australia	Australia	1 ordinary share at A$1	**81.24%**	–	Investment holding
Coniston International Capital Limited	British Virgin Islands	N/A	1 ordinary share at US$1	**100%**	100%	Investment holding
Crosby Asset Management (Hong Kong) Limited	Hong Kong	Hong Kong	9,992 ordinary shares at HK$1 each	**81.24%**	82.37%	Provision of investment advisory and fund administration services
Crosby Asset Management (Singapore) Pte Limited	Singapore	Singapore	1 ordinary share at S$1	**81.24%**	–	Provision of investment advisory and fund administration services
Crosby Capital Partners (Hong Kong) Limited	Hong Kong	Hong Kong	299,288,547 ordinary shares at US$0.01 each	**81.16%**	82.29%	Provision of financial advisory and corporate services
Crosby Capital Partners (Singapore) Pte Limited	Singapore	Singapore	12,560,002 ordinary shares at S$1 each	**81.24%**	82.37%	Provision of financial advisory services
Crosby Capital Partners Inc.	Cayman Islands	United Kingdom	242,675,000 ordinary shares at US$0.01 each	**81.24% Note (iii)**	82.37%	Investment holding

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation	Principal place of operation	Issued/Paid-up share capital	Percentage of issued/paid-up share capital held by the Company 2006	2005	Principal activities
Crosby Capital Partners Limited	British Virgin Islands	N/A	1 ordinary share at US$0.01	**81.24%**	82.37%	Investment holding
Crosby Capital Partners Limited	United Kingdom	United Kingdom	547,797 ordinary shares at £1 each	**81.24%**	82.37%	Provision of financial advisory services
Crosby Corporate Finance (Hong Kong) Limited	Hong Kong	Hong Kong	200 ordinary shares at HK$0.01 each	**81.24%**	82.37%	Provision of financial advisory services
Crosby Investment Holdings Limited	Cayman Islands	N/A	1 ordinary share at US$1	**81.24%**	82.37%	Investment holding
Crosby Orchard Fund Inc.	Cayman Islands	N/A	8,494,282 ordinary shares at US$0.001 each	**24.37% Note (i)**	–	Investment holding
Crosby Wealth Management (Asia) Limited	Cayman Islands	N/A	18,000 ordinary shares at US$1 each	**36.10% Note (ii)**	45.76%	Investment holding
Crosby Wealth Management (Hong Kong) Limited	Hong Kong	Hong Kong	7,702 ordinary shares at HK$1 each	**36.10% Note (ii)**	45.76%	Provision of wealth management services
ESK Limited	British Virgin Islands	N/A	10,193,588 ordinary shares at no par value 23,785,039 redeemable preference shares at no par value	**24.37% Note (i)**	–	Investment holding
Eskdale Petroleum Pty Limited	Australia	Australia	1 ordinary share at A$1	**24.37% Note (i)**	–	Investment holding
Silk Route Petroleum Limited	British Virgin Islands	N/A	1,000 ordinary shares at US$1 each	**45.98% Note (iv)**	46.62%	Investment holding
Softech Investment Management Company Limited	Hong Kong	Hong Kong	502 ordinary shares at HK$10 each	**50%**	50%	Fund management

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation	Principal place of operation	Issued/Paid-up share capital	Percentage of issued/paid-up share capital held by the Company 2006	2005	Principal activities
Sunov Crosby (Holdings) Limited	British Virgin Islands	N/A	100 ordinary shares at US$1 each	**81.24%**	82.37%	Investment holding
Techpacific Capital (Hong Kong) Limited	Hong Kong	Hong Kong	1,001 ordinary shares at HK$1 each	**100%**	100%	Provision of corporate services

Notes:

(i) Eskdale Petroleum Pty Limited ("Eskdale") and Crosby Orchard Fund Inc. ("COF") are wholly owned subsidiaries of ESK Limited ("ESK"). Crosby Investment Holdings Limited, a 81.24% subsidiary of the Group at 31 December 2006 held 30% equity interest in ESK and the remaining 70% equity interest represented 23,785,039 preference shares issued to third parties. As the preference shares have no voting rights and ability to appoint directors, the Group had power to control ESK at 31 December 2006 despite having only an effective 24.37% equity interest. Accordingly, ESK, Eskdale and COF are considered as subsidiaries of the Group at 31 December 2006. The capital and board structure of ESK will change subsequent to the balance sheet date. Further details are set out in Note 41(a) to the financial statements.

(ii) Crosby Wealth Management (Hong Kong) Limited ("CWMHK") is a wholly owned subsidiary of Crosby Wealth Management (Asia) Limited ("CWMA"). In July 2006, the Group's equity interests in CWMA was reduced from 45.76% to 36.10% following the transfer of 2,000 ordinary shares to staff as part of a staff incentive arrangement. Accordingly, the Group's interest in CWMHK was reduced to 36.10%. Notwithstanding the Group's equity interest, CWMA and CWMHK are considered as subsidiaries of the Group because the Group still has power to control the board of CWMA and CWMHK and their financial and operating policies.

(iii) As stated in Note 28 to the financial statements, at the option of the bondholder(s) of the convertible bond, the balance of the convertible bond of US$20,000,000 as at 31 December 2006 can be exchanged into a maximum of 11,453,287 existing shares of Crosby Capital Partners Inc. ("Crosby") owned by the Company. On the basis that the balance of the Convertible Bond of US$20,000,000 is fully exchanged into existing shares of Crosby, the holding of the Company in Crosby would be reduced from 81.24% to 76.52% as at 31 December 2006.

(iv) A 81.24% subsidiary of the Group held 56.6% equity interest in Silk Route Petroleum Limited ("Silk Route") which is considered as a subsidiary of the Group because the Group has power to control the board of Silk Route and its financial and operating policies through its 81.24% subsidiary at 31 December 2006 despite having only on effective equity interest of 45.98%.

All of the above principal subsidiaries are limited liability companies and are indirectly held by the Company except for Crosby Capital Partners Inc. and Coniston International Capital Limited.

The directors of the Company are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the particulars of the principal subsidiaries which materially affect the results or the assets of the Group.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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41. POST BALANCE SHEET EVENTS

(a) As described in Note 40(i) to the financial statements, at 31 December 2006, the Group owned 100% of the ordinary share capital of ESK Limited ("ESK"), the holding company of Eskdale Petroleum Pty Ltd. ("Eskdale"), which represented 30% of its total issued share capital. On 1 December 2006, Eskdale made a cash offer to the shareholders of Orchard Petroleum Limited. ("Orchard"), a company listed on the Australian Stock Exchange, to purchase their shares for A$0.81 each. At the A$0.81 offer price, Orchard has a market capitalisation of approximately US$130,000,000. On 12 March 2007, following receiving acceptances in respect of over 90% of the issued shares of Orchard the bid and hence the acquisition became wholly unconditional. On completion of the acquisition of Orchard, the capital and board structure of ESK will change as new equity will be issued by ESK to partly finance the acquisition of Orchard and as a result it will no longer be a subsidiary of the Group.

(b) On 14 March 2007, the Company announced that Indago Petroleum Limited ("Indago") had agreed, subject to shareholder approval, to dispose of 100% of its production and development assets and of approximately 50% of its exploration assets to RAK Petroleum for total cash consideration of £194,235,000, which is the equivalent of £0.725 per share on a fully diluted basis. Following the completion of the sale, Indago also announced that they will declare a special dividend of £0.6 per share payable in April 2007. As detailed in Note 22(a)(4) to the financial statements, the Group, through its 45.98% subsidiary Silk Route Petroleum Limited ("Silk Route"), owns 35,000,000 shares representing 13.12% of the issued share capital of Indago. It is intended that Silk Route will use the cash received from the dividend from Indago to settle its share of the original financing for the purchase of the underlying assets of Indago and then from the balance of the proceeds declare its own cash dividend of which the Group's share will be approximately US$16,800,000. Once Silk Route has settled its share of the acquisition financing the existing pledge over its Indago shares also detailed in Note 26(iii) to the financial statements will be released.

(c) On 9 March 2007, the Group through its 100% owned subsidiary Dragon Fund Inc. subscribed for 5,800,000 new shares in Australian listed company, Fermiscan Holdings Limited at A$1.50 per share representing 4.09% of its enlarged share capital for total consideration of US$6,770,000.

APPENDIX I

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated upon the adoption of the new and revised IFRS as appropriate, is set out below:

	2006	2005 Restated (Note 22(a)(4))	2004	2003	2002
	US$'000	US$'000	US$'000	US$'000	US$'000
Financial results					
(Loss)/Profit attributable to equity holders of the Company	**(60,700)**	83,956	33,561	(4,369)	(13,372)
Assets and liabilities					
Total assets	**214,245**	196,012	59,148	10,171	13,996
Total liabilities	**(46,123)**	(21,854)	(2,347)	(1,568)	(903)
Total equity	**168,122**	174,158	56,801	8,603	13,093

APPENDIX II

CORPORATE INFORMATION

Board of Directors

Ilyas Tariq Khan
Chairman and Non-Executive Director

Johnny Chan Kok Chung
Chief Executive Officer and Executive Director

Ahmad S. Al-Khaled
Non-Executive Director

Daniel Yen Tzu Chen
Independent Non-Executive Director

Peter McIntyre Koenig
Independent Non-Executive Director

Joseph Tong Tze Kay
Independent Non-Executive Director

Audit Committee

Joseph Tong Tze Kay *Chairman*
Daniel Yen Tzu Chen
Peter McIntyre Koenig

Remuneration Committee

Peter McIntyre Koenig *Chairman*
Johnny Chan Kok Chung
Daniel Yen Tzu Chen

Nomination Committee

Daniel Yen Tzu Chen *Chairman*
Ilyas Tariq Khan
Joseph Tong Tze Kay

Company Secretary

Martin Angus

Qualified Accountant

Martin Angus

Compliance Officer

Johnny Chan Kok Chung

Principal Bankers

The HongKong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited
Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited

Auditors

Grant Thornton

Solicitors

Stephenson Harwood & Lo

Registered Office

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

Share Registrars and Transfer Office

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

Stock Code

GEM 8088