OVERVIEW

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

BUSINESS DEVELOPMENT

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

The Group owns two oilfields: Bula Block Oilfield in Indonesia, and Agusan-Davao Basin Oilfield in Davao, the Philippines. Bula Block Oilfield is operated by the Company's wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, under Bula Petroleum Production Sharing Contract ("Bula PSC") that was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will be expired in 2019. Agusan-Davao Basin Oilfield of the Group is operated by South Sea Petroleum (Philippines) Corp., a 100% owned subsidiary of the Group. Under the Service Contract with the Department of Energy, the Republic of Philippines, the Group is granted a permission to exploit crude oil and natural gas in an area with approximately 7,478 square kilometers at Agusan-Davao Basin of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. The Group is currently conducting seismic survey and other preparation work on the oilfield.

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

There are no off-sheet balance arrangements.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2006, the Group had a total of approximately 262 full-time employees in Indonesia, the United Kingdom and Hong Kong. The Group believes that its relationship with its employees is satisfactory. From time to time, the Group may also use the services of independent consultants and contractors to perform various professional services.

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

MATERIAL UNCERTAINTIES

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

FOREIGN EXCHANGE EXPOSURE

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

CHANGE IN THE COMPANY's AUDITORS

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

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

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

LEGAL PROCEEDINGS

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

REVIEW BY THE AUDIT COMMITTEE

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

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

Lee Sin Pyung
Managing Director

Hong Kong, 13 April 2007